

PO-CH/NL/0236 PART H

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Begins: 9/7/87.

Ends: 18/4/88.



PO -CH /NL/0236



PART H

Chancellor's (Lawson) Papers:

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

Disposal Directions: 25 years

21/9/95.

NL/0236

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PO

PART H

** Thanks. No lety Smith quite was well when he sent me lety Smith dismissed to 15m. This occurred in at 15m. One in depth interview for process.*

in process, or some such)



FROM: A P HUDSON
 DATE: 9 July 1987

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

CHANCELLOR

REACTIONS TO PROSPECTIVE NEW SHADOW CHANCELLORS

Andrew Tyrie and I have given some thought to comments you might make when either John Smith or Bryan Gould is appointed Shadow Chancellor. The word seems to be that the appointments will come on Monday.

Smith

2. One possibility would be:

- Welcome John Smith as Shadow Chancellor
- Views not as clear as Roy Hattersley. Labour have replaced a blunt Yorkshire writer with a canny Scots lawyer.
- But at least two things are clear. Committed to interference in industry, and said last year, "I don't see why we should just go round taking over clapped-out companies. It would be nice to get into the new, profitable areas." And no concern for the public finances. Said of Labour's proposals eighteen months ago "I'm not so sure that it's important to cost everything in detail". (Tribune, 8 November 1985)
- So looks as though Labour economic policy will continue just as it was before.



3. Alternatively, you could point out that in the last Parliament, he spent a great deal of time and effort on social ownership, which is the policy which Bryan Gould seems most eager to drop.

Gould

4. The best thing may be to re-run his remarks about presentation and finding sensible things to say. Perhaps along the lines:

- Brian Gould's job during the Election was presentation. Afterwards he said that "no amount of slick presentation could work if we didn't have something sensible to say. And it's getting the sensible things to say that's being the difficulty." Now he has the job of finding something sensible to say, in the key area of economic policy. That amounts to the labours of Hercules."

5. Alternatively, you could pick up on his remarks yesterday:

- Brian Gould wasted no time in jettisoning Roy Hattersley's favourite line that there was a crisis just around the corner. He said in the Second Reading of the Finance Bill, that "No major crisis is in prospect". With one blow, he has shattered Mr Hattersley's crystal balls.

6. Margaret O'Mara drew my attention to the attached report of how Gould talked down sterling in 1976.

7. You could also say that he comes to the job after being Shadow Chief Secretary, refusing to add up Labour's spending pledges, and letting them ride up to £35 billion - but this would be re-fighting the Election battle, I think.

A P HUDSON

THE TIMES

BUSINESS NEWS

Japan see difficulties in helping the problem of sterling balances

Frankfurt and Bonn is that the balances, while they may aggravate Britain's present problems, are not the root cause.

Officials concerned with international monetary affairs recall with some disquiet that a substantial part of the balances are not old liabilities dating from Britain's imperial past but are funds attracted to London during the oil crisis to finance economic policies that failed.

The implicit fear is that even if the balances were removed as if by magic, some future British government would begin to accumulate new foreign sterling liabilities.

Although the present selling of sterling by foreign holders may seem unfair, particularly as Mr Callaghan's Government has adopted economic policies that earn genuine respect in

West Germany, this belated backlash against the heavy foreign borrowing of the previous Labour government must be taken into account when viewing the present state of sterling, the officials believe.

Over the past few years, the mark has developed against the wishes of the German authorities into a reserve currency which is held in particular by the monetary authorities of many of the more advanced developing nations that are rich in raw materials.

The last thing that either Bonn or the Federal Bank in Frankfurt wish is an enlargement of this reserve currency role resulting from some scheme to fund the sterling balances.

Tokyo doubts: Japan would find it difficult to take over part of Britain's sterling

balances or make the yen a fully-fledged reserve currency, according to financial officials in Tokyo (Reuter reports).

The officials acknowledged that the Bank of Japan had been selling national bonds to foreign central banks and governments which wanted to diversify their external reserves by switching from the pound to the yen.

However, the sales are on a medium-term basis with the understanding that the buyers will hold them for certain periods of time, so that the yen cannot be described as a fully-fledged reserve currency.

The officials also said it would be difficult for Japan to use its dollar holdings to take over part of the sterling balances because that would mean replacing Britain as a debtor at a time when sterling was losing its strength.

the timetable of loan

its loan", the sources said. And it will make its own views clear to the IMF on whether it considers the conditions attached to the loan to be adequate.

In formulating its opinion, the Group of Ten will largely rely on an analysis of the British outlook for 1977 that should be completed by early December by the Organisation for Economic Cooperation and Development.

There is no doubt that Mr Witteveen will have to seek supplementary currencies from the Group of Ten to finance the loan. The IMF's liquidity total of usable currencies available to making loans stood at just 5,700m special drawing rights (about \$6,500m) at the end of August.

The IMF can obtain up to 5,500m special drawing rights through maximum use of the general arrangements to borrow, plus an additional 865m Swiss francs.

It is questionable whether the Bank of England will be able to stabilize the exchange rate for the pound during the week or two that may elapse between the time Britain gets its IMF loan and the December 9 repayment date of the \$5,300m credit, the sources said.

MP's pound rate plea brings fresh setback

By Melvyn Westlake

Sterling, which at one time yesterday appeared to be making a small tentative recovery on the foreign exchanges, suffered another setback after a Labour MP suggested that the exchange rate against the dollar be lowered to \$1.50.

In the highly nervous state of the currency markets, this comment was enough to provoke a fresh wave of sterling sales. The rate quickly dropped some two United States cents, before closing in Europe at \$1.5000, down a net 1 cent.

Up until the late afternoon, trading had been much calmer than on Monday. The pound had been helped by speculation in the *Washington Post* that Britain's minimum lending rate would have to rise to 18 per cent as a condition of the \$3,900m loan that is currently being negotiated with the International Monetary Fund. The rate stands at 15 per cent.

The *Washington Post* report was denied by an IMF spokesman who said the fund could not determine its views on detailed measures before its on-the-spot examination of the British economy.

A further rise of 3 percentage points in the MLR would

make sterling one of the highest-yielding currencies. Whether it would make sterling a more attractive currency to hold among international bankers would depend on the view they took about the future level of the exchange rate. But the possibility of a further sharp rise in British interest rates prompted the pound to rise to \$1.5060 at one stage.

The Bank of England was not thought to have given any direct support to the currency.

The late fall in sterling came after a statement by Mr Bryan Gould, Labour, Southampton, Test.

He urged the Government to devalue sterling to \$1.50 immediately to restore the competitiveness of British exports. He said that export prices of manufactured goods were no more competitive now than in 1973, and that the pound was by no means undervalued. He told Reuters that he had strong private support for his views among parliamentary colleagues and industrialists.

Mr Gould said that the pound would fall to \$1.50 anyway, and that the currency should be devalued to this level, although he did not say how this was to be achieved when exchange rates were floating.

Mitsubishi car assembly pact denied by Chrysler

By Clifford Webb

Reports from Tokyo suggesting that Chrysler is planning to assemble Japanese Mitsubishi cars in their British and Continental plants sparked off a furious behind-the-scenes row last night between the heads of the American and Japanese groups.

Reliable sources said Chrysler executives were shocked that their Japanese partners (Chrysler own 15 per cent of Mitsubishi Motors) should have given the impression that agreement had been reached, when it was still only in the early discussion stage.

The trouble began when news agency reports from Tokyo quoted a spokesman for Mitsubishi Motors, part of the Mitsubishi Heavy Industries Group, as saying that a basic agreement had been reached with Chrysler Europe to assemble a new Mitsubishi subcompact car in Britain and on the Continent.

Under the agreement, the car now being developed would be assembled at three Chrysler plants starting in 1979. The spokesman named the participants as Chrysler UK, Chrysler France and Chrysler Spain.

He was reported as saying that Mitsubishi would supply up to 49 per cent of the components, leaving the remainder to be manufactured locally. The new car would be sold in Europe as a Chrysler, but was not expected to be in direct competition with two Mitsubishi Colt models already exported to British and continental markets, because they were different in price, size and design.

Within two hours of these reports reaching London, Mr Don Lander, the head of Chrysler Europe issued the following statement:

"Any suggestion that there is an agreement to build a Mitsubishi car or any other Japanese car at any of our plants in Europe is entirely untrue. For some time there has been a technical exchange of views between Mitsubishi and Chrysler through our joint company and for our mutual benefit and these are continuing".

A denial also came from Mr John Riccardo, chairman of Chrysler in America. Asked whether Chrysler planned to assemble in Europe cars developed by Mitsubishi he replied: "We have no plans to do that."

Last week, however, Mr Eugene Cafiero, Chrysler president, said after intense questioning at the Motor Show in London that a "study" was

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prices turn down sharply

In gilts, long-dated stocks opened a little firmer and then went progressively easier on light selling. By the close they

to advance temporarily when the IMF loan terms are made known, most brokers are now advising their clients to sell

Gold up \$1.50 on eve of sale

After several days of gentle gyrations, the free market gold bullion price moved up sharply by \$1.50 an ounce to \$117.45

NB M, P L

JOHN SMITH

"The World Tonight"

13 July 1987, c 1045 pm

"We've made too much of an argument about the
precise boundary between the public and
private sector."

£3 BILLION, HE SAID, I COULD HAVE OBTAINED A COMPUTER FOR EVERY SECONDARY SCHOOL CHILD.

RATHER QUAIN.

BUT THE REAL POINT IS THIS.

HAD THEY BEEN IN OFFICE, WITH THEIR POLICIES, THEY WOULD NEVER HAVE BEEN IN THAT POSITION IN THE FIRST PLACE.

THE MONEY WOULD NOT HAVE BEEN THERE.

NO CHANCE.

FOR THERE'S NOTHING LUCKY ABOUT IT.

IT'S THE REWARD OF YEARS OF VIGOROUS, HEALTHY GROWTH WITH LOW INFLATION.

AND THAT IS WHAT IS SET TO CONTINUE.

ASSISTED NOT MERELY BY STICKING TO THE OVERALL ECONOMY STRATEGY THAT HAS BROUGHT US THIS SUCCESS, BUT ALSO BY THE NEW MEASURES CONTAINED IN THE BUDGET.

PROFIT RELATED PAY.

PERSONAL PENSIONS.

PRESS INFORMATION

PWP
(Lab)

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From the Office of
Rt. Hon Neil Kinnock MP
Leader of the Opposition

Press and Broadcasting Secretary: Patricia Hewitt 01-219 4151 01-267 2567 (home)

KINNOCK
ON BORROWING

EMBARGO: 13.00 Friday 19 October 1984.

Speaking at the presentation of the Welsh Marketing Awards in Cardiff today (Friday 19 October), the Leader of the Opposition, Neil Kinnock MP, said :

In the United States of America there has been a huge recovery from the problems of the late 1970's and from the damage done by the policies of liquidation economics in 1980 and 1981.

Unemployment has been halved, output has grown by 7% per annum - the fastest growth rate since the 1950's - inflation has remained consistently low, manufacturing productivity, business starts and fixed investment have all significantly increased.

There is a vitality in the ^{US} economy and no-one doubts that it was initiated by Government spending. We can debate whether the amounts, the areas of expenditure were correct or transferable as a model to our economy. We can quarrel with the way in which taxation was made more regressive and welfare spending was cut. But the indelible fact remains that the climate for growth, for work, for investment and enterprise was created by the stimulus of public expenditure and borrowing policy.

.../

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If we are to renovate our economy, if we are to stimulate activity and sponsor enterprise we have to generate expansion in much the same way by much the same means.

Those expansion policies are within the competence of a modern Government with the will to make a priority of production and the employment of labour and capital. And that is particularly true in an economy like ours where 86p in every pound of public spending ends up being spent on the goods and services produced and sold by the private sector.

Direct commitment to construction, communication, manufacturing and new technology can give the impetus needed for growth in both the public and private sectors and in manufacturing and service activities.

In addition, there are other policies that can be specifically geared to the needs of an economy which seeks the strengthening of its small and medium sized businesses. The low net rates of interest for commercial investment in the USA and Japan are an obvious source of advantage in those economies. We have to have means of giving that advantage to our enterprises in order to reduce investment costs. In the case of small business we need to ensure the provision of expertise in areas like design, marketing and training at a standard which the small enterprise cannot employ permanently, but which would be able to rent as the periodic need arose. It is the policies of this kind, attuned to the requirements of growth in manufacturing and service trades, which are needed now.

.../

... 3

They must replace the conditions which result in 40 company liquidations a day, which have cut Rate Support Grant and consequently increased rate burdens by over 100% and which have brought 134% rise in unemployment.

These policies must provide an environment for growth by giving encouragement to those who want to use skills and hard work to help Britain produce and sell its way out of slump.

FROM: A G TYRIE

DATE: 10 JULY 1987

CHANCELLOR

*Thanks.
Good.*

cc Chief Secretary
Economic Secretary
Financial Secretary
Paymaster General
Mr Cropper
Mr Lennox Boyd MP
Mr Nigel Forman MP

LABOUR WHIPS' OFFICE

A reptile has given me the "inside story".

2. Apparently, the cause of the problem is Foster, the Chief Whip. Two years ago he was elected to the job, beating Norman Hogg by one vote. There has been a bitter struggle between the two of them ever since.

3. Over the last 48 hours Hogg (Deputy Chief Whip), Tony Lloyd, John McWilliam have resigned. Ron Davies and Sean Hughes have been sacked. The latter four are said to be 'Hoggites'!

4. It seems that the immediate trigger for the crisis was a dispute about whether the pairing Whip (No 3 in the hierarchy) should be an elected post. I am told this was discussed at a meeting of the PLP on Wednesday. Foster wanted the job swept away altogether while Hogg wanted to keep it as an elective post.

5. The Hoggite, or anti-Foster camp apparently think Foster is far too weak in negotiating with the Government, is lazy about organising late night vigils, and is not prepared to put himself out for what many feel should be a 'war of attrition' with the Conservatives.

6. Apparently Kinnock is backing Foster and he is expected to survive the fracas, despite his abrasiveness.

AGT.

A G TYRIE

bf 21.7.



FROM: A P HUDSON
DATE: 14 July 1987

MR TYRIE

cc: Mr Culpin
Miss O'Mara
Mr Cropper

JOHN SMITH

The Chancellor notes that the key quotation we need from Mr Smith is when he said that the DTI was the key Department, and was rather dismissive about the Treasury's "harmful influence" (or some similar phrase). The Chancellor thinks this occurred in at least one "in depth" interview. He would be grateful if you could get hold of it.

2. I happened to hear Mr Smith interviewed on "The World Tonight" yesterday, between about 10.40 pm and 10.45 pm. At one point, asked about privatisation, he said something like "We've made too much of an argument about the precise boundary between the public and private sector." I think this would be worth getting hold of, since it may well conflict with previous remarks.

A handwritten signature in black ink, appearing to be "A P HUDSON".

A P HUDSON

~~b/213~~
PLWP

FROM: A G TYRIE

DATE: 14 JULY 1987

MR HUDSON

cc Mr Culpin
Ms O'Mara
Mr Cropper

JOHN SMITH

I attach an extract from John Smith's interview in Tribune on 8 November 1985 in which he refers to Treasury dominance. I share the Chancellor's impression that he has referred to the Treasury's "harmful influence" on more than one occasion but I only have this quotation on file. I will see if CRD have anything else.

AG7 now reports they didn't. AHH

- 2. I will get the transcript of "The World Tonight". (See my minute below.)

M-Mey

pp A G TYRIE

C.

I held this up in the hope that further researches would yield more, but they haven't. I suggested Andrew talk to the Spec. Adviser at DTI, & he is doing so - but as Andrew said, DTI have less reason to file remarks belittling the Treasury!

AHH

Q Last week the Marplan / Financial Times Survey showed that 47 per cent of companies were making no plans to expand because of the lack of markets and 25 per cent because of the high exchange rate. What do these indicators say to you about five years of Thatcherism?

A I think it reinforces the belief among industrial managers and the public at large that there have been few more disastrous periods for British industry than the period since 1979.

I keep coming across evidence that industry doesn't see any demand for its products. That's the first problem, and its to do with the general running of the economy. If you run a deflationary economic policy, you are going to create that problem.

Secondly, the Government seems to be pursuing financial policies almost regardless of the consequence for British industry. In that connection I would say that the overvalued pound, particularly in relation to the Deutschmark, and high interest rates, are being seen increasingly by people in manufacturing as deeply inimical to the success of British industry. There is no confidence that Conservative economic policy can lead to a revival of British industry. There is more and more interest in how you plan the economy - and I think there is reviving interest in the notion of industrial planning. The time is ripe for the Labour Party over the next year or two to develop further its ideas for industrial planning - I think it is going to get a much wider audience than just the Left.

Q The collapse in output since Margaret Thatcher came to power has been something equivalent to a holocaust, much worse than anything that happened in the twenties. Motor vehicle production down 32 per cent, mechanical engineering down 18 per cent and so on. Do you

Q That sounds like an argument for tough import quotas or other import controls.

A No, no, it's a general industrial policy. First of all, we need government support for industry, and a government willing to intervene to support industry. And of course, we will need to have a much more vigorous trade policy than we have had before.

Some companies are just playing ducks and drakes with British economic interests, with the result we have now got a £4,000 million deficit on the balance of trade. That is a very, very serious problem to face any government.

Q What do you feel about Mrs Thatcher's argument that we are going to emerge as a service economy?

A I'm not against successful service industries. But this country cannot make its economic future by setting up hamburger stalls at every street corner, with one half of the country making hamburgers and the other half eating them.

These kinds of services are not internationally tradeable. We must look to manufacturing industry to provide the wealth of the country.

We want to see it provide jobs as well, but we must be realistic about the number of extra jobs we can get. It may not be as many as the number we have been able to secure in the past. It is a total delusion of the Government that you can forget manufacturing industry, that Britain can live off North Sea oil revenues, a few profitable industrial centres and a bigger service sector.

Q What would be the role of the Department of Industry in a Labour Government?

A We want to have an effective industrial and economic planning Ministry. That has always been at the core of Labour Party policy.

The general feeling has been that the Treasury has been too dominant in the whole area of economic and industrial policy. What has been lacking is an important economic department based on the Department of Trade and Industry. The idea of economic planning, of industrial intervention, of the Government taking responsibility for shaping Britain's industrial future is absolutely central to the Labour Party's beliefs and ideas.

Q Dispassionately, I'd say that the idea of a revamped Department of Economic and Industrial Planning sounds very like George Brown's Department of Economic Affairs in new clothes.

A Well, I'm very much against a DEA model. Where the DEA went wrong was that it was just a co-ordinating department.

Q Wasn't George Brown forceful enough?

The major utilities have got to come back into public ownership

feel, from the scale of the crisis, that when Labour takes power we can spend a lot of time setting up new administrative structures?

A One can almost despair when one looks at the figures and sees the extent of the damage. There is a very big challenge facing the next Labour Government, to devise an industrial strategy that will save what we have still got. For example, take the steel industry or the car industry, we have got to build an El Alamein line round some of our industries and say, "No retreats, it cannot be any smaller or it will go out of existence".

3646/21

→ Andrew Hudson
2 10

Thanks.
Interview.

FROM: A G TYRIE
DATE: 29 JULY 1987

CHANCELLOR

cc Chief Secretary

ROBIN COOK: LABOUR ELECTION POST-MORTEM

You may be interested to see the attached article from Marxism Today. It describes how Labour lost the economic argument in much the same language as Roy Hattersley used in 1983. Plus ca change.

2. I expect you have already seen Larry Whitty's devastating conclusion from his preliminary report, extract attached!

M-May

pp

A G TYRIE

A Hole in Labour's Heart

Labour fought a brilliant campaign on the grounds of compassion. **Robin Cook**, newly elected to the shadow cabinet and previously Labour's campaign organiser, argues it was the wrong ground

In one sense life was brigher last time round. The electoral results may have been even worse, but there was no shortage of alibis.

The only problem in 1983 in analysing what went wrong was in marshalling all the ready explanations into an orderly queue. This time the major difficulty in explaining away our second crashing defeat is that we thought we had put right most of our mistakes.

The projection and presentation of our national campaign was outstanding. As in 1983, the nature of Labour's campaign itself became one of the principal stories of the election, but this time it was as an asset not as an albatross. To be sure, everyone can think of something that they would have done better if only they had been in charge, but it is difficult to conceive of a qualitative improvement on our presentation which would have produced a significant improvement in our vote.

Leadership we served up in lashings. If the electorate was looking for a model of dynamic, strong leadership, then we could supply the best model on

the road. It is a striking tribute to the personal contribution of Neil Kinnock to our election campaign that he should have emerged from the party's defeat with greatly enhanced stature.

We talked about the issues that the electors wanted to hear about, or at any rate about the issues which they told our pollsters they wanted to hear about – jobs, health and education. We avoided the error of 1979 – 1983 when we talked mostly to ourselves about the issues which interested only ourselves – generally issues on which we disagreed since they made for more exciting internal debates and hang the electoral consequences.

Yet despite it all we went down to a defeat which can only be regarded as an advance when set against the abyss of 1983. We have also ended up with another four years of Mrs Thatcher. They, in turn, will have consequences which must be taken into the calculation of the electoral hurdle we must clear next time.

Some of those consequences can be

predicted now. The culture of collective organisation at the workplace is likely to face fresh assault, and membership of trade unions presently affiliated to the Labour Party can be expected to diminish with further erosion of manufacturing employment. There will be a major assault on municipal housing which, unless successfully beaten off, will leave behind only the most deprived estates as public sector tenants. The trading elements of the public sector will be subject to further auctions, which will become increasingly desperate as the Treasury has committed itself to a reduced income tax base which cannot be sustained without annual revenue from sales. Private nuclear power stations and private prisons are now thinkable, however much our own imagination may reel at the thought.

Finally, we will witness concerted drives to break the universality (or near universality) of state education and the national health service, as a first step towards reducing both to the ghetto of a welfare service akin to the current prospects for public housing.

Not all of these changes will necessarily make Labour's task next time more difficult. Most of them will be accompanied by their quotient of pain and hardship which may strengthen our support. Yet even a brief contemplation of the probable changes in society before the next election demonstrates how hard Labour must run to catch up. There is not time to be lost disappearing up blind alleys.

One such blind alley is obsessional debate about how to perfect the Labour Party constitution. There is a danger that one response to defeat will be an engrossing debate on our internal procedures if only because we can do something about them and the Labour Party constitution is just about the only thing we can change while in opposition. Certainly there are changes to it that need to be made. One member one vote is an idea whose time has come and has the bonus that the debate over its introduction sharpens the faultline between the democratic Left and those who prefer their democracy to be centrally planned. Yet all such issues are the product of our own internal agenda and are of marginal significance to rebuilding our support among the electorate which overwhelmingly has only the haziest concept of Labour's constitution.

What then must we do? The central lesson to be absorbed is that we cannot win an election if we have lost the economic argument. We offered the electorate a choice between compassion and self-interest. It should not surprise us that when confronted with such a dichotomy there turned out to be more electors into self-interest than into altruism. What is surprising is that after eight years of crashing economic mismanagement we let the Tories pose

as the party of economic self-interest.

The wilderness of those years is strewn with bleak monuments of economic failure. For the first time since the industrial revolution Britain imports more manufactured goods than it exports. We share with Iraq and Venezuela the dubious distinction of being the only countries which combine a surplus in oil with a deficit in visible trade. Industrial investment has shrunk to a new low water mark at which Britain has become the only OECD member in which plant and machinery is depreciating at a faster rate than their renewal. Training has been so neglected that we have achieved the obscene paradox of four million unemployed short of work while the advanced sectors of industry are short of skilled workers. There is something particularly apt in the nation's rejoicing in Richard Branson's rediscovery of the technology of the hot air balloon which provides a fitting emblem of where we are at.

None of this was successfully conveyed to the electorate in the course of our campaign. Our credentials to economic competence were consistently subordinated to our commitment to social justice. Even our package on jobs came across as a social policy designed to do something for the unemployed. We did not come across as a party with an economic programme tailored to making the economy stronger and its workers more prosperous. On the contrary, the very strength of our commitment to welfare gave rise to a corollary in the voters' minds that we were therefore weak on the hard-nosed economic issues. In a sense, we might be regarded as having fallen into the classic trap of a reformist party – presenting a series of discrete social policies without any underlying economic analysis to give them coherence.

There is of course a good alibi open to us. The gushing wealth of North Sea oil has submerged from sight the latent problems of the British economy. It has enabled the Treasury to fund the costs of mass unemployment while cutting personal taxation. It has plugged the growing gap in our manufactured trade. And it has supplied an easy and reliable supplement to national income. Only those who can peer below the surface can perceive the extent to which the opportunity has been squandered and foresee that our interlude as an oil exporting nation will leave behind an economy weakened, not strengthened, by the experience.

There is though a trap within the alibi. Repeatedly in the past month I have heard party colleagues taking solace in the comforting notion that as the tide of oil recedes and the problems become visible the electorate will turn to Labour for the solutions. There is a danger in this assumption that we merely perpetuate the equation of Labour governments with tough economic times and Conservative gover-

ments with bouts of hedonistic affluence. The electorate has no difficulty in associating Labour with lean times; the general folk memory is that Labour chancellors are psychologically most comfortable with policies to tighten belts. What the electorate doubts is whether Labour is really interested in managing affluence and promoting prosperity.

In a very real sense, this intuition of the electorate is perfectly sound. Labour is ambivalent about affluence. There are no rational or ideological grounds for this prejudice against affluence. As socialists we are obliged to believe that intervention in market forces and collective management of the economy will result in a more efficient allocation of resources. The outcome ought to be a society which is not only fairer to minorities but more prosperous for the majority. Nor do the parties of the Left in other countries share our hang-up in handling affluence. Scandinavia has long combined higher living standards with a dominant left of centre ethos.

The key task for Labour is to formulate an economic strategy that will sustain prosperity after the oil has run out and to convince the electorate of our credibility to implement it. That will require a more bold and imaginative package than the one we offered the electorate last time. However, the Left cannot palm responsibility for that package on to the Right who devised it. Since the alternative economic strategy collapsed amid the ruins of the industrial economy for which it was designed, the Left has been studiously uninterested in economic policy.

Instead, the Left's energy and creativity has been poured into identifying and responding to the needs of discriminated minorities. Much fresh policy has emerged from this investment of effort but, in a curious way, the Left of the 80s has been guilty of the very crime of which we accused the revisionists of the 50s – of reducing socialism to a programme of redistribution and neglecting its central economic content. The present vacuum on economic strategy is the Left's opportunity to remedy that failing and develop the policies for prosperity which Labour will need to win next time.

In the meantime there is an obvious campaign priority for Labour on the theme of liberty. The unifying characteristic of the Tory programme for Thatcher's third term is its centralising tendency. Ironically it is not socialism that has promoted state powers in Britain, but the Conservative Party. All potential centres of resistance to the authority of the state are under assault – the trade union movement, local authorities, even the BBC. A revealing measure of the rapid rate at which the Conservatives have moved from distrust of state power to its abuse is supplied by their attitude to quangos.

'In one sense life was brighter last time round. The electoral results may have been even worse, but there was no shortage of alibis'

Before 1979 quangos were pilloried by the Conservative Right as unaccountable organisms which supplied the state with its ever-lengthening tentacles. Yet since then Mrs Thatcher's government has adopted quangos as a major lever for imposing her political programme, by ruthlessly packing them with her own people and by inventing new ones, often to take over powers previously accountable through elected local authorities. The only form of pluralism tolerated in Mrs Thatcher's vision of democracy is the quinquennial right of voters to re-elect her.

All of these trends run head-on against the prejudices of the electorate who have a healthy suspicion of the centralised state which might qualify them as unconscious Gramscians. Some of the most notable successes of the Left in public debate with Thatcherism have been when we have challenged her drift to authoritarianism – over the abolition of the GLC or the quashed attempt to eliminate union political funds. The culture of democracy is much more firmly established than any culture of collectivism among the working class and we would be prudent to build on it. An immediate task must be to wring recognition from even this government of the right of the Scottish people to an assembly which will give expression to their own electoral preferences.

Finally Labour must escape from the reactive role into which it has been painted by the skilful way in which Mrs Thatcher has restructured the political scene. It is Thatcherism, not socialism, which appears committed to the transformation of society. The corollary is that it is the labour movement, not the Conservative Party, which constantly surfaces to defend the status quo and vested interests under threat. The presentation of our social policy was strong and vigorous but essentially it added up to a promise to rebuild the welfare state of the postwar consensus. Where we offered improvements they were incremental rather than qualitative – more nursery places, more hospital beds, bigger pensions.

Nor were we helped by the image among the client groups of the welfare agencies which we had created. A key element in our failure to resist the Fowler offensive against social security was the impossibility of mobilising the vast army of claimants to defend a DHSS by which they felt oppressed rather than supported. Labour urgently needs new models of welfare provision which are accessible and responsive.

By 1991 half the electorate will have been born since the Attlee government fell and only pensioners will recall its election. We will not win mass backing on the basis of a commitment to restore its finest achievements. Labour will only win if it is seen to supply policies devised for British society as it will be in the next century and relevant to the economy we will inherit after a dozen years of Thatcherism. ●

LESSONS TO DRAW

Party leaders spell out hard facts of defeat

LABOUR lost the election on economic issues, general secretary Larry Whitty told the party's national executive this week.

"The key issue appears that the Tories managed to con a very substantial proportion of the electorate into believing that the economy was going right, that their personal prosperity was improving, and that that would be in danger under Labour, including explicitly Labour's taxation policy," says Whitty in his preliminary election report.

Neil Kinnock, summing up the executive's discussion, said that some of the reasons for Labour's defeat were organisational, but most were political.

Lessons

The party had to take a long hard look at the results and draw the lessons.

BY HAROLD FRAYMAN

On the one hand the executive drew satisfaction from what was generally agreed to be one of the, if not the, best campaigns the party has ever mounted.

But on the other they acknowledged that there had been problems.

In particular members



PRELIMINARY REPORT - WHITTY

cited the party's failure to appear convincing on economic policies.

● Defeated candidates should be allowed to attend the party's autumn conference as ex-officio delegates, says the executive.

That would not only allow them to take part in the post mortem, but also to stand as candidates in executive elections.

● Wh at W

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Tony L - personal folder

Nigel . Pse spk to
MCM +
Obtain
copy of X



CHRIS SMITH, MP
Labour Member of Parliament for Islington South
and Finsbury

Action to
EB/IDI.
AWP

House of Commons
London SW1A 0AA
01-219 5119

Rt. Hon. Nigel Lawson MP,
Chancellor of the Exchequer,
The Treasury,
Whitehall,
London, S.W.1.

C/ To be aware. I will
send a PS reply saying
I have set this - hand

1 September 1987

CR 4/8

OK

Dear Nigel,

As you will know, I have recently been appointed to the Opposition Front Bench Team on Treasury and Economic Affairs, and I will have particular responsibility for shadowing the work of the Economic Secretary. I would be grateful, therefore, if you could ensure that I am placed on the promptest possible mailing list for all statistical, analytical, and policy material produced by the Treasury. I hope that this will be possible.

CSO
sending
him
everything
11/9/87

X I would also be grateful to receive a copy (by xerox, if necessary) of the Treasury's own Summary of Economic Forecasts.

I'd be grateful for your assistance in this.

Yours sincerely,

Chris

EB arranging
and preparing draft
reply to C. Smith MP.
11/9/87

Chris Smith M.P.
Opposition Spokesman on Treasury and Economic Affairs

CH/EXCHEQUER	
Date	04 SEP 1987
ACTION	Mrs O'Mara / Mr Culpin
COPIES TO	CST FST PMG EST Sir P Middleton Sir G. Kitter Sir T BARRIS Mr PER Butler

20

FROM: PETER CURWEN
DATE: 8 SEPTEMBER 1987

1. ~~MISS O'MARA~~ MOM 8/9
2. **ECONOMIC SECRETARY**

cc **PS/Chancellor**
Sir P Middleton
Sir G Littler
Sir T Burns
Mr F Butler
Mr R Culpin
Mr S Pickford o/r
Mr P Patterson
FA/005

I attach a draft reply to the letter Chris Smith sent the Chancellor on 1 September as Opposition spokesman on Treasury and Economic Affairs.

2. We have no problem in sending Mr Smith copies of Treasury press notices, EPRs etc free of charge and IDT have already arranged for his name to be placed on their mailing list. However, as you may know, we now charge an annual subscription of £50 to all those, outside Government (other than the press) who receive the Treasury comparison of independent forecasts on a monthly basis. We do not provide the comparison free to any other MPs since it is already available to them through the House of Commons Library and we feel that to do so in Mr Smith's case would set an unfortunate precedent. (Individuals who request published Treasury working papers are similarly charged £1 per copy or an annual subscription of £10.)

3. We therefore recommend that you send Mr Smith a complimentary copy of the August forecast comparison but suggest that if he wishes to continue receiving a personal copy, he becomes a regular subscriber.

Peter S. Curwen

PETER S CURWEN

DRAFT

Chris Smith Esq MP
House of Commons
LONDON SW1A 0AA

You wrote to Nigel Lawson on 1 September asking to be put on the mailing list for material published by the Treasury.

I can confirm that we have done this and that you will in future receive copies of all the material we distribute to the public free of charge, including press notices and the Treasury's 'Economic Progress Report'.

You also asked to receive Treasury's comparison of independent forecasts. I enclose a copy of the August issue. You may not realise that the House of Commons Library is a regular subscriber to the monthly comparison. However, if you would like to receive a personal copy in future could you telephone Gary Westhead in my office on 270 5126 and he will arrange for you to be sent an invoice for £50 to cover the first year's supply.



CHRIS SMITH, MP

Labour Member of Parliament for Islington South
and Finsbury

House of Commons
London SW1A 0AA
01-219 5119

Rt. Hon. Nigel Lawson MP,
Chancellor of the Exchequer,
The Treasury,
Whitehall,
London, S.W.1.

1 September 1987

Dear Nigel,

As you will know, I have recently been appointed to the Opposition Front Bench Team on Treasury and Economic Affairs, and I will have particular responsibility for shadowing the work of the Economic Secretary. I would be grateful, therefore, if you could ensure that I am placed on the promptest possible mailing list for all statistical, analytical, and policy material produced by the Treasury. I hope that this will be possible.

I would also be grateful to receive a copy (by xerox, if necessary) of the Treasury's own Summary of Economic Forecasts.

I'd be grateful for your assistance in this.

*Yours sincerely,
Chris*

Chris Smith M.P.
Opposition Spokesman on Treasury and Economic Affairs

CH/EXCHEQUER	
04 SEP 1987	
Mrs Dinara / Mr Gulpin	
EST FST PMG KSJ	
16	Sir T Middleton
	Sir G. Hittler
	Sir T. Burns
	Mr FET Butler

RESTRICTED

FROM: A G TYRIE

DATE: 2 OCTOBER 1987

CHANCELLOR

cc Chief Secretary
Mr Cropper
Mr Call
Mr Turnbull

A very bad idea indeed. DHSS stop it. Politically. At the moment. Lab. have no policies. To have to do the costings a committee way.

LABOUR COSTINGS: AGAIN!

Unbeknown to me my opposite number at the DHSS has already set to work costing Labour Conference motions on social security.

Do you want this work done? I don't think it's worth it. We have already overplayed this card and too much public use of it at a time when Labour don't seem to have any policies at all might be counterproductive, seen as overkill etc. Nor would the work involved in checking costings please Treasury officials.

I would like to advise DHSS along the above lines. But if DHSS Ministers find costings helpful I don't see how we can stop them from conducting their own exercise. Of course we run the risk that contradictory numbers get into orbit.

AGT.

A G TYRIE

To have to do the costings a committee way. No need of work now.

RS



FROM: CATHY RYDING

DATE: 5 October 1987

MR TYRIE

cc Chief Secretary
Mr Cropper
Mr Call
Mr Turnbull**LABOUR COSTINGS: AGAIN!**

The Chancellor was grateful for your minute of 2 October.

2. The Chancellor has commented that this is a very bad idea indeed and DHSS should be stopped. It is politically inept. At the moment Labour have no policies, and the time to do the costings exercise is a considerable way off. The last time we did the costings exercise the timing was right, and there is no need to undo this now.

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

RESTRICTED

pwp



FROM: JILL RUTTER

DATE: 5 October 1987

PS/CHANCELLOR

cc:

Mr Turnbull

Mr Cropper

Mr Tyrie

Mr Call

LABOUR COSTINGS:

The Chief Secretary has seen Mr Tyrie's minute of 2 October. The Chief Secretary agrees with Mr Tyrie's recommendation. The Chief Secretary thinks that the Labour Costings exercise has been overplayed and so loses its impact. He thinks it may be worthwhile reviving this nearer the next election and he would rather wait for that.

A handwritten signature in cursive script, appearing to read "Jill Rutter".

JILL RUTTER

Private Secretary

~~bf 27.10.~~
PWF



FROM: A P HUDSON
DATE: 19 October 1987

MR TYRIE

cc Miss O'Mara
Mr R I G Allen
Miss Simpson
Mr Cropper
Mr Call
Mr N Forman MP

BRIEFING ON OPPOSITION FRONT BENCH SPOKESMAN

We had a word about the need for some briefing on the new Opposition front bench Treasury team.

2. Although there will be no briefing on Opposition Economic Policies for the Autumn Statement brief, it would be useful to gather together the remarks which some Opposition spokesmen have made over the Summer, along with any embarrassing quotation from their past. Such a brief would be useful for First Order Questions on 29 October, as well as other Parliamentary occasions in the Autumn. You agreed to get Central Office onto it.

3. Please could I have something by close on 27 October, at the latest, to show the Chancellor before Questions.

Doni, will have this by close Wed, hopefully!

A. 19. x.

A P HUDSON

28/22

PLWP



FROM: A P HUDSON

DATE: 21 October 1987

~~MR TYRIE~~

cc Mr R I G Allen
 Miss O'Mara
 Mr Neilson
 Mr Cropper
 Mr Call
 Mr N Forman MP

LABOUR'S REMARKS ON WIDER SHARE OWNERSHIP

The Chancellor notes that Mr Tony Blair MP has been commenting, in the last couple of days, on how irresponsible it is for the Government to encourage ordinary people to buy shares, which can go down as well as up. He recalls, however, that Mr Bryan Gould MP was advocating the spread of employee share schemes - which can also go down as well as up - in his speech at the Labour Conference. Thus there is some conflict within Labour's Trade and Industry team.

2. The Chancellor would be grateful if you could provide the quotations, which will be of use before long, perhaps at First Order Questions next Thursday (29 October).

A handwritten signature in blue ink, consisting of several vertical strokes and a horizontal line, representing 'A P HUDSON'.

A P HUDSON

You have these, I think.

I am having all the sources checked!

A. 21.x.

22/32

pwp

CHANCELLOR

FROM: A G TYRIE

DATE: 28 OCTOBER 1987

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr N Forman
Mr T Favell
Mr J Maple
Mr M Stern
Mr A Hudson
Mr P Cropper
Mr M Call

KINNOCK AND US FISCAL POLICY

Further to the point you made in response to John Smith the attached quote by Kinnock could be useful for First Order PQs tomorrow. I am trying to get a copy of the original speech.

There is also a good article by Roy Hattersley in the Mirror six months later, but is he worth attacking?

Perhaps as a pair. "Labour's Leader
and Deputy Leader ..."

AG.

A G TYRIE

Major economic crisis looms, Hattersley says

BY JOHN HUNT

MR ROY HATTERSLEY, Labour's Shadow Chancellor, said yesterday that Britain was heading for a major economic crisis unless the Government heeded the warning of sterling's rapid fall and changed its policies. Mr Hattersley was speaking in a BBC radio interview.

son promised no change of policy.

In a speech later last night, he condemned the Chancellor's Mansion House speech as "ludicrously complacent."

And Mr Neil Kinnock, the Labour leader, last night called for an American-style reflation as a start to solving Britain's unemployment problems.

When the Commons resumes next week, Labour will bring behind the scenes pressure on the Government for a statement on sterling, although the Opposition is wary about making public moves which could worsen the situation.

Mr Hattersley said that the Chancellor's speech was made against a background of record unemployment, stagnant national income, falling industrial output and an increased tax bill. Despite this, Mr Law-

son promised no change of policy.

Mr Kinnock, speaking in Cardiff, said the vitality of the U.S. economy had been initiated by Government spending and borrowing. "If we are to renovate our economy we have to generate expansion in much the same way," he said.

Mr Kinnock argued that Government commitment to construction, communication, manufacturing and new technology could give the impetus needed for growth in the public and private sectors.

He also wanted to see low rates of interest for commercial investment, as in the U.S. and Japan, and the provision of expertise in design, marketing and training which could be rented by small businesses on a temporary basis. Policies like this would help Britain "produce and sell its way out of slump."

Mr Alan Beith, Liberal chief whip, called on the Government to renew national assets such as transport, communication and housing instead of paying the would-be idle.

Q

Kinnock

Hattersley

Hattersley

Reagan ruins Maggie's American dream

LEFT IN THE LURCH

BEFORE she left for the United States last week Mrs. Margaret Thatcher proclaimed herself Ronald Reagan's No.1 fan.

- And during her three days in the United States she certainly lived up to the description.

Mrs. Thatcher could be seen simpering her way around Washington like an ageing groupie, announcing that the President was unanimously admired in Great Britain and even repeating the music hall gags which White House aides had written into Reagan's speeches to give life to his geriatric image.

The Prime Minister of Britain, announcing that "You ain't seen nuthin' yet" had all the charm of a spoilt child shouting something rude in order to attract attention at a grown-ups' party.

Unfortunately for Mrs. Thatcher—and unfortunately for Britain—her infatuation was not reciprocated.

Of course the Prime Minister enjoyed all the White House pomp and Congressional ceremony and she milked every drop of publicity that she could from the occasion.

The BBC devoted the first nine minutes of one news bulletin to her visit to Capitol Hill and should have removed any further

BY ROY HATTERSLEY
Deputy Leader of the Labour Party



doubts about an increase in the licence fee.

But if Margaret Thatcher went to America with any serious hope of balling out the ailing British economy, she must have come home utterly disappointed. All requests for help were turned down flat.

Crushing rebuke from President

Indeed, the Prime Minister had hardly taken off on her homeward flight before the President issued his crushing public rebuke.

Of course the dollar is strong, he boasted. But that, he added, is because the American economy is strong.

Countries with currency

problems should expect no hope from him. They will strengthen their own currencies by strengthening their own economies.

There was no doubt that it was Britain that he had in mind. For it was Britain's Prime Minister who had gone to see him CAP IN HAND.

To add insult to injury, Mr. Reagan's recommended remedy for Britain's economic ills was the cure which Labour has been urging on the Conservatives for five years.

In America, unemployment and interest rates fall, while output and investment grow.

That is because the President is not neurotically obsessed with the need to cut public spending. In the

United States the government boosts the economy. In Great Britain Tory ministers deepen the depression.

What a pity that, despite her bobby-soxing, Mrs. Thatcher will not learn the most important lesson of President Reagan's economy.

Instead, she retreats into a dream world of American fantasy—as she demonstrated when she explained what she admires about the United States.

Insulting message to unemployed

"They don't say that I haven't got a job and it's the government's fault. They go out and get one."

Her message to the British unemployed could not be clearer or more insulting. According to Mrs. Thatcher they are on the dole because they lack American get-up-and-go.

But that B-movie vision of America is not what makes the dollar daily grow



Paying price—Mrs T with her idol

in strength. The B-movie actor who runs the USA encourages his government to invest in expansion.

And he will go on expanding the American economy and increasing the dollar's value—whatever the consequences for Margaret Thatcher, his No. 1 fan.

No matter how our Prime Minister fawns on him, the President is not going to rescue her from the ruins of her economic policy.

She may attack the New Zealand Prime Minister for his disagreement with the United States and give slavish support to President Reagan's adventurism in South America.

But as she leaves for home he disowns her. Being

what she is, Mrs. Thatcher will go on making herself ridiculous about the United States—the "go-go economy" as she called it in some strange Freudian confusion between topless dancers and the sagging pound.

Meanwhile, as she pursues her free enterprise dream, the American government will go on spending to boost already booming demand.

While British unemployment climbs to record levels, sky-high interest rates hold back investment and the pound sinks almost out of sight, America will prosper.

We are paying a terrible price for Margaret Thatcher's infatuation.

THREE PROVOS DIE IN AMBUSH

THREE men were shot dead by undercover troops in Ulster early yesterday as they were getting ready to ambush an Army patrol.

The three, said to be IRA, had rifles and two were carrying rocket launchers.

They were ambushed just before dawn as they crept into a field overlooking a street due to be crossed by the patrol in a Republican area of Strabane, Co. Tyrone. The security forces took the three men—one of them a provo leader who lived less than 100 yards away—completely by surprise.

The dead men, in their twenties, were top provo Charles Breslin and brothers David and Mickey Devine. Mickey was a former Ulster junior snooker champion.

Eight IRA men have now been killed by security forces in Ulster in the last three months.

TREASURE HUNTER

WINNER of the Sunday Mirror Treasure-Trail Contest is Mr. C. Goodey, of London, E8. He will travel with his guest and winners from the Daily Mirror and Sunday People to the Seychelles on March 15 for a 14-day all-expenses-paid trip, and the chance to dig for the £10,000 Treasure Chest.

RAMSGATE TO DI UNKIDK

P.W.P

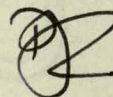
FROM: P J CROPPER
DATE: 28 October 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr N Forman
Mr T Favell
Mr J Maples
Mr M Stern
Mr M Lennox-
Boyd
Mr Tyrie
Mr Call

LABOUR PARTY QUOTES

Quotations from Labour's document "Moving Ahead" - a Statement to Conference 1987.



P J CROPPER

EXCERPTS FROM LABOUR'S DOCUMENT "MOVING AHEAD"
- A STATEMENT TO CONFERENCE 1987

1. "We won the argument in 1987 on health, on education, on pensions and on jobs but we failed to convince enough people that we could run the economy better than Mrs Thatcher and we failed to convince them that we would defend Britain more effectively."
2. "We must recognise that many are also dissatisfied with the way that public agencies actually deliver services and benefits to the people who need them."
3. "In projecting these policies, however, we can learn an important lesson from the Tories. They present their policies in terms of the benefits accruing to them as individuals. We must learn to do the same. We should not shy away, therefore, from arguing for our own policies in the language of individual self-interest and prosperity - as well as community benefit."
4. "We must begin to involve more people in our discussions and our policy-making process - particularly at local level. Too often, in our branches and constituencies, policy-making consists of short, adversarial debates between a handful of activists. Often it can mean simply passing resolutions - sometimes in terms which mean little to ordinary electors."
5. "We will also need, in future, to exercise more self discipline - as individuals, as spokespeople, as groups or governing bodies within the party - so as to help us regain the confidence of the electorate. We cannot afford to indulge in gestures or public slanging matches. We cannot afford to make policy demands that cannot be met in the foreseeable future and which often confuse the electorate about our real aims in government. We cannot afford the self-indulgence of those who want to use our party for their own factional ends."

~~Lab Gen.~~ *RWP*
FROM: MARK CALL
DATE: 2 NOVEMBER 1987 *CL*

MR HUDSON ✓

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Cropper
Mr Tyrie *MP*

OPPOSITION DAY DEBATE: 5 NOVEMBER

The following may be useful material for the Opposition Day Debate.

2. Labour and the US Deficit

Mr Hattersley

"(American economic policy) has produced in the US 5 million more jobs and an annual growth rate of 8%, while in Britain there is an additional 2 million unemployed and national output has remained virtually static for 5 years."

(Hansard, 31 July 1984)

Mr Hattersley

"Having taken the advice of the Labour Party, and not being afraid of borrowing, the President of the United States has created 5 million new jobs and a growth rate of 8% per annum."

(Hansard, 31 July 1984)

Mr Kinnoch

"Although our motivation and measures would differ from that of the United States President, our method for recovery - of expansionary budgets, of extending credit and of public expenditure - would differ only in the way in which we would insist that, systematically, it applied to our whole country."

(Hansard, 31 July 1984)

Mr Kinnock

"They cannot even see the lesson of the United States economy when it is staring them in the face - that the policies that the Opposition advocate have led to the rescue and recovery of the United States recovery on a scale and at a pace that have given that country a new dawn of development.

(Hansard, 31 July 1984)

Mr Kinnock

"I am beginning to think that the Rt Hon Lady is not the President's number one fan after all. If the Rt Hon Lady is a real fan, does she not realise that, in these matters at least, emulation might be the sincerest form of flattery?"

(Hansard, 18 February 1985)

Mr Douglas Hoyle (Labour, Warrington North)

"President Reagan has learned better than our Prime Minister how to use the economy, and he has learned how to use a deficit budget. We hear time and time again from the Government Front Bench that we have much to learn from the American economy about the revival of small businesses. We should also learn that the American economy has been revived by pumping purchasing power into it, not by depressing wages."

(Hansard, 20 March 1985)

3. I have reviewed the Opposition reply to the budget speech since 1981, though came up with no gems. Guy Black at the Research Department is reviewing Prime Minister's Questions, Treasury Questions, the Budget Debate, and the Autumn Statement Debate from mid-1984 to date. In addition to individual quotes he will compile some sort of measure of the frequency of questions in this vein. They will have completed this by tomorrow afternoon.

BP Sale

I think it would be useful if we could document on a day-by-day basis Labour's changing line on the BP sale. I will put something together on this.

5. Labour's return to Fundamentalism

It may be worth a dig at Labour along the lines of "Labour are no better than fairweather social democrats". This could be built on the assertion that the fundamentals are sound - the fundamentals of the economy, and the fundamental commitment of Labour to socialism. As support, one could refer to the bundling out of the limelight of Bryan Gould as soon as the going got rough, or the recent conference of the Left in Chesterfield. On the latter, the old bogeys Scargill and Heffer could still be used. Mr Scargill said Labour's so-called new realism was another name for a "class collaboration" whose purpose was to offer "palliatives not revolutionary change". He said that "the battle for socialism is going to be won in the work places and the streets of Britain, not in the cloistered atmosphere of Westminster". Mr Heffer accused Mr Kinnock of peddling "second-hand Thatcherism" and of attempting to create a "social democratic party mark two". (Daily Telegraph, 26 October 1987).

Mc

MARK CALL

PWF

PRESS INFORMATION

From the Office of
Rt. Hon Neil Kinnock MP
Leader of the Opposition

3/12/87 ✓

Press and Broadcasting Secretary: Patricia Hewitt 01-219 4151 01-267 2567 (home)

EMBARGO: 21.30 Thursday 3 December 1987

ATTACHED is the text of the speech delivered by
the Leader of the Labour Party, Rt Hon Neil Kinnock MP,
to the 40th Anniversary Dinner of the British
Institute of Management in London tonight (3 December).

Forty years ago our country was in the midst of a great reconstruction, rebuilding commercial and industrial strength after 6 years of war and many more years of underinvestment and insecurity.

Modern managerial skills of the highest quality were urgently needed, and in very short supply.

The foundation then of your organisation was a vital step in the process of gaining recognition that management was a distinctive, multi-disciplinary skill and in establishing high professional standards of management in this country.

And although that process was never wide enough or strong enough to give you or anyone else cause for complete satisfaction, it did make a real contribution towards post-war years of unparalleled prosperity in Britain.

Our economy - though never expanding at the pace of our competitors - nevertheless grew faster and more consistently than it ever had before. Manufacturing industry expanded at more than 3% every year. We always enjoyed big surpluses on our manufactured trade. Unemployment of over 500,000 was the scandalous exception to the rule.

I do not make those references to the past for reasons of nostalgia. That is a form of paralysis. I refer to those years in order to highlight the difference in our present situation.

/Cont..

Our average growth rate over nearly a decade has been 1.5%. The growth rate in manufacturing since 1979 has been zero. Unemployment continues to hover around 3 million and we are facing an £8 billion manufactured trade deficit next year. Recent improvements in economic growth have come from a very low base and are now menaced by a world slow down.

Indeed the Chancellor himself has told us, economic growth in Britain is set to be cut in half next year, and to remain low to the end of the decade and beyond.

Today, therefore, we face challenge on a new scale - and meeting that challenge is in some ways more difficult than it was in the years which coincided with this Institute's beginnings.

- We face merciless competition from economies and enterprises that in the late 1940's were either devastated or not even industrialised.

- The deficiencies of our economy now are in many ways more subtle than they were when the physical evidence of wartime destruction and post-war dislocation stared everyone in the face.

- And in contrast to the post-war recognition that Britain had to make and sell its way to recovery, there is today in influential circles an insidious feeling that our industrial chapter is closed and we must settle for a future of imported goods and exported services.

That would be foolish at the best of times.

But in times when we are moving towards being a net oil importer again it is suicidal.

In that post-oil era if we are to sustain prosperity, if we are to provide the material foundations essential to freedom and fairness and future development, if we are to mount a serious attack on unemployment, we must pay our way without the oil which is currently worth £14 billion a year in earnings and import savings.

That is a tall order. And there is only one way to meet it.

It is to increase development of a modern, innovative, competitive manufacturing industry.

That is desirable not just for its own sake but because it is essential to success in performance in the national and international service economy too.

Those who don't recognise that fact should ask themselves why London's development as the world's first financial centre coincided with British industrial predominance, or why nine out of the top ten banks in today's world are Japanese.

It is not because of any peculiar skill of the Japanese as bankers. It is because the strength of their manufacturing industry has created an essential base on which finance can thrive.

Akio Morita, the Chairman of Sony, made the point perfectly last weekend "In the long run an economy which has lost its manufacturing base has lost its vital centre. A service economy has no engine to drive it."

Services are an important source of income and opportunity. But it is industry that is the key to our post-oil future, whether as a source of trade, wealth and employment itself, or as the "engine" for the development of services in the domestic and international economy. And that fact should dominate all economic deliberation now, and all economic policy development for many years to come.

Some would say that we are starting from a point of strength and that in the past few years British industry has become more efficient, that we have become more competitive.

That is true of some industries and companies. But it is sadly not true of Britain as a whole.

The fact is that whilst there are some successes that deserve celebration, our share of world trade in manufactures has fallen by 22% since 1979 and is still falling and the share of our home market taken by imports has risen by 29% since 1979 and is still rising.

That gap is not filled and is not going to be filled by income from the sale of services or the export of capital. That is why the primacy of industrial development must be reasserted and why that development must be creative, must be innovative, must be enterprising.

We hear from a variety of quarters, of course, that we have made that leap, that the "enterprise culture" has already seized the country.

And, encouraging though that news is, I wonder what it amounts to.

For a "culture" is a deep rooted, enduring set of distinctive values, practised almost as an instinct; a comprehensive spirit that influences every thought and action.

/Cont..

And an "enterprise culture" to be worthy of the name must have those attributes.

In modern economic terms it means that an enterprise culture must be

- an investment culture, for without that, obsolescence will frustrate the greatest boldness;
- it must be a research culture, for without that, enterprise travels blind;
- it must be an education and training culture, for without that, innovation is stifled by ignorance and incompetence.

Without those vital ingredients the "enterprise culture" may be not so much a culture as an adventurous spasm, thrilling to some whilst it lasts, but transitory and ineffectual in its results.

In Britain we need a real culture of enterprise that is resilient and progressive, one which provides a continuing impetus for success.

A culture in which the designer, the engineer, the technologist - those who make things and those who make things

/Cont..

happen enjoy the highest regard. A culture in which the best habits of the British industries like pharmaceuticals which have made long-term commitment to R&D become commonplace. A culture in which sustained strategies of investing in high quality, high technology goods and services and the research and equipment and skills necessary to produce them are pervasive and persistent.

With such strategies

- we can win the battles for the science-based markets of the future;
- we can capitalise on the skills and talents of our people and producers;
- we can mobilise education and research in the cause of economic strength;
- we can utilise the experience in manufacturing and marketing and finance that this country has in great but underused supply.

In short, we "can do".

And that is the "can-do" spirit that is needed.

But it means thinking and investing long term.

/Cont..

It is no good saying "we can't afford it".

Our major competitors do afford it - and they reap the benefits from the partnership of business and Government that serves their national interest.

That is what we should do too - because we can't afford not to invest in our future, and we can't leave that investment to chance.

There are those who reject the idea of such partnership. They say it "smacks of the 'sixties", or that it produces "rigidities".

The fact is partnership need do neither. For the idea of concerted action is not exhumed from the past. It is borrowed from the practical operation of our competitor economies. And it is worth borrowing because it works.

In so many spheres, the way to beat the competition is to get as near to the product of the competitor and then make an improved version.

We have to do that with institutions and relationships that ensure that in the availability and cost of finance, in research and development, in funding for pure and applied science, in education for modern demands, in training for

/Cont..

current and future realities, we match and beat the arrangements of our competitors.

And if we do not do those things, we may have a temporary enterprise fashion, but we will not have an enterprise culture.

We might have enterprising individuals and enterprising companies, but we will not have an enterprising economy.

And without that, even the islands of enterprise can be swamped by the conservatism and mediocrity that derives from underinvestment and underperformance, the snobberies and inverted snobberies of class, the conventions of low expectation and national introversion.

The dynamism of individuals, the zeal of companies are essential assets. But many of the strategic components of an enterprising economy inevitably require the sustained action of Government - and that means going far beyond merely "holding the ring".

It means, for instance, a mergers policy which ensures that high investing companies don't have to cut back on research and development and training in order to maximise short term profits to protect themselves against takeover attempts by predators.

Government action must extend to funding policies for science and skills, for training and technology that ensures that innovation and product development are not lost to competitors or lost altogether for want of human and capital resources that industry has not or cannot or will not provide.

And the current situation of INMOS - like so many before it - provides a graphic illustration of the need for such engagement to safeguard high-technology British industries that are as basic to current and future change as nuts and bolts were to the first Industrial Revolution and machine tools to the last..

Strategic Government action for an enterprising economy must extend to a deliberate policy of managing interest rates and currency values. Without that the science of planning which is central to the art of management can be turned into guesswork as the whirl of currencies makes nonsense of the efforts to achieve better quality and volume and price of production and sale.

In these and in many other areas, I make no suggestion that durable recovery and sustained competitiveness can be achieved mainly or solely by Government.

There is only the recognition of the straightforward fact that they will not be achieved in our economy or any modern economy without Government.

/Cont..

It shouldn't be necessary to say that. It should be a matter of commonsense and common practice in 1987.

But our country is one of the few in the modern world in which disengagement and detachment from industry are the watchwords of Government policy - whilst at the same time there are daily reports of engagement and closeness to industry by the governments of Japan and Germany and France , the Nordic countries, and of all other major industrial nations where Government and industry work in concert.

If we want to hold our own;

if we want to fully exploit the advantage which our language and our learning and our skills in manufacturing and management give us;

if we want change to be an opportunity rather than a threat;

we must do the same.

Then we shall have a real "enterprise culture". And we "can do" too.

FROM

(FRI) 12/04/87 08:42

NO. 21

PAGE 1

Daily Telegraph

Call by Kinnock for investment to stop industrial decline

By David Millward, Political Staff

A BLEAK PICTURE of Britain's future unless action was taken to reverse its present industrial decline was painted by Mr Kinnock last night.

Addressing the British Institute of Management in his first major speech on the economy since the June election, he welcomed the creation of "enterprise culture," but warned that without investment, research and training, it would be little more than an "adventurous spasm."

"We might have enterprising individuals and enterprising companies, but we will not have an enterprising economy."

"And without that, even the islands of enterprise can be swamped by the conservatism and mediocrity that derives from under-investment and under-performance, the snobberies and inverted snobberies of class, the conventions of low expectation and national introversion," Mr Kinnock said.

Chapter closed

"There is today in influential circles an insidious feeling that our industrial chapter is closed and we must settle for a future of imported goods and exported services," he said.

"That would be foolish at the best of times. But when we are moving towards being a net oil importer again it is suicidal."

The Labour party is in the process of revamping its economic policy with a review group under the joint chairmanship of Mr Bryan Gould, a key Kinnock ally, and Mr John Evans, a supporter of the leader on the National Executive.

Last night's speech gave few hints of a major shift in policy.

Better quality

The Labour leader repeated his calls for the Government to follow the examples of Japan, Germany, France and Scandinavia and intervene in the economy.

"Government action must extend to a deliberate policy of managing interest rates and currency values.

"Without that, the science of planning, which is central to the act of management, can be turned into guesswork as the whirl of currencies makes nonsense of the efforts to achieve better quality and volume and price of production," he added.

2:

C.

You may have seen this (spotted by S. Pickford). We will try to get the speech on the face of it, we can welcome X and tweet Smith with Y, though there may not be a Parliamentary opportunity until next year.

you pdr. -
was in

WJL: v. much material for AS
Johsh.

AMH

4.12.

Lates

Michael Cassell looks at the Labour party's policy review 7

Common ownership still the aim

LABOUR's search for election-winning policies will not be allowed to threaten the party's commitment to the extension of common ownership. Mr Bryan Gould, the Shadow Trade and Industry spokesman, said at the weekend.

Mr Gould was speaking at a London conference organised by the Fabian Society to discuss the party's recently-launched policy review, called in the wake of its third consecutive general election defeat.

The weekend gathering followed a conference in Chesterfield in October which was dominated by the hard left.

The contrasts between the two occasions helped underline the wide divergence of opinion within the Labour movement about the policies and tactics required to revitalise the party's electoral appeal.

Unlike Chesterfield, several members of Labour's frontbench team spoke at the London meeting, pledging their support for the review.

But there were also critics of the Labour leadership who voiced fears that there would not be genuine participation in the re-examination of policy and that it threatened to dump socialist principles in favour of electoral popularity.

Ms Hilary Wainwright, a leading left-wing activist, said Mr Neil Kinnock, the Labour leader, remained "as craven before the

altars of the state as Harold Wilson."

She said Mrs Thatcher had given confidence to the monetary classes and Labour could only restore confidence to the working classes by replacing the old institutions of Whitehall and Westminster.

She was not hopeful about the outcome of the review under the present leadership.

Members of the Socialist Workers Party were also well represented and repeatedly intervened in debates. They were roundly seen off by Mr Gould, who claimed their failure to make any impact on the party was because they spent "all their time at other people's conferences".

Mr Gould, who said there was no incompatibility between socialism and popularity told delegates that, despite a re-examination of policies designed to give Labour a more radical, cutting edge, there could be no withdrawal from certain basic socialist principles.

He said major areas of the economy were best dealt with under public ownership and the party had to go on the offensive to prove the case for expanding the principle of social and common ownership.

Mr Gould claimed that Labour had helped usher in monetarism because of the failure of its economic strategy in the 1970s.

It now had to rectify that mis-



Bryan Gould: successful are not "moral lepers"

take by making it clear that it would never again enable the markets and the money men to dictate economic policy, he said.

Mr Gould also pledged his support for the strengthening of collective provision which he stressed did not have to take place at the expense of individualism and for Labour's commitment to equality and redistribution.

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port of a proportion of the population which was doing well.

They could not, he claimed, be regarded as "moral lepers" and Labour had to applaud their success and convince them they had a contribution to make towards creating a decent society.

Mr Gould attacked those within the party who criticised the review, rejected change and adopted a policy of "no compromise with the electorate," rather than a readiness to listen to what voters really wanted.

He warned that another election defeat would prove catastrophic for Labour and would represent the ultimate betrayal of socialism and of millions of people who were suffering under the Tories.

He acknowledged that the "intellectual stuffing" had been knocked out of the Labour party, which now had to think through its philosophy, have renewed confidence in it and then go out and "evangelise" to sell it to the electorate.

Mr Peter Mandelson, Labour's director of campaigns and communications, said the party had failed at the last election because many voters believed it would mismanage the economy and damage their personal prospects. He said the voters also feared extremists.

The first meeting in the Labour Listens campaign, part of the policy review, will be held in Brighton in January.

10/11

UNCLASSIFIED



bf 14.12

FROM: A P HUDSON
DATE: 7 December 1987

MR TYRIE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Miss C Evans
Mr Cropper
Mr Call
Mr N Forman MP

RECENT LABOUR SPEECHES

... The Chancellor would be grateful if you could get hold of the speeches by Mr Kinnock and ^{Mr} Gould referred to in the attached press articles.
_h

2. The Chancellor has commented that the material in the Daily Telegraph report will be very useful for the Autumn Statement debate, in particular Mr Kinnock's apparent conversion to the 'enterprise culture', and the fact that Labour's economic review is chaired by Mr Gould, rather than Mr Smith.

A handwritten signature in black ink, appearing to read 'A P Hudson'.

A P HUDSON

Daily Telegraph

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By David Millward, Political Staff 2

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10/11

CONFIDENTIAL

~~Lab C. Smith~~
3
pwp

CHANCELLOR

FROM: A G TYRIE

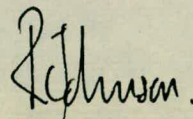
DATE: 8 DECEMBER 1987

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Hudson
Mr Cropper
Mr Call

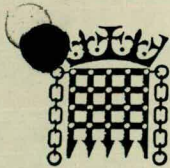
There are a couple of reasonably useful lines in the attached speech by Chris Smith:

- 'We must recognise how discredited the whole notion of popular capitalism has become'. Where does that leave Bryan Gould now?
- 'We must rewrite ... our industrial strategy'. The latest scheme under consideration is 'issuing of industrial development bonds'.

The poll tax is of course criticised for its regressivity
- this will affect the presentation of our budget package.


A G TYRIE

pp



CHRIS SMITH, MP

Labour Member of Parliament for Islington South
and Finsbury

House of Commons
London SW1A 0AA
01-219 5119

Extracts from speech to be given to Fabian Society Conference, 5 Dec. 87
by Chris Smith MP, Opposition Spokesman on Treasury and Economic Affairs

Economic Policy into the 1990's

"I begin from two basic assumptions about the election defeat we suffered as a Party in June this year. First, that we had failed to convince the electorate of our competence in economic policy: and second, that whilst we scored heavily as the Party of compassion, we failed to come across to the public as the Party of prosperity. Correcting these two impressions is the most important task we face over the next three years. In the review process on which the Party is now embarked, restating our principles and values and making them relevant to life in Britain in a new decade, our analysis of and prescription for economic policy will be the most important area of discussion of all.

I want to explore some ideas that I believe we must be considering for the future. First, though, I think some principles are worth re-stating. As a Party we believe in equality; and that means not just equal rights but equal access to rewards and to prosperity. That equality of access, for all classes and all regions, is painfully absent from our society today. We have an allied aim of eradicating poverty, which has increased, not decreased, in the last eight years. We place the dignity of labour as being more important than the automatic reward of capital. We believe in the necessity of collective action and provision, democratically decided, in order to ensure full freedom and opportunity for the individual citizen. We want, as a principal aim of government, to spread power more widely, not to concentrate it into the centre or into bureaucratic form. And we are an internationalist party, believing that only by global co-operation and common action across national boundaries will the growing international problems of debt, of trade imbalance, of environmental destruction, and the need to preserve peace, be addressed.

In the light of these values that we hold, we need to explore a range of ideas and issues, and I believe we can carve out a popular, democratic and socialist

response.

First, in view of what has happened in stock markets and exchange rates around the world in the past six weeks, we must stress how pre-eminently necessary it is to work together with other major economies to avoid recession. The simplistic Thatcher and Lawson recipe of massive US budget-cutting whilst preening themselves on their own virtue in achieving a near-balanced budget is precisely the wrong recipe for the times. A determined drive for economic expansion, led by the public sector, is required - not lecturing the world on the virtues of an ever lower Public Sector Borrowing Requirement.

Second, we must recognize how discredited the whole notion of "popular capitalism" has become, in the wake of the BP share fiasco. We can now seize the initiative ourselves, in setting out new ways of giving workers a far greater say in what happens in their firms and workplaces: an agenda for real industrial democracy. We must also consider how best the public interest can be protected in relation to the actions of both public and private monopolies. The community outside and the consumers of the products must be able to participate in the regulation of their activities.

Third, we must re-write and re-establish our industrial strategy. The key question we have to ask is this: where is Britain's wealth going to come from in twenty years' time? If we invest, if we train people, if we increase our research and development input, then there will be capacity and products and people there to take us into the twenty-first century. If we don't the wealth and the prosperity simply won't be there. But we must go further than this. We mustn't simply rely on funding from the public purse to achieve these changes. We must arrange our fiscal regime so that investors are deliberately encouraged by the tax system to place their funds in productive long-term investment rather than in short-term speculation. And we must consider schemes such as the issuing of industrial development bonds, available in small amounts to small investors, so that the public at large can have the chance to participate in the future development of industry, in the same way that they have for decades in the development of housing, through the Building Societies.

Fourth, we must understand the changing nature of production. Advanced economies are moving away from mass production in large centralised units, towards a spread of smaller production centres linked by superb modern communications networks: look, for example, at how the new Italian industries are operating, and succeeding.

Fifth, we must understand also the changing nature of consumption. For those

In very low incomes there is no choice but to be guided by cost. But for the great majority of consumers, cost is now less of a determining factor in their purchase decisions than it used to be. Design and quality are the crucial things; and modern producers are increasingly emphasising these aspects. Government can of course assist, and good management can plan ahead on these principles.

Sixth, as well as finding new and exciting ways of encouraging the creation of wealth in the economy, we must also establish fairer methods of distributing wealth. This government has deliberately skewed the tax and benefits systems into grotesque unfairness; the poll tax is but the most recent and vicious example of this. We need to change the terms of the debate entirely: to think about how the tax system can be reformed, how it can be unified with the benefits system, and whether the whole system based on a standard basic rate is fair or sensible, and what the right balance is between direct and indirect taxation mechanisms.

Seventh, we should be looking at establishing new forms of economic assessment: not just accepting current GNP or GDP definitions as indicators of economic performance, but including other forms of assessment such as social usefulness and environmental impact. The economy is not a purely cash-based entity; it has many other features and impacts, and these must be included in our gradings of economic performance. The beginnings of an ethical investment movement in Britain are welcome, and must be built upon.

Above all, perhaps, we must think again about our understanding, as socialists, of the operation of markets. We are right and always have been to distrust the decision-making processes of the investing and speculating market. They never ever operated entirely in the public interest; and recent weeks have proved us right in this. But the consuming market is different, and represents in fact the collective power of millions of ordinary citizens, making purchase and choice decisions. We must learn to respond to those patterns of choice, and ensure that opportunity is enriched for individuals, not restricted. In spreading decision-making, in increasing democratic power in the workplace, in enabling industry to respond more readily to consumer decisions, in ensuring that investment, training, and research facilities are there to provide that response, we can make sure that these economic choices and chances are indeed there and available. It is a task for socialists; and a task for the Labour government that takes office in three and a half years' time."

→ Andrew H
Pul

CHANCELLOR

~~Andrew~~
Was in Chris
Folder. Alex

FROM: A G TYRIE

DATE: 13 JANUARY 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Forman MP
Mr Cropper
Mr Call

LABOUR KNOCKING COPY

You may think that it is beneath a Chancellor to quote 'Labour Briefing', but I certainly think a backbencher could intervene with it. It describes Messrs. Smith and Gould as 'the daring duo' and says they have 'again been caught with their political trousers down'. It confirms the general view that three years ago Kinnock and Hattersley were 'warmly congratulating Ronald Reagan on his economic policies' (albeit the wrong bits).

Incidentally, Labour briefing is a loose group of Left-wingers including, Livingstone, Diane Abbott, Benn, Banks, Corbyn and Heffer.

AG.

A G TYRIE

C.
~~Didn't see this until today (Fri),
I'm afraid. Could have some fun
with the highlighted bit at next
First Order, or byt debates?~~

AMH

BRIEFING

LABOUR — TAKE THE POWER!

OUR TASK IS NOT TO RESCUE CAPITALISM BUT TO BURY IT!

You can't teach an old dog new tricks.

After decades of blinkered efforts at making the capitalist system work better, Labour's leadership is clearly incapable of approaching things any other way.

While the anarchy of the international money markets reached its new crescendo in the October 19th crash, for the Kinnock team it has been virtually "business as usual".

The recipes to meet the crisis trotted out by John Smith and Brian Gould were little different to the traditional tinkering proposals which have always led Labour governments in the past into economic disaster. They concerned themselves solely with attempting to put the capitalist economies back into working order:

- The huge US budget deficit should be rectified, said Messrs Smith & Gould — but not too fast, or European exports would be hit, and recession would follow.

- Interest rates should be cut in Britain and the USA, and the dollar should be allowed to slide downward in value, argued Gould & Smith, to open the way for economic expansion and make US exports more competitive.

- Britain, West Germany and Japan should all expand their economies to create new markets for goods, said the daring duo, breaking little new ground.

It is a dismal fact that these trite proposals almost exactly echoed the answers in words and deeds from the lips of Nigel Lawson, Margaret Thatcher and the Reagan administration.

- Token measures are being taken to trim the US deficit, though the core problem remains intact.

- Interest rates have been cut several times, and the dollar continues downwards.

- Thatcher herself has joined with Smith & Gould in calling on the Germans and Japanese to expand their economies (of course, not least because this would allow in some of the British exports which will now be pressed out of the US market).

It should come as no surprise that Labour's leaders have once again been caught with their

political trousers down. Even their Bank Holiday speeches now exclude any reference to socialism, while Gould is leading the charge to expunge Clause IV from the Party's very vocabulary.

Three years ago Kinnock and Hattersley staggered and appalled many Labour supporters by warmly congratulating Ronald Reagan on his economic policies.

Reagan had begun to create numbers of low-paid jobs in the service sector of the economy as a result of his policies of tax cuts for the rich alongside runaway military spending. These policies are of course precisely the roots of the present US budget deficit — and also of the import boom that has pushed the USA deep into a balance of payments crisis.

During 1984 Hattersley in particular urged Thatcher to adopt similar policies in Britain. Yet even the most superficial observer could see that (like Thatcherism at home) Reaganomics has had a brutal impact on vast sections of unemployed and impoverished US workers, while lining the pockets of the well to do, and of some better-paid workers.

Hattersley praised to the skies the fact that in pursuing this lop-sided expansion of the US economy, Reagan was "not afraid to borrow". Small wonder that Labour leaders and the TUC now want to soft-pedal any call for a correction of the US budget deficit.

Indeed, Clive Jenkins and TUC economic pundits have taken the same line further, arguing that "Reaganomics is now Keynesian"; the US budget deficit, they claim, is creating and sustaining jobs.

Small wonder too, that Thatcher's gang were able to make mincemeat of Kinnock's team on economic issues in the last election. With policies as cranky as this, no serious worker could believe a Labour government would not help plunge the economy into a new crisis like those of the 1960s and 1970s.

We know Thatcher's own largely-balanced budget in Britain is a fiction. It conceals a £19 billion trade deficit on manufactured goods, and rests upon a consumer credit explosion, North Sea oil revenues and the asset-stripping sales of nationalised industries. The answer to Thatcher and

Reagan is not the global Keynesianism proposed by Gould and the TUC, but the fight for a socialist alternative.

The system's huge capacity to create wealth and create useful commodities must be set free from the stifling grip of private ownership and the drive for profit, and from the shackles of national frontiers. A starting point in popularising this now rather unfashionable socialist approach must be to fight to expose the workings of the system and the wheelings and dealings that have such brutal impact on the lives of millions world-wide.

Workers will soon be confronted by a new wave of management attacks as they seek to survive the looming recession and carve out their "foreign" competitors by forcing down real wages and driving up the rate of exploitation.

The demand must be raised for the opening of the books of each employer and each industry, of the banks and the finance houses to reveal the real mechanisms that push forward such attacks.

Instead of pleading with capitalist governments in the USA, Germany and Japan to open their doors to more British imports, labour and trade union bodies should be appealing to fellow workers to join in a common struggle against the employers.

The contradiction between the colossal US deficits and the trade surpluses of Japan and Europe cannot be resolved by capitalism, short of a traumatic recession which will hit not only the imperialist nations but hundreds of millions in the debt-ridden "Third World".

As socialists we come not to rescue capitalism but to bury it. The crisis unites the interests of workers the world over against their "own" employers and the multinationals.

Open the Books! Print out the Discs! Let's explain and campaign around the need for class action to put an end to this crazy system of exploitation, oppression and mass poverty.

Let's put the expropriation of industry and the banks back at the top of the socialist agenda. Let's put the fight for a planned socialist economy, and a Socialist United States of Europe, back into the debates and discussions of the labour movement!

Briefing on Ireland

NOW, MORE THAN EVER: BRITAIN OUT OF IRELAND!

No Irish Republican, and no sympathiser with Republicanism, did not feel grief over Enniskillen.

The deaths were contrary to what the IRA intended and to the long non-sectarian tradition of Republicanism.

As *An Phoblacht/Republican News*, the newspaper of the Republican movement, made clear in its issue of November 12th:

"We do not try to defend the action which caused the deaths and injuries inflicted by the IRA bomb."

For those of us who have worked in this country for British withdrawal from Ireland, the sadness we felt over Enniskillen has been supplemented by another sentiment. Our new anger is one fuelled by the hypocrisy, play-acting, and crocodile tears of those enemies of Irish Republicanism who have sought to exploit the dead of Enniskillen.

The media coverage and the reaction of Tory politicians reached such macabre

levels that at times they seemed to be politically celebrating the tragedy.

And, almost inevitably, the Labour leadership felt compelled to join in this grisly carnival. The dead were not yet buried when Neil Kinnock and Party spokesperson on Ireland Kevin McNamara rushed to Dublin to take part in Thatcher's puppet show to demand that the Irish government introduce extradition.

By Geoff Bell
Hackney North CLP

They then sped to the North where Kinnock gave the Irish a lecture in democratic values and proclaimed:

"Sinn Fein has nothing to offer the people of Ireland." Here, in the space of a few days, was a powerful reminder of the characteristic British imperialist arrogance for so long manifest in Ireland.

Those who think Kinnock's and McNamara's

visit to Ireland should be treated with anything but contempt should remember the framing of the Birmingham Six, Guildford Four, and the Maguires, and ask: is this the justice the Labour leadership wants the Irish to trust? When has Kinnock ever raised the issues of the Birmingham and Guildford prisoners?

Injustices

And when has he ever spoken out against the daily injustices perpetrated against the Irish people with the energy and enthusiasm he showed when acting as Thatcher's ambassador in Ireland?

If Neil Kinnock really wishes to contribute something to the well-being of the Irish he should have stayed in London and taken his "soft left" friends in Camden to task for pinning up "No Irish need apply" signs on Council houses, and hiring boats and trains to ship them back to Ireland. Perhaps Kinnock supports

that form of extradition as well.

The antics of Kinnock, the Tories, and the media are meant to shame into silence the supporters of British

and a courage their critics lack, repeated their calls for British withdrawal and a dialogue with Sinn Fein. "I will continue to speak out in favour of Irish unity until it

creasing volume and determination. Initially, many Irish activists in Britain have been hesitant about speaking out. That hesitation must now come to an end.

The cheap exploitation of the Enniskillen dead by the imperialists and their supporters in the labour movement should only strengthen our resolve. We should advocate increased dialogue with Sinn Fein and proclaim loudly that, now more than ever, a political solution is the only solution.

The demand "Britain out of Ireland" will now be taken up with a new determination. Enniskillen will not silence us. British imperialism has sought to suck the last drop of blood from the Enniskillen dead to feed its own parasitical presence in Ireland. For those not dazzled by the media blitz, this appalling spectacle has only further exposed the inhumanity of the British position. The enduring truth is that Britain has nothing to offer Ireland — but the leaving of it.



withdrawal from Ireland. But the vulgar ferocity of it all is producing a different response.

Ken Livingstone and Tony Benn have, with a dignity

is achieved or until I die," said Ken Livingstone at a public meeting after Enniskillen.

We should all say "hear, hear!" and say it with in-

BF to m 27/1

CHANCELLOR

phoned through -
Who is it?

FROM: A G TYRIE

DATE: 18 JANUARY 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Forman MP
Mr Cropper
Mr Call

'ALLIANCE' SHAMBLES

This week's CRD Alliance briefing was well done. The opening quotation hits the nail on the head. It also brings out David Steel's complete neglect (or/and ignorance) of policy. Apparently, 'Voices and Choices for All' was largely written by William Wallace. It only goes to show what can happen when policy making is left to academics!

AGT.

A G TYRIE

Conservative Research Department

Alliance Briefing

Week Ending 15th January 1988 (No. 13)

'If we fail or falter now, the electorate's verdict will be severe. For instance, if we fell out over a name, however genuine the arguments and strongly held views, the voters simply would not understand. Make no mistake, they would not laud our principles. They would instead condemn our lack of seriousness ... They would see us as essentially frivolous and they would not be wrong' - Mr David Steel, (Northampton, 29th December 1987)

When Mr Steel issued this warning to the Liberal Party Council in Northampton barely four weeks ago, the merger negotiations were on course for a successful conclusion. There had been teething problems over 'frivolous' matters and some serious disagreements, as well, over the Party's constitution - but no warning over the disastrous splits which soon threatened to wreck the merger between the Liberals and the SDP and undermine the leadership of Mr Steel and Mr MacLennan.

A warning shot

The first signs of difficulty came when four Liberal 'activists' - Mr Michael Meadowcroft (Liberal President Elect), Mr Tony Greaves (of the ALC), Miss Rachael Pitchford (Chairman of the Young Liberals), and Mr Peter Knowlson (former Director of the Liberal Research Department) - walked out of the final round of negotiations over disagreements with the SDP. Mr Greaves made clear the reason for their actions: 'The Liberals have again given in. I cannot stomach it' (Financial Times, 14th January 1988).

Collapse

But, as ever, the most serious divisions occurred over the central issues of policy. The entire merger and the future of Mr Steel's leadership came into serious doubt with the publication of Voices and Choices for All, a bizarre Policy Declaration espousing among other things:

- * An unequivocal commitment to Trident (p.9) and to the continuation of civil nuclear energy (p.14).
- * The phasing out of mortgage tax relief (p.21) and of the married man's tax allowance (p.17).
- * The extension of VAT to food, children's clothing, domestic fuel and newspapers (p.16).
- * A commitment to allow council tenants to 'opt-out' of municipal control (p.20) and for the establishment of a national curriculum and the devolution of budgets to schools (ibid).

This Policy Declaration was totally unacceptable to the mass of Liberals especially on the central questions of defence and energy.

- * Mr Adrian Slade, President of the Liberals, declared that 'if [the proposals] are not changed, the merger will not take place. These proposals would split the party' (Daily Telegraph, 14th January 1988).

- * Mr Alex Carlile MP, a close ally of Mr Steel, said the declaration contained 'loopy ideas' (ibid).
- * Mr Des Wilson attacked the document as 'barely literate' and 'politically inept' (ibid).

Mr Steel's volte face

To make matters worse many of the policy positions of the the two leaders had previously been categorically rejected by Mr Steel and the 'Alliance':

- * Only in Sepetember Mr Steel himself ruled out the possibility of the 'Alliance' agreeing to Trident (This Week Next Week, 15th September 1987).
- * The 'Alliance' had previously declared that mortgage tax relief was 'essential and must be retrained' (Partnership for Progress, July 1986, p.53).
- * At the election the Liberals savagely attacked Conservative plans to allow Council tenants to opt out of municipal control - saying that they would lead directly to 'riots on the streets of our cities' (London, 28th May 1987).

Isolated

It soon become clear that Mr Steel's is now completely isolated within the Liberal Party:

- * All of his Parliamentary colleagues - including even the usually faithful Messrs Beith, Carlile and Wallace - rejected their leader's own policy declaration (Daily Mail, 14th January 1988).
- * The Liberal Party National Executive also rejected the declaration (Times, 14th January 1988).
- * The 'activists' within the Liberal Party now believe that - in the words of Tony Greaves - 'merger is ... at an end' (Daily Telegraph, 14th January 1988); without their help Mr Steel will find it very difficult to get any new merger package through the Liberal Party's Special Assembly.

Mr Maclennan in defeat

The shambles of the Policy Declaration has been a humiliating defeat for Mr Maclennan as well. He maintained throughout that he stood by the declaration which has now been totally rejected. The words of Dr Owen must now be haunting him: 'merger is a recipe for disunity' (Observer, 12th July 1987). That disunity now threatens to destroy not just the SDP but the Liberals as well.

Observers of the extraordinary events of the last 48 hours will be forced to agree with Mr William Wallace, a close ally of Mr Steel, that 'the Conservatives are [now] a racing certainty for victory in 1991' (Independent, 14th January 1988).

- * Detailed notes on the leaders' Policy Declaration and on the background to the break-up of the 'Alliance' are available in the Whips office or from the Research Department.

CHANCELLOR

FROM: A G TYRIE

DATE: 18 JANUARY 1988

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Mr Forman MP
 Mr Harris - CRD
 Mr Cropper
 Mr Call

*Thatcher
 X to [unclear]
 who*

LABOUR SPENDING PLEDGES

As you know, Kinnock has decided to try and avoid issuing any definitive policy statements for a couple of years and Labour's policy groups have instructions to drag their feet.

All the same, the spending pledge merry-go-round has begun again, see attachment (modest by Biffenesque standards!).

X I have asked the Research Department to start collecting them (as will I) so that they can be used in a couple of years time, if appropriate.

AGT.

A G TYRIE

Bandaging the NHS

The government refuses to meet the funding gap in the national health service and is encouraging talk of "alternative" means of funding. But

NEIL KINNOCK warns that

alternative funding means an alternative health service. He details the immediate financial commitments the government should make to restore services and raise morale

THE £100 million dose was welcome — although after £13.3 million for storm damage and £10 million for Aids have been subtracted, it melts down to £77 million for the "protection of services". That is roughly half of the deficit which the health authorities will have unavoidably incurred by the end of this financial year. It is just a third of the £235 million extra which the National Association of Health Authorities has said is necessary simply to remove that deficit, sustain standards of treatment and fund necessary development.

Tragically, therefore, the extra £77 million will not be enough to ensure that significant numbers of wards and operating theatres are permanently reopened. There is no sign of the radical revision of the government's public expenditure plans for the next financial year which would recognise the full realities of pay awards, price increases and the obligations resulting from an ageing population. The deficits will therefore go on accumulating, repairs will still be deferred, developments shelved, facilities closed and staff reduced. The crisis will creep on.

The government should respond to those certainties, to the outrage expressed by health practitioners and to the anxieties felt by patients with funding that clears the deficit. Instead, they resort to the argument that demand for health care is "insatiable" and they are already doing all that can be done. It is a lame excuse. "Infinity" of demand for health care cannot justify the failure to wipe out a very precise hospital deficit this year or to prevent such a shortfall next year.

Closed wards, lost beds, idle operating theatres are not infinite. They are all too definite. And while the demand for health care in general might be "infinite", the need for acute treatment is not. As the doctors repeatedly testify, it is measurable and predictable. And it is not being met.

The government's refusal to close the funding gap cannot be because of a shortage of resources when it so freely advertises the possibility of a £3,000 million income tax cut. If the Prime Minister has, as she claims, "cured" the "British disease", surely the means exist to do much more to combat physical and mental disease. The reason that she won't is not financial. It is philosophical.

The crisis that has accumulated through years of underfunding is now being used to create uncertainty and anxiety and consequently to

promote the idea — and, indeed, to insist upon the practice — that the NHS must look for "alternative" means of financing. John Moore has briefed newspapers with his view that the public debate on the NHS encourages ideas on funding previously regarded as politically untenable. And if the public and the professionals are not vigilant the stratagem could work.

The demand for health care is special. For people in pain or great anxiety it understandably becomes obsessional. Sufferers who have modest financial means and who would not normally think of "going private" eventually use savings or raise loans to buy private treatment when the NHS waiting list is too long to bear. The Prime Minister knows that. And she knows that the particular can be turned into the general.

‘While the demand for health care in general might be infinite, the need for acute treatment is not. It is measurable and predictable. And it is not being met’

Urgency of need is pressing. It outweighs the principles of a comprehensive, nationally funded, nationally provided public service, free at time of use. Indeed, when public funding falls so short of so much private need it is small wonder that the active, good-hearted instinct to help quickly and get the scanner or the research or the fare and fees for operations abroad is greater than the slogging pragmatism operating those principles.

Chipping in

So we all chip in. Whether we are citizens sponsoring fun runs or nurses and doctors working overtime, we know that now we are not raising money or cutting costs to provide the "extras" to care, but actually funding basic services. Still — because we know that it is a life or death, pain or peace necessity — we all have and will put our fingers in the dyke. That form of plumbing is all right as long as help is coming. But it isn't. As a matter of fact and government policy, help is going in the opposite direction.

Renting of laboratories, hiring of beds, extensive use of agencies are all commonplace despite the losses and costs that occur. The government urges that hospital foyers be turned into shopping precincts, not as a handy facility for patients and visitors, but to fund treatment — despite the fact that the result will be a puny and scattered £70 million in three years.

Competitive tendering for cleaning, catering, laundry and other services is hailed by the government as the great "resource-releasing moneysaver", despite the fact that the *British*

Medical Journal registered the evidence of many who work in and use the health service last week: "Virtually every hospital is dirty and many are filthy . . . many hospitals are unpainted, unrepaired and unmaintained. Privatisation may have saved money but it has often made standards worse."

Increased dental and optical testing charges are levied, despite the fact that, as even Tory MPs recognise, reluctance or inability to pay means that preventable diseases go undetected, and the costs — especially among the elderly — are later paid in blindness, in pain and greater bills for providing acute treatment.

The deficiencies of all these systems are obvious. Consultants acknowledge that the charity-financed facilities, creditable though they may be, "disguise the true needs of the NHS". In a health service which is proud to have the lowest administrative costs of any comparable country managers and medical staffs insist that after years in which they have cut costs and raised funds, the government's assumption that another £150 million can be generated from "cost improvements" next year is banal and brutal.

As they lengthen waiting lists, prevent operations and postpone treatment, deficit-reducing ploys like cutting back on beds and getting rid of staff do reduce variable costs. But they don't reduce the fixed costs of running a hospital. In fact, they obviously increase unit costs. That system cannot satisfy any definition of efficiency. It certainly fails every test of morality.

More complex and comprehensive "alternatives" are now being offered. The idea of the "internal market" in the NHS is being fostered by the government. They seek to give the

**new
community**



**Journal of the Commission
for Racial Equality**

Vol. XIV, No. 1/2, 1987

This special double issue marks the Tenth Anniversary of the CRE and the Sixteenth Anniversary of **NEW COMMUNITY** itself. It has as its overall theme:

**RACE AND ETHNIC RELATIONS IN
BRITAIN: PAST, PRESENT AND FUTURE**

Among the many contributors are: *Mark Bonham-Carter, Nadine Peppard, Alfred Jowett, David Lane, Peter Newsam, Anthony Lester QC, Bob Hepple, Zig Layton-Henry, Sally Tomlinson, Daniel Lawrence, Deborah Phillips, Simon Holdaway, Michael Banton, Malcolm Cross and John Rex.*

Single copy (£7.50)
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**New Community, CRE, Elliot House,
10/12 Allington Street, London SW1E 5EH
(Tel. 01-828 7022)**

impression that there are significant and under-used facilities in some parts of the country. But where spare capacity does exist, it is often because one or more of the components of care — beds, theatres, nurses or doctors — are not available to ensure full use.

And, even if an "internal market" were operated, the direction of patients to the "market-leading" hospitals and units would produce congestion, demand would overwhelm supply, fast turn-around would bring early discharge and post-operative problems which are both painful and very costly. The example of the international corporation, moving cash and inanimate goods and services between profit centres, is not a practical model for a health service where the product and ultimate measure of efficiency must be the health of living patients. That is not a matter of sentiment.

The idea of the "internal market", like other schemes from vouchers to lotteries, underestimates the problem and sabotages the solution.

National disaster

The private sector does not delude itself that it could either replace or even do without the NHS. Dr Marvyn Goldberg, the chief executive of American Medical International, Britain's largest private hospital group, has said: "The NHS is vital. It is highly valued, deeply regarded and in many ways a very cost-effective service. To let it run down to the point where it cannot deliver the care needed would be a national disaster . . . Without the NHS we would all be in trouble."

Among those most in trouble would be mothers and children, the elderly, the chronically sick, the mentally and physically handicapped, medical and nursing trainees, and medical researchers.

And who would pay the large increases in contributions or fees which would follow from greater dependence on the private sector? Clearly not even the Prime Minister. She knows that the NHS has a precious place for even the most fanatical privateer: "the day may come when we have to have a very complicated operation I hope not. I hope it will never come. If it does then I am afraid one could not . . . perhaps . . . possibly bear that on private insurance."

The failure to provide against such risks is only one of the inherent shortcomings of a private insurance-based system. It would be immensely complicated to apply to the range of health needs and very costly to administer. Dependent — as it would have to be — on capacity to pay, it would unavoidably be selective, riddled with qualifications, exclusions and means-tests.

Comparisons with private life insurance are odious. The disparities which now exist in life insurance are tolerable because they do not determine quality of life, they reflect it.

One of the great strengths of the tax-financed NHS is that it is an "all-risks" insurance policy that costs user and potential user a fraction of what such comprehensive cover would cost if not provided universally. It simultaneously — despite the worst efforts of the government — permits planning and the setting and keeping of standards of professionalism and access which are essential.

A service using such large public funds and so central to public well-being must, of course, be subject to the demands of efficiency and

Contd on p.42

democracy. Both demands can be met if they are properly organised and operated in partnership between providers and the community which they serve. Those requirements are not in conflict.

That should be the starting point of any review which the government undertakes. But it won't be. Instead, there will be an internal examination in which the government appoints prosecution and defence, jury and witnesses, in order to justify alternative funding, charges and reduced provision. A noose trial for the NHS.

That is no good for Britain. For medium and long term planning, we should have an open and impartial consideration of how the needs of the nation can best be met by a modern health service free at the time of use. In the short term provision is the priority. Resolving the crisis cannot wait for the conclusions of a review. The government must act immediately and

award the NHS at least that £1,300 million (almost exactly the product of 1p off income tax) which the Select Committee on Social Services, with its in-built Tory majority, estimated was the shortfall in funding up to 1986;

take the professional advice of the National Association of Health Authorities and meet the full shortfall of £235 million this year so that the next financial year does not start with a new financial crisis;

make the commitment to fund a new pay structure for nurses, once it has been priced by the Pay Review Body, to reward qualifications, specialisations and shift work properly;

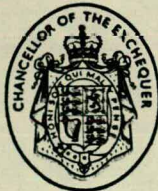
fund the health authorities so that they can finance planned developments next year and meet their repair and maintenance bills;

introduce a strategy for waiting lists based not on random injections of cash but on properly financed management and information programmes which will match up skills, beds and needs on a locally determined basis.

Implementing these changes would not at once meet un-met needs. But it would begin tackling them and provide a positive way of preventing future crisis.

Searching for "alternative funding" will do none of that. Alternative funding will bring an alternative health service. The British people neither want nor need that. They want an NHS that is better, not one in bits.

UNCLASSIFIED

*mpw*

FROM: MOIRA WALLACE
DATE: 22 January 1988

MR TYRIE

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Call

LABOUR SPENDING PLEDGES

The Chancellor has seen and was grateful for your minute of 18 January. He has commented that it is clearly right to start a collection for use when appropriate.

mpw.

MOIRA WALLACE

Labour finding feet as voice of the consumer

*Guardian
26.2.88*

Patrick Wintour

THE Labour Party policy review is moving towards a concept of Labour becoming a party of consumers instead of producers, according to confidential documents summarising the review's progress. The documents aim to present socialism as a near populist ideology committed to efficiency and individual freedom.

Seven policy review groups are at work with the brief of preparing thematic outlines for this year's party conference and detailed proposals for the one in 1989.

The Consumers and the Community group is seen as one of the most important of the seven and has already sought to find ways of introducing choice and flexibility in publicly managed services through quality assurance, monitoring standards and consumer rights.

A paper prepared for the group states: "If we accept that Labour's overriding objective has to be to guarantee the quality of the outcome of the services, then we must also acknowledge the implications of this for the development of a managerial culture inside the movement and for a greater clarity in the relationships between the authorities who finance the services and represent its consumers and the trades unions who represent the employees of the service.

"There is no more sensitive issue; but nor is there a more important one.

"It goes to the heart of the issue as to whether Labour can govern competently and efficiently (whether locally or nationally): doubts about which are amongst the key factors that are holding us back. There is nothing inherently rightwing or non-socialist about management."

The Productive and Competitive Economy group suggests that the party should move from the concept of a return to full employment towards one of "fulfilling employment." The concept of full employment, the paper states, was seen to be limited. Work was not universally popular. "We must stop thinking of Labour as a resource of which the more we used it, the better things were."

Neither was paid employment necessarily the best way in which everyone could partic-

ipate in society. "We need to respond to and lead the changing patterns of work and to value unwaged forms of activity."

The group adds that the party cannot afford to duck the issue of inflation, but the myth that economic expansion when there was spare capacity caused inflation had been exploded.

The People at Work group has agreed there will be no change of policy on pre-strike ballots and executive elections, but that the mechanism for state enforcement of them must be made clear. Further clarification of the party's policy on the closed shop and secondary action was also necessary.

The three key issues, the group has decided, are improving work conditions; legal minimum rights for part-time, temporary and full-time workers; and finally improving training as a means of widening choice.

The Economic Equality group has received polling research which shows Labour must build public confidence in its ability to run the economy.

The group says: "We must counter-attack unpopular stereotypes of Labour as a 'high tax, profligate spending' party which will help the poor, but leave everyone else comparatively worse off. It was generally agreed that Labour must convince people that our commitment to equality does not mean levelling down, penalising success or eliminating individuality."

The group has reported a clear consensus that Labour's solution to fairness in taxation will not be found in an SDP-style merged tax and benefits system. Instead, the group favours a national minimum wage.

Democracy for the Individual and the Community group has rejected a "Bill of Rights" since it would hinder rather than help the pursuit of socialism. "Every act of state intervention should be as a provider and enabler, but every state intervention must extend rather than limit or reduce collective and individual liberty," it says.

The Physical and Social Environment Policy group is considering a major diminution of the role of councils in the direct management of housing and is instead looking at a greater role for co-operatives and housing associations.



PRESS RELEASE FROM BRYAN GOULD MP

SHADOW SECRETARY OF STATE FOR
TRADE AND INDUSTRY

embargo: 19:30 hours March 1st

1/3/88 -

Gould Plan Four - SOCIAL OWNERSHIP AND MARKETS

In the fourth of his major speeches - dubbed the 'Gould Plan' - Bryan Gould MP, Shadow Secretary of State for Trade and Industry, turns his attention to Labour's plans for social ownership and a critique of unfettered free markets.

Giving the Sara Hall Memorial lecture in the House of Commons, organised by the Fabian Society to commemorate Robert Owen, Mr Gould argues that Labour's plans for social ownership must go back to first principles rather than be seen as a response to Government sell offs. "As long as we insist on treating the Tory privatisation programme as a video recording which we will simply play in reverse when we return to office, we necessarily give the impression of a Party that looks backwards rather than forwards."

Rather Labour should argue that "common ownership is intrinsically a superior form of ownership which better meets society's needs right across the board." Mr Gould makes a spirited defence of social ownership arguing not only for its efficiency but that modern trends in the economy make the sharing of the benefits of wealth creation ever more important. "Unless we are careful, the private owners of the wealth creating process will become yet more powerful as capital becomes a relatively more important factor of production in relation to Labour."

Mr Gould also stakes out his critique of the market. Recognising that the market mechanism will always be with us he argues that they need to be regulated and controlled. "Markets which are allowed to operate as though they are an unchallengeable part of natural law - in other words, completely unfettered - produce results which are completely unacceptable."



Mr Gould concludes by setting out ways that Labour can extend social ownership. Arguing for a variety of forms and approaches he also makes the case for "alternatives to ownership as a means of achieving our objectives." Nationally directed public ownership is right for natural monopolies and other strategic industries, but in other sectors of the economy a variety of measures should be considered. These include:

- * giving local authorities power to play a fully dynamic role in their local economies
- * changes in the law and taxation to benefit worker co-ops
- * minority and partial equity holdings treated in a way that has no effect on the PSBR
- * making pension funds more accountable and "freeing them from the tyranny of short term balance sheet considerations".
- * socialising the limited liability company through employee share ownership schemes

New forms of market regulation could go hand in hand with this extension of social ownership. "If a privately owned British Telecom can be regulated in the public and consumer interest by an Oftel (however ineffectively), why should we not have similar instruments for regulation and consumer protection, with stronger powers and greater resources across the board?" he concludes.

more info Nigel Stanley 219 6239/4450 - 534 0678 (h)



HOUSE OF COMMONS
LONDON SW1A 0AA

In Labour's process of policy review, no issue will attract more attention than that of social ownership. It is seen by many activists as the litmus test of the Party's loyalty to its principles and of whether or not we can claim to be a socialist party. It is also the issue on which our opponents have chosen to mount, through their privatisation programme, their most pointed challenge.

This is no accident. The Tories have chosen the issue as one where they feel we are most vulnerable. As long as they can define the Party battle in terms of this issue, they feel they are bound to win. So far, they have good reason to feel confident that we will accommodate them by readily agreeing to fight the battle on their terms.

This is a mistake. It means that we are likely to come off second best on the substance of the issue, but it also condemns us to a wider tactical weakness. We are inevitably seen as merely responding to their initiatives, with little new or positive to say for ourselves. As long as we insist on treating the Tory privatisation programme as a video recording which we will simply play in reverse when we return to office, we necessarily give the impression of a Party that looks backwards rather than forwards.

I wish to argue that we should free our minds from the detail of Tory privatisation and of what has gone before and should start from first principles. As socialists, our belief in some form of common ownership must rest on more than a knee-jerk reaction to Tory privatisation or to the chequered histories of particular industries.



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We can win the argument provided that we fight it on the right terms. Our position is, surely, that common ownership is intrinsically a superior form of ownership which better meets society's needs right across the board.

It is, in many ways, an historical accident that produced the current pattern of private ownership. It arose because the technological progress which ushered in the age of wealth creation preceded the social and political developments which would have ensured that wealth creation fell under social rather than private control. Wealth creation required capital and the only owners of capital at the time were private merchant traders and land owners. They quickly established the idea that private owners of capital were the most appropriate people to own the processes of wealth creation, and to continue to hold a monopoly of the new capital which that wealth creation generated.

The peculiarity of this idea is largely obscured by its familiarity. Only socialists have challenged it, by pointing out that creation of capital wealth is a social process to which everyone in society contributes.

What was true in the early days of the industrial revolution is even more true today. By far the greatest proportion of capital for investment in wealth creation is now generated through the savings of millions of ordinary people - a fact often lost sight of because those savings are organised and invested by City institutions. In these circumstances, it is surely inappropriate that the forms and



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institutions of private ownership should still predominate when, even on capitalist principles, the ownership of wealth creation ought to be in the hands of those - the bulk of the people - who now provide the capital.

This point is likely to become even more important in the future. Ordinary people's claim to a share in the fruits of wealth creation, based on the labour rather than the capital they contribute, is likely to become weaker as technology advances. Unless we are careful, the private owners of the wealth creating process will become yet more powerful as capital becomes a relatively more important factor of production in relation to labour. Only if we recognise the importance of the social creation and consequent sharing of capital will we avoid a future in which a tiny minority own the wealth and large numbers exist merely as a sort of underclass, forced to sell their labour in a market prepared to pay only a derisory price for it.

This then is the basis on which we should approach common ownership - as a natural and appropriate reflection of the fact that in a modern society, wealth is created by all of us and we are all therefore entitled to a share in its fruits and to the power of decision which accompanies its ownership. It is private ownership which is the aberration. The notion that a single entrepreneur, using for investment or acquisition purposes the savings of millions of people and the labour of thousands of others, should then be entitled to an unfettered personal discretion as to the disposition of the wealth thereby created is an affront both to common sense and social justice.



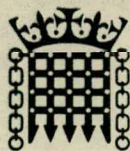
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It is for this reason that socialists embrace the concept of common or social ownership. It is not an accident that it is singled out in Clause 4 Part 4 of our constitution. The case for common ownership is based on fundamental socialist principles of individual freedom and equality. Common ownership is a practical expression of our socialist belief that all those who participate in the great joint enterprise which is society should be entitled to a fair share in the benefits of that enterprise. It expresses a belief which I regard as very important - that the distribution of power, wealth and income through measures like capital sharing is just as important to socialists, if not more so, than redistribution through taxation.

In addition to the case based on justice and equality, common ownership can also be justified in terms of economic efficiency. Contrary to popular mythology, publicly owned enterprises have generally out-performed privately owned firms. British Gas under public ownership was a great British success story; the NHS delivers health care at a fraction of the administrative costs incurred by private insurance schemes; and studies in the USA of firms with ESOPs show productivity gains of 2-4% more than in comparable firms without worker share ownership schemes.

There are other specific but subsidiary arguments in favour of common ownership. In the past, for example, public ownership has often been thought to be necessary in cases where strategically important industries have been seen to "fail the nation"; these are important and justified instances but we must recognise that they rest



HOUSE OF COMMONS

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5.

on specific and additional arguments rather than on the fundamental case for common ownership. Our socialism must rest on more than the need to provide a hospital ward for ailing industries.

At this point, it is necessary to look at the linked but different issue of the market. Over recent weeks and months, with the increased attention paid by activists and commentators to the market, there has been a tendency to confuse the two issues and to assume that any readiness to employ the market must mean the denial of our adherence to the principles of common ownership. This is not the case. In principle, forms of ownership and the question of whether or not to utilise the market are independent of each other; it is possible to imagine an economy which is totally in public ownership but makes full use of the market, and equally a privately owned economy in which the market does not operate at all.

The socialist approach to the market should be based on a clear recognition that it is simply a mechanism for allocating resources and deciding preferences. It does not arise naturally but depends on a range of man-made rules and institutions such as the enforceability of contracts. In appropriate circumstances, it may be the most efficient way of carrying out these tasks. The crucial questions about the market are not whether or not, but how and for what purpose.

What is certain is that markets which are allowed to operate as though they are an unchallengeable part of the natural law - in other words, completely unfettered - produce results which are



HOUSE OF COMMONS
LONDON SW1A 0AA

6.

completely unacceptable. Only extremists believe that the market somehow exercises a moral judgment, providing rewards to the righteous and penalties to the feckless, and automatically achieving the best outcome. Everyone else accepts that unfettered markets produce monopoly and eventually fail to meet the needs of those who lack purchasing power. Everyone else acknowledges the need to regulate and monitor markets very carefully indeed.

The deficiencies of the market mean that it is simply inappropriate in important parts of the economy. There will be major areas - such as the delivery of basic services like health care and education - where the market has little role to play and where the services must be guaranteed to most people by other means. There will be areas of the economy, however, where a properly regulated market will be a preferable alternative to some major bureaucratic exercise designed to decide, for example, how many loaves of bread each family will need.

that's a relief!

Armed with the basic argument for common ownership and with a proper appreciation of the role of the market, how should a socialist in modern Britain approach the application of policy in these areas? The one thing we must avoid is falling into the trap set for us by our opponents (and into which we have hitherto happily stepped) of conducting the arguments on an all-or-nothing basis. It suits our opponents very well that we should tear ourselves apart over questions like whether or not markets have any role or as to where the dividing line should be drawn between totally separate public and private sectors.



HOUSE OF COMMONS

LONDON SW1A 0AA

We should be arguing much more intelligently and flexibly for the extension of our principles - taking varying forms - right across the board. This means deciding not just whether to nationalise or not to nationalise, but thinking about forms of common ownership which will be appropriate to every level of economic activity, and also accepting that there may be measures which are alternatives to ownership as means of achieving our objectives.

There will of course be cases where some form of nationally directed public ownership will be appropriate. This will be true where it is a question of the natural monopolies, or where major public investment is required in order to safeguard industries which are strategically important, or where major national resources need careful management. In all of these cases, the public interest demands that the community as a whole should have the responsibility for ownership and management. This does not mean that we should simply reproduce the forms of public ownership we have seen so far; improvements in accountability and industrial democracy are certainly needed and there is a powerful case for introducing competition between public corporations. The days of the great Morrisonian edifices have certainly gone for ever.

*Conflicts with
Kinnock's
advocacy of
nationalization
'in the original
sense of the word!'*

We should not, however, accept that this is the only form which common ownership can take. We now have the chance to build on past experience and on the new thinking which is beginning to surface. We can take the intellectual initiative by proposing new forms of common ownership which will extend right across the spectrum of



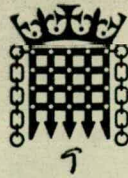
8

economic activity. Instead of defending past achievements against erosion, we can move onto the offensive and take the battle into enemy territory.

We should be prepared, for example, to build on the work done by many Labour local authorities and by municipal enterprise boards in developing local enterprise. We should offer new resources and a new range of legal powers so that local authorities and municipal enterprises can play a fully dynamic role in their local economies.

We should also want to extend the range of workers co-operatives by changing the law so that they find it easier to function and develop. In particular, we will want to make it possible for them to plough back the return they make on capital without attracting tax liability. There seems no reason why workers co-operatives should not be as important an element in Britain as they are in some other economies.

Nor should we neglect the possibilities of partial or minority equity holdings. It is a commonplace in the City that control is obtained by a 30% shareholding (this is the basis on which the takeover rules are framed) and there seems no reason why, in most cases, the taxpayer should spend more than is necessary for the sake of obtaining control. There is also the precedent well established by the Tory government of instituting a golden share which gives the holder majority voting rights. The fact that the Tory Government has shown itself so weak-kneed in the case of Britoil does not mean that this device could not be of great utility to a future Labour



HOUSE OF COMMONS
LONDON SW1A 0AA

Government.

Where we decide that an equity stake is appropriate, we should not be inhibited by the burden on the PSBR which has hitherto arisen from such purchases. The PSBR is increasingly rejected as a proper measure of government finances; the cost of buying an equity stake should be treated as a balance sheet transition, providing an asset to match a liability, as would be the case for any other purchaser. Each purchase should, in other words, be treated on its merits as an investment. Nor should we be slow to affect the price we might have to pay by making it clear in advance that monopolies in private hands could not expect to remain both monopolies and privately owned.

The pension funds also offer an important potential for socialising the economy. The pension funds are after all the collective savings of millions of ordinary people and they will increasingly provide the bulk of new investment capital in British industry. It would require only relatively small changes in existing rules to realise their full potential as a form of socialised ownership. As part of a new statutory framework to govern pension funds, we should widen the criteria which trustees are required to consider so that they escape from the tyranny of short term balance sheet considerations and can take account of wider social and political factors. We should also institute rules which make the management of those funds more accountable to their members.

Perhaps the most fruitful and important new possibility for extending common ownership is through socialising the limited



10

HOUSE OF COMMONS
LONDON SW1A 0AA

liability company. This would require changes in company law so that the interests of shareholders alone were no longer the only consideration that mattered. It should be possible to redress the balance so that the interests of consumers, and particularly employees, are given full weight. I sometimes think that we are so familiar with the limited liability company that we fail to recognise what an extraordinary, and largely unjustified, set of privileges it provides to the holders of capital at everyone else's expense.

In this context, there is particular value in considering the various forms that employee share ownership schemes can take. We should be ready to learn from the experience of other countries such as Sweden and West Germany who have gone much further down the road towards employee participation and industrial democracy than we have done. We should build upon the growing experience in our own country of trade union-backed ESOPs and consider what changes in tax law and company law would be required to encourage these schemes still further. It is significant that trade union interest in these schemes is growing day by day.

Most importantly, we should recognise the long and specifically British socialist tradition - owing a great deal to Robert Owen - of emphasising the value of giving working people control over their own working lives. Workers' co-operatives and collective shareholding schemes, provided that they bring with them a measure of ownership and control as well as capital sharing, go a long way towards meeting the socialist objective of diffusing power, and have accordingly commanded support from the British Labour movement



HOUSE OF COMMONS

LONDON SW1A 0AA

1

over a long period. Now is the time to breathe new life into these ideas which have the great merit of not only providing a practical socialist agenda but also of making a considerable appeal to popular opinion.

There will be some socialists who doubt whether share ownership can ever provide a means of achieving socialism. This is to mistake labels for reality. Our task is to take an illusion created by Mrs Thatcher and to give it a socialist reality. Employee share ownership schemes will never be more than just one instrument for extending the concepts of common ownership, but they will, where appropriate, mean a major step forward. The view that socialism can be achieved only by state ownership of everything is regarded as eccentric today even in Albania.

Taken together, these measures constitute a major shift in the balance between the owners of capital and the interests of others including the consumer, the employee and the public. They each provide a means by which the rights of capital owners are restricted and shared with others who would otherwise be excluded under the present rules. Perhaps the best way of looking at these reforms is to regard them, not so much as bringing about common ownership in its fullest form, but as a very real step along that road.. The popularisation of employee share ownership schemes could well be, for example, the prelude to the comprehensive socialisation of the company.



HOUSE OF COMMONS
LONDON SW1A 0AA

12

Just as we should be prepared to think flexibly about the means of achieving the aims of social ownership, so we should be ready to look at methods by which the market can be manipulated to produce the social ends we want. If a privately owned British Telecom can be regulated in the public and consumer interest by an Oftel (however ineffectively), why should we not have similar instruments for regulation and consumer protection, with stronger powers and greater resources right across the board? We should be prepared to use the power of the market and recognise that, since governments are inevitably powerful players in the market, it is relatively easy to rig the market in appropriate cases to produce the results we want. Even the Tories recognise the value of this technique; what is the assisted places scheme if not an intervention to ensure that the market produces a result it otherwise would fail to do?

Taken together, the steps towards social ownership and the regulation of the market which I propose would represent a much greater degree of socialisation than anything which has hitherto been proposed. There will be instances where we have a choice of measures; in the case of dealing with monopolies, we have the option of regulating their activities through controlling their market operations or of dealing directly with the question of ownership by splitting them up in accordance with anti-trust laws. In the case of undertakings which we require to recognise some form of social obligation, we can leave the form of ownership untouched but impose and finance a Public Service Obligation, as in the successful instance of British Rail.



HOUSE OF COMMONS

LONDON SW1A 0AA

13

What all this means, however, is that the notion that socialists have run out of ideas and have nothing more to offer is very wide of the mark. Provided we demand the freedom to think afresh, we have much to say which will, I am confident, appeal to a wider public. They will well understand the very great advantages in terms of justice, social cohesion and economic efficiency of ensuring that capital does not become even more dominant and even more concentrated in a few hands than it is at present. It is undoubtedly part of the socialist enterprise to spread the power which accompanies the ownership of capital more widely; and the fact that such ideas have a specifically British provenance, through the work and ideas of great socialists like Robert Owen, is of course an additional commendation.

Guardian 4 March 1988

Guardian 4th March 1988

Labour alternative plan seeks more powerful Office of Fair Trading

ALTERNATIVE proposals for regulating mergers were produced yesterday by the Labour Party's finance and industry group, which called for a more powerful Office of Fair Trading.

It also went in the opposite direction from the govern-

ment's competition-oriented policy by insisting that merger policy should give "prime attention to the wider economic aims of a Labour government." It should also include a system of protection for employees.

The DTI merger policy

paper yesterday elaborated on the government's rejection of pressure to allow a wider public interest element in the consideration of mergers.

The shadow trade secretary, Mr Brian Gould, said: "Free markets are a theoreti-

cal abstraction that exist only in the pages of textbooks and the imagination of the Cabinet. In the real world markets have a built-in tendency to concentrate ownership and make the already powerful even more powerful."

CHANCELLOR

*Useful - esp X
 (to a com
 (exh) Y.*

FROM: A G TYRIE

DATE: 8 MARCH 1988

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Mr Cropper
 Mr Call

MORE LABOUR BASHING

There are some more pickings in Gould's latest speech, attached.
 These include:

'Common ownership is intrinsically a superior form of ownership which better meets society's needs right across the board'.

So, in theory, everything should be commonly owned.

'It is private ownership which is the aberration'.

'Publicly owned enterprises have generally out-performed privately owned firms'.

'The days of the great Morrisonian edifices have certainly gone forever'.

So Gould is contradicting Kinnock's advocacy of nationalisation 'in the original sense of the word', made in Tribune last week.

'Where we decide that an equity stake is appropriate, we should not be inhibited by the burden on the PSBR'.

So Labour would fund their nationalisation programmes without a care, from borrowing.

'Perhaps the most fruitful and important new possibility for extending common ownership is through socialising the limited liability company ... we fail to recognise what an extraordinary, and largely unjustified, set of privileges it provides ...'.

'The popularisation of employee share ownership schemes could well be, for example, the prelude to the comprehensive socialisation of the company'.

This last is a rather sinister commitment to curtail the property rights of companies.

Last week's CRD Labour Briefing also contained a couple more useful quotations.

The first was from Labour's 'Consumers and the Community' Review Group who are grappling with the problem that Labour does not seem to represent consumers. As they put it, this problem:

'goes to the heart of the issue as to whether Labour can govern competently and efficiently (whether locally or nationally): doubts about which are amongst the key factors that are holding us back' (Guardian 26 February 1988).

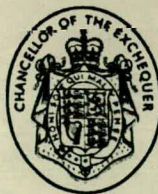
Secondly, there was Brian Gould's attack on markets:

'Free markets are a theoretical abstraction that exist only in the pages of text-books and the imagination of the Cabinet' (Guardian 4 March 1988).

Cuttings are attached.

AGT.

A G TYRIE



mp

FROM: MOIRA WALLACE

DATE: 9 March 1988

MR TYRIE

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Call

MORE LABOUR BASHING

The Chancellor was grateful for your minute of 8 March. He has commented that some of this is very useful - especially Mr Gould's remarks about private ownership, and, to a lesser extent, his comment that a Labour Government's "equity stake" nationalisations "should not be inhibited by the burden on the PSBR".

mpw.

MOIRA WALLACE

Pass useful for today?

AMH

PWP (Lab)

FROM: A G TYRIE

DATE: 15 MARCH 1988

FINANCIAL SECRETARY

cc · Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Mr Hudson
Mr Cropper
Mr Call

STUART HOLLAND

I have been through CRD's file on Stuart Holland. It has yielded very little. But you might just be able to make use of the attached article from December's 'New Socialist' which puts the blame for the failure of Socialist policies, both in Britain and abroad, on the multi-nationals. Clearly the October crash provided Holland with a glimmer of hope, now being extinguished by the recovery and relative stability in the markets.

In general, I think it's worth trying to pin Labour down on their target for the basic rate of income tax. Is it pre-budget 27 pence or the pre-election 29 pence?

C.

Not worth attacking Holland, I don't think - ~~but~~ not well enough known.

I've highlighted a few quotable bits, however. His world-view seems to be that internationalism is fine for governments but malign when done by businesses.

pp
A G TYRIE

right!
AMH

New Socialist
December 1987.

STOCK MARKET

Stuart Holland



Going ...

Going ...

Bang ...

CRASH BARRIERS

Simply cutting the US budget is not enough, argues Stuart Holland.

For some thirty years after the war, a global consensus reigned in international economic policy. The revolutionary power behind the throne had been John Maynard Keynes. Ministers who had never read him and some advisers who had, were proud to call themselves 'Keynesians'. Problems remained — not least rising inflation and spreading the gains from growth world wide. But Keynes appeared to have transformed economics from a dismal science into a prescription for a better future. When Richard Nixon declared that 'we are all Keynesians now', Keynes' revolution appeared both complete — and already threatened.

By the mid 1970s, Keynesian demand management through fiscal, monetary and exchange rate policies was no longer able to command widespread support following devaluation of the dollar, the OPEC price hikes, and rising unemployment. Economists such as Milton Friedman, upstaged during the Keynesian era, stepped forward with simple remedies for global crisis; reduce money supply by cutting public spending, restore flexibility by wage cuts, float exchange rates and free the private sector.

The monetarist counter-revolution had a simple appeal for conservatives. In backing winners versus losers, it legitimated the naked self-interest which for

most of the postwar period had been disguised behind consensus concern for full employment welfare programmes. Those ready to work, it was claimed, would price themselves into jobs, through lower wages. Anyone making money from a 'real job' in the private sector also could be a share-holder. Stripping public assets in the UK helped spread the illusion of a shareholder bonanza.

Then the bubble burst and stock markets crashed in October this year. Laissez-faire and trusting markets — in an era of floating exchange rates — led to the lunatic consequence that whereas only a few years ago more than per cent of foreign exchange transactions financed foreign trade, the same share, shortly before 'Black Monday', was financing speculation on future changes in exchange rates.

Despite bluster from Nigel Lawson, the crash has stalled the monetarist counter-revolution. But this is not yet the end of the road for monetarism or the myth that unregulated markets provide the best possible economic world. For one thing, conservative governments are still in office in key countries. They could simply give us more of what has failed so far, cutting public spending and squeezing the poor in a vain attempt to restore profits while incomes and sales sink.

Nor can we solve the global crisis by going back to the kind of Keynesian policies which were part of the former postwar consensus. Put simply, the world has changed since Keynes. The old Keynesian consensus relied on three main levers of national economic policy — exchange rates, interest rates and tax rates. But these levers have been dislocated by the rise of multinational capital on a global scale.

When Keynes wrote *The General Theory*, trade was predominantly international — between different firms in different countries. Today, it is overwhelmingly multinational — by or between the same firms in different countries. In a world where two hundred companies command a third of the global economy, traditional Keynesian exchange rate policies can no longer be relied on to stabilise global trade and payments or remedy the vast imbalance between US and Japanese trade.

For instance, part of Keynesian conventional wisdom is to claim that the recent fall in the dollar should mean a



"Unless offset by expansion in other countries, cuts in the US budget deficit will send the world economy into slump."

recovery of US exports and a reversal of the massive US trade deficit. But no one should count on it. The dollar since 1971 has been devalued — with only short term revaluation in the early 1980s — without improving US export performance. Over the same period, the Deutschmark and yen have been successively revalued without eliminating Germany or Japanese trade surpluses.

A key reason is the dominance of US export trade by multinational companies. Through the 1970's and early 1980's more than three quarters of US visible exports have been represented by multinational firms. But multinationals have little incentive to follow through the effects of devaluation with lower export prices in foreign markets where they are already producing and selling through their own subsidiaries. Put simply, why should IBM or General Motors compete against themselves on foreign markets?

Monetary policy and changes in interest rates are still important in affecting the cost of borrowing from building societies and banks. They also affect the freedom of manoeuvre for governments to shift savings into long-term government bonds rather than short-term stock market speculation. But interest rate changes no longer significantly affect decisions whether or not to invest in the big business sector which now dominates the industrial economies. Essentially this is because they finance the overwhelming share of their investment needs through retained profits, and partly because their 'price-making' power enables them to

offset higher interest rates by raising prices.

Likewise, fiscal policy no longer works as it was supposed to in textbook Keynesian models. The motor industry makes the point. In the 1930s' we had a British motor industry which sourced components from other British firms. Even US companies such as Ford and Vauxhall produced British models whose components were supplied by British industry. Now both components and production are overwhelmingly multinational, imported by US, European and Japanese firms from abroad. Thus lowering tax rates on car sales increases imports as much or more than it stimulates growth in the British economy.

Such changes in the global economy since Keynes mean that alternative economic strategies need to be international as well as national — combining joint action by key economies to reverse recession and promote global recovery. For instance, it has been part of recent conventional wisdom — shared by many Keynesians and monetarists alike — that a cut in the US budget deficit, and thus US imports, would stabilise the dollar and settle world financial markets. This underlies some of the across party pressure in the US Congress to get Ronald Reagan to cut the budget deficit by at least \$23 billion next year and eliminate it altogether with a balanced budget by 1993. But in fact, such cuts could provoke a second financial crash since unless they are offset by expansion in other leading countries, they would steer the world economy from recession into slump, depressing profits and collapsing share values.

The basic reason is that one country's imports are others' exports. On projections from the model of the world economy available from the European Federation for Economic Research, assumed progressive elimination of the federal deficit from next year till 1993 could cut US imports by two fifths by the mid 1990s' against their current trend rate of growth. In turn this could cut West Europe's exports by more than a quarter and raise Western European unemployment by up to six million over the same period. For the UK this would mean an additional million people out of work.

The impact of such cuts on Latin America's exports and ability to repay

Does he really think these are the engines of growth?

debt would be catastrophic. The fall in exports to the US could reduce Latin American growth by half from nearly 4 per cent this year to less than 2 per cent by 1989 and only 0.4 per cent by 1993 - a cut of over 10 per cent against the trend growth rate. This could trigger Latin American debt default and threaten the viability of leading US and UK banks. In such a scenario, the lifeboat operation for the BP issue would look like bank-aid. Faced with the haemorrhage of major default, the Federal Reserve and the Bank of England would either shut their doors or have to intervene on a massive scale with moves equivalent to nationalisation of leading banks and discount houses.

Nor would a cut in US or UK real wages, be sufficient to counter the Japanese export surplus. Although ignored by Reagan and Thatcher, the Japanese have for years combined guaranteed employment in their key export firms with high wages offset by productivity — increasing new technology. The labour content in the value of Japanese automobiles, engineering and electronics has for years been less than 10% per cent — and in some cases less than 5 per cent of the value of the product.

Clearly some US firms could respond to yet further dollar devaluation with lower prices abroad. Also, while leading Japanese firms have been able to offset revaluation of the yen and the fall in the dollar in the last three years by major cost-reducing investment, there could be some price for the dollar at which even Japanese profits would be squeezed — even if this does not eliminate the US trade deficit. It has been suggested that this may be a tactic by some in the US administration who want Japan to join the Star Wars programme in a big way and see further falls in the dollar as the way to get them to agree.

Progressive parties and governments must resist pressure for a *militarist* response to a *monetarist* inspired crisis. There is a meaningful and worthwhile cut to be made in the US budget deficit

— in arms spending — matching the Reagan-Gorbachev agreement to remove intermediate nuclear weapons by making real a major reduction of strategic missiles. If this in turn is to make possible real progress to disarmament and detente, it must mean abandoning the Star Wars programme.

How could the US do this without destabilising its domestic economy through the spending cuts implied by an end to the arms race? How also can the rest of the world — or at least the world's leading economies — offset cuts in the US budget deficit in such a way as to counter deepening global crisis and a slide into slump?

First, the leading OECD countries should accept the call made earlier this year by US Treasury Secretary, Jim Baker, that they set recovery targets to expand their imports and make possible an increase in American exports. The addition to national spending by each country in the rest of OECD necessary to maintain a growth of 2.5% a year in the industrial countries — thereby sustaining mutual trade and offsetting elimination of the US budget deficit by 1993 — would be an additional 1% in both 1988 and 1989, rising to over 2 per cent by the early 1990's. For the UK over the next two years combined, this could mean an extra £7 billion public spending or major increases in resources for housing, health, education and social services.

Second, the leaders of the developed economies need to restructure global debt. Simply through self-interest — to sustain their own exports — they should convene an international conference to re-schedule debt repayment over a longer period of time, limit interest rates on debt repayment and agree that repayment should not be more than a fixed share of export earnings — certainly not more than 20 per cent. Such a restructuring of debt would increase mutual spending and trade between the developed and less developed countries.

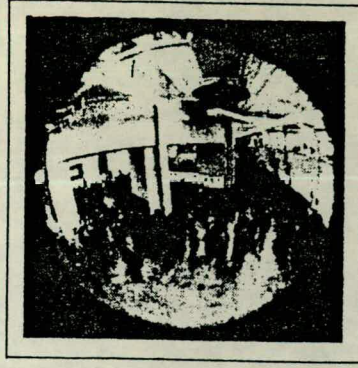
Third, we need to defend and extend redistribution within the framework of a re-mixed economy both to sustain

demand and ensure that it is matched by the long term investment supply which private markets will not ensure following the recent financial crash.

On the demand side this means being able to restore public spending to promote momentum in mutual world demand and regain the welfare levels recently reversed by the monetarist counter-revolution. In practice this means redistribution of social spending and income, not simply to increase welfare, but also to generate demand when the so-called 'wealth effect' — or less spending by the better off when the value of their shares has declined — otherwise would slow down the national and international economy.

Shifting recovery through the pockets of the lower paid by increasing income for the unemployed and public sector workers would help the process. Not least such public spending sustains rather than drains the private sector of the economy. For instance, 95 per cent of council houses in England and Wales are built by private contractors. Little surprise that cuts of up to two thirds in council house spending by the Tory government since 1979 have doubled the rate of bankruptcies in the private construction sector.

On the supply side of a re-mixed economy, we need to gain support both for new public enterprise and planning, rather than the so-called supply-side economics of Laffer in the United States, which argued that cutting taxes would increase investment and output. The limit of private markets is that they prefer short-term returns to longer term pay-off. Thus money made from speculation on money attracts them more than returns from real investment. To countervail this myopia, we should encourage agreements on medium and long-term investment programmes of the kind which private speculation and buy-out share deals cannot ensure. But to ensure such long term investments are made, we also need a new multinational public sector, with networking of joint ventures between national and regional public enterprise and its supportive agencies.



"If a cut in the US budget deficit is to make possible real progress to disarmament and detente, it means abandoning the Star Wars programme"

Such a perspective is for real if we take seriously not only the need for recovery of OECD countries, but also new forms of East-West economic cooperation. This means more than an increase in old style trade. We need a major initiative for a new economic Ostpolitik, capable of underpinning and extending military detente.

Such a new cooperation on trade and technology — including multinational public sector joint ventures — could in turn help support the process of liberalisation in China, the Soviet Union and Eastern Europe which so concerns the Western military-industrial complex, until now reliant on profits made from the Cold War. Examples of such real potential are already available at regional level in the UK. For instance, the Lancashire Enterprise Board has recently arranged a management buy-out of British Leyland bus division which otherwise would have been sold by the Conservatives to General Motors or another multinational company. The new company has entered into a joint venture deal with the Chinese government to produce Leyland buses in China, plus half a dozen other joint ventures with China.

The example shows the potential for linking regional, national and international joint action. It also shows the case for extending sovereignty, on an international basis, to achieve first, recovery of global spending and trade; secondly, a restructuring of debt and the mixed economy and thirdly, a redistribution of income and social welfare. Without doubt it is more difficult than the simple Keynesian prescriptions of changing interest, tax and exchange rates in one country.

But the Keynesian national package of fiscal and monetary policy plus devaluation was difficult for all three post war Labour governments. It was impossible for the Socialist government in France from 1981, whose go-it-alone recovery was blocked by a slow-down on OECD growth and speculation against the franc. It did not matter to world financial markets that the gold and foreign currency reserves of France at the time of the Socialist government's third devaluation were greater than the foreign trade deficit. Speculative private finance simply forced the Mitterrand government to abandon its socialist programme.

These are the lessons which Labour must learn now to gain the chance of effective government. Can we do it and make it credible to the electorate? In principle, we can, and in practice we must. But we are not starting from scratch. Some of the rethinking lauded at this year's party conference is well advanced. It has already also gained support in the parties and countries essential for progress to a genuinely new international economic order.

For instance, the case for recovery, restructuring and redistribution as the premise for new international development has already been prototyped at the European level by the *Out Of Crisis* project and by the Socialist International's *Global Challenge* programme.

The *Out Of Crisis* report was supported by politicians and trade unionists from most of the West European countries and provided the basis for the manifesto for the Confederation of Socialist parties of the EEC for the European elections in 1984.* The 1985

Global Challenge report from the Socialist International — re-affirming the recovery, restructuring and redistribution imperatives argued by *Out of Crisis* — has not only been endorsed by more than eighty parties in as many countries, but also has attracted real interest from the socialist bloc and the non-aligned.** The Chinese Communist Party and the Indian Congress Party attended the launch conference for the *Global Challenge* report at Lima in Peru in 1986. Soviet Economists have also shown real interest in the report and its potential for global recovery.

The current imperative is to realign progressive parties and governments — in East and West and North and South alike — and respond to the current crisis by an agenda for real development in the world economy. The costs of such a programme are a fraction of the risks of a global arms race. A global recovery programme costing the equivalent of one tenth of what the world spends each year on arms, could make possible a genuinely new development decade.

If we choose not to do so, and in the words of Willy Brandt, simply arm ourselves to death in response to the crisis, we risk not only economic failure but human oblivion.

Stuart Holland is a member of Labour's shadow treasury team and the author of The Market Economy and The Global Economy, published by Weidenfeld and Nicolson at £12.95 paperback.

**Out Of Crisis*, ed Stuart Holland, Spokesman Books, Nottingham, 1983

***Global Challenge*, Willy Brandt and Michael Manley, Pan Books 1985.



(i) Widows taken out of tax.

IR can only identify as "widows" those in receipt of widow's bereavement allowance. This confines the group to those widowed within the last two years.

On that basis:

(a) the budget took 60,000 widows out of tax;

(b) the budget took a further 110,000 single women out of tax - many of whom would be widows.



16/3/88

C.

INCOME TAX YIELD

£ bn., 1988-89 prices

	1978-79	1987-88	1988-89
top 5%	10.1	13.7 +3.6	12.4 +2.3
bottom 95%	32.1	32.1 -	32.1 -
total	42.2	45.8 +3.6	44.5 +2.3

These figures differ from the ones I gave you earlier, because they are in 1988-89 prices.

AH

GAINS FROM
INDEPENDENT
TAXATION

TABLE 3

INDIVIDUAL TAXPAYERS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY INDIVIDUAL'S INCOME

Individual's Income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	450	130	730	270	1,180	220
5-10	140	370	140	360	280	360
10-15	70	360	120	290	190	320
15-20	90	380	10	1,680	100	530
20-25	100	410	-	1,150	100	460
25-30	90	530	-	1,930	90	590
30+	130	660	10	1,380	140	710
All	1,070	320	1,010	320	2,080	320

*1/2 the gainers are elderly
and of those 3/4 have income less than
£5000 a year!*

Notes to Tables

1. All estimates are derived from details of taxpayers in the 1985-86 Survey of Personal Incomes. Incomes, allowances, and reliefs are projected to 1990-91 on the basis of the tax rates and allowances proposed in the 1988 Budget. It is assumed that the composite rate of tax on interest from bank and building society accounts will move broadly in line with the change in the basic rate of income tax. No change is assumed in the pattern of investments by married couples.

2. The reductions in tax liability relate only to income tax and they are for a full year at 1990-91 projected levels of income. They are on a consistent basis with the estimates of the aggregate receipts effects of Independent Taxation given in the Financial Statement and Budget Report.

3. Estimates in the tables are given to the nearest 10,000 taxpayers or £10 tax. Some groups in the tables have been aggregated to provide estimates and a dash is used to denote fewer than 5,000 taxpayers.

4. Aged taxpayers are those aged 65 and over.

TABLE 1

**WIVES WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY WIFE'S INCOME**

Wife's Income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	450	130	730	270	1,180	220
5-10	140	370	110	400	250	380
10-15	70	350	30	770	100	460
15-20	40	370	10	1,880	50	660
20-25	10	500	-	2,200	10	800
25-30	10	2,000	-	2,900	10	2,450
30+	10		-			
All	720	230	880	340	1,600	290

TABLE 2

**HUSBANDS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY HUSBAND'S INCOME**

Husband's income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	-	-	-	-	-	-
5-10	-	-	30	190	30	190
10-15	-	400	90	160	90	170
15-20	50	400	-	400	50	400
20-25	90	400	-	400	90	400
25-30	90	490	10	620	90	490
30+	120	630			130	630
All	350	500	130	200	480	420

LABOURS RECORD
ON GROWTH
& INFLATION



THE LABOUR RECORD

(Percentage change on a year earlier)

	GDP (A)	RPI
1974	-1.7	16.1
1975	-1.0	24.2
1976	2.7	16.5
1977	2.5	15.8
1978	2.9	8.3
1979	2.7	13.4



(ii) Over N Lawson's 5 budgets:

(a) The real increase in thresholds
between 83-84 and 88-89 is \rightarrow

single allowance: 17.5%

married allowance: 18.0%

(b) Number taken out of tax -

if 83-84 allowances had simply been
indexed to 88-89, there would
now be an additional

1.3 million tax payers.



16/3/88 - *py*

*Thresh.
under*

C

THRESHOLDS UNDER LABOUR

The basic tax thresholds fell in real terms under Labour: between 1973-74 and 1978-79, the single allowance fell 20.8 per cent, and the married allowance 5.3 per cent, in real terms.

(The reason for the difference, ~~is that~~ I think, is that the single allowance rose by a ~~historical~~ disproportionately large amount in 1972-73, for administrative reasons, so the married allowance had to catch up. Or rather the single allowance had to catch down.)

AMH

16 MAR '88 14:32

GE.02

units with MR ≥ 45

GAIN \leftarrow GAIN \times TUMR ≥ 45
GAINERS R

gain from MR cuts

Full Year
1988-89.

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers		Average gain	
£000s	£million	000s	%	£	
0	1	28	3	29	
25	19	182	18	105	
30	63	230	23	274	
35	91	164	16	552	
40	101	96	10	1054	
45	103	66	7	1568	
50	225	88	9	2564	
60	183	47	5	3909	
70	1388	94	9	14778	
TOTAL	2173	994	100	2125	

FSB R
equivalent
= $\times 46.6\%$

50% \leftarrow 700,000

GAIN \leftarrow GAIN \times TUMR ≥ 45
GAINERS R

gain from overall package of 1987-88

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers		Average gain	
£000s	£million	000s	%	£	
0	21	31	3	686	
25	164	208	20	790	
30	236	238	23	990	
35	213	165	16	1297	
40	174	96	9	1815	
45	155	66	6	2347	
50	297	88	9	3384	
60	223	47	5	4782	
70	1470	94	9	15643	
TOTAL	2954	1032	100	2862	

NB income ranges at lower limits

TYRIE:
~~BE KNOWN~~
ABOUT

PWP (Lab)

FROM: A G TYRIE

DATE: 18 MARCH 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Hudson
Mr Cropper
Mr Call

LABOUR BASHING

I attach three short sections of knocking copy for inclusion in your wind up.

conqueror
AGT

A G TYRIE

1. In his favourite newspaper on Friday, the Sun, the RHG for Islwyn said:

'Today we float on a brief boomlet'.

Perhaps he has taken this idea from the RHG for Monklands East who said that the economy was undergoing 'episodic spurts' and 'elections orientated booms', and was in a 'short term boom'.

The RHG's 'boomlet' is now entering its eighth successive year. We have already enjoyed the longest period of steady growth, averaging 3% a year, for half a century. Unemployment fell faster last year than in any year since the War, by over half a million. Indeed, it has fallen in every single month.

Of course Labour have been praying for a crisis for several years. On the 22 January 1987 the RHG for Islwyn said:

'The economy is going into deep crisis. It is a race between the election and when the crisis becomes obvious'.

In the meantime the RHG for Sparkbrook confidently predicted that any tax cuts last year would be reversed in this year's budget. I put him out of his misery in the budget speech. The RHG for Islywn claimed that we would double VAT to pay for income tax cuts. Clearly he had crunchy bars in mind.

2. We have now been debating the budget for four days. During the whole of that time we have heard nothing from any Opposition spokesmen that could be described as an economic policy.

Of course, the 'alternative economic strategy' died in the ignominy of Labour's defeat, not in 1987, but in 1983.

For the past five years, instead of trying to peddle an alternative economic strategy, Labour have concentrated on saying how they would redistribute the cake, a cake that this Government has made.

So Labour went in to the 1987 election with policies to increase taxation.

But if 1983 killed of the 'alternative economic strategy' 1987 seems to have killed off the alternative redistribution strategy. As the RHG for Islwyn put it Labour's tax policies are 'a relatively blank sheet' (Times, 3 October 1987).

A party bearing a blank sheet can hardly expect to be taken seriously. But they can improve matters now. They can tell us whether they are still committed to abolishing the Married Man's Allowance, a commitment wrung out of them at the last election. (That would mean an increase in tax of £7 a week for 12 million couples.)

Labour could tell us whether they are going to restore successive cuts in the basic rate of income tax. Do Labour want to restore income tax to 27%, or to their election pledge of 29%?

3. For his powers of prediction the RHG for Dunfermline East threatens to rival the RHG for Sparkbrook. In October 1986 he predicted:

'The Government simply cannot reduce unemployment by present policies'.

Since then unemployment has fallen by over half a million. Clearly he has taken over as the new guardian of the crystal balls.

file Kinnoke

LOTS A LOVELY LOLLY!

From Wednesday's Sun

WHY THE BUDGET IS NOTSA LOVELY

CONGRATULATIONS to The Sun. It was a very funny headline: "Lotsa Lovely Lolly." If Sir Ralph Halpern still reads The Sun, he must have laughed all the way to the bank.

Thanks to Nigel Lawson's Budget, Burton's boss is £5,000 a week better off. His tax handout alone would be enough to employ 40 more nurses.

If you had Lotsa Lovely Lolly to spend, which would you choose? More for Sir Ralph or more nurses? The Budget made all the wrong choices. It gave most help to those who need it least and least to those who need it most. So it isn't Lotsa Lovely Lolly for the Health Service. Or the nurses. A staff nurse, earning about £120 a week, will get a tax cut of just £2.17.

For every PENNY Nigel gives the nurses, he gives Sir Ralph £23. His tax cut was 2,300 times bigger than theirs.

Sick

The figures speak for themselves. This is the most unfair Budget in British history. The first to take so much from the poor and give so much to the rich.

It wasn't Lotsa Lovely Lolly for the pensioners, the sick or unemployed. They didn't get a penny.

Nor did the working poor living on poverty wages. Then there's the increased rent and higher electricity bills to come.

A couple earning £100 a week will be just 9p a week better off when their tax cut is offset by

By Labour leader, NEIL KINNOCK



the loss of their housing benefit and family credit.

Meanwhile a married man on £200 a week with two children gets a magnificent £4.

Soon there will be a new tax—the tax that Nigel Lawson didn't mention on Tuesday. Poll tax.

For family after family, what little they have gained from the Budget will be more than grabbed back.

For top people's salaries have rocketed whilst the lower paid have been warned not to "price themselves out of jobs."

The Budget helps the rich at the expense of everyone. It has handed £2,000million to the super rich.

Higher

Taxpayers on £200,000 a year have been handed a windfall of £33,000. That's enough to cover the cost of the Merthyr Hospital ward that the Queen Mother opened and Margaret Thatcher closed.

Get-rich-quick landlords can now get tax relief on the houses they buy at the same time as new Tory housing laws

will allow them to charge higher rents to tenants. Then, having been subsidised to buy cheap private and public property, they'll pay lower taxes on profits.

That is typical of this Budget. It is wrong in principle. But it is also wrong in practice.

It is the wrong Budget for the future of our country. Today we float on a brief boomlet. The tax cuts are financed by VAT the Government has creamed off from a temporary spending spree.

But the credit—and the

household debt that comes with it—is spent mostly on foreign imports. Month by month, Britain no longer pays its way in the world. For our spending finances jobs in Japan, factories in France and output in America—not here.

The Budget Britain needs is one that invests in Britain's future, not in the future of our rivals.

The Budget Britain needs would invest in British factories, in new roads and railways.

Immoral

It would invest in repaired and renovated houses, in modern schools and modern hospitals. Such a Budget would make sure that when the credit bubble bursts, the money it spent was helping to build a truly prosperous future—a real success for our country.

The Budget is wrong. It is an immoral Budget. It is an unproductive Budget.

It means Lotsa Lovely Lolly for those who've got it already. Lotsa Lovely Jobs for our competitors overseas.

But for too many people, too many families and the Health Service, it was Lotsa Lovely Nothing.

Y8

TYRIE
INTER-
VENTIONS

PNP (Lab)

CHANCELLOR

FROM: A G TYRIE

DATE: 18 MARCH 1988

cc PS/Economic Secretary
Mr Lennox-Boyd
Mr Hudson

INTERVENTIONS FOR BUDGET DEBATE WIND UP

I attach a list of possibles, the fifth a suggestion from the Economic Secretary.

AGT.

A G TYRIE

SOME INTERVENTIONS

1. 'Would the Labour party abolish the Married Man's Allowance, a policy they concealed from the country at the last General Election and which would increase taxation by £7 a week for 11½ million couples?'

2. 'Would the Labour party restore the cut to the basic rate of income tax to 27p or do they stand by their election pledge of a basic rate of income tax of 29p?'

3. If Gordon Brown says anything about economic prospects: 'In October 1986 the RHG for Dunfermline East told the Guardian that 'the Government simply cannot reduce unemployment by present economic policies. Can the House or the country be expected to take the predictions from the HG any more seriously than we took predictions from the RHG for Sparkbrook?'

4. 'Now that the HG for Islington South has admitted that Labour would abolish the Upper Earnings Limit on employees National Insurance Contributions can the HG tell the House whether Labour would offer any compensation to the 3 million people who would be made substantially worse off?'

5. If he raises Scotland: 'Is the RHG for Dunfermline East aware that public spending per head of population is 25% higher in Scotland than in England and is this satisfactory or inadequate?'

MIR FOR
HIGHER
RATES.



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: R J EASON

DATE: 18 March 1988

PPS/CHANCELLOR OF THE EXCHEQUER

Thank you

a
I suppose this is low
with as people pay off
(non-endowment) mortgages
JTB

MORTGAGE INTEREST RELIEF AND THE HIGHER RATES

1. Your minute of 17 March to Mr Mace asked for some statistics about mortgage relief of higher rate taxpayers.
2. The post-Budget position in 1988-89 is estimated as follows:-

	thousands
All higher rate tax units	1,250
of which:	
claim mortgage relief	760 (61%)
claim relief for mortgage at £30,000 or above	280 (22%)

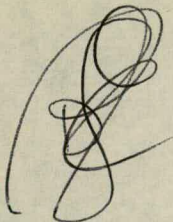
cc PS/Financial Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Riley
Mr Scotter
Mr Cropper

Mr Isaac
Mr Johns
Mr Calder
Mr O'Connor
Mr Mace
Mr Eason
Mr I Stewart
Miss White
PS/IR

Thus, higher rate taxpayers with maximum mortgage relief represent rather more than a third of those with mortgages and less than a quarter of all higher rate taxpayers.

3. Other information which may be of use is as follows:-

- (1) about 220,000 basic rate taxpayers would become higher rate taxpayers if mortgage relief were restricted to the basic rate by reducing the basic rate band;
- (2) in this situation, the net increase in higher rate taxpayers would be 170,000 as some of the 220,000 would make wife's earnings elections;
- (3) a mortgage of £30,000 charged at 10.25 per cent would require interest payments of £3,075; tax relief at the higher rate of 40% instead of 25% would be worth £461;
- (4) if the basic rate limit of £19,300 were reduced by £3,075 to recoup £461 from all taxpayers with taxable income over £19,300, about 500,000 extra taxpayers would become chargeable at the higher rate (these would include the 220,000 at (1)).



R J EASON

NON TAXPAYERS

From: I SCOTTER
Date: 21 March 1988

MR TAYLOR

cc: Ms Booth - IR

Imagine this must be only figs available but will check.

NON-TAXPAYERS

You asked IR for more details of non-taxpayers. The attached table shows a breakdown by family type for non-taxpayers under an indexed regime.

- Imagine say 511m.

2. I estimate that there are roughly 10.5 non-taxpaying tax units and 15.5 non-taxpayers. About 9 million of the tax units are single or pensioners. Only 1.6 million are couples of working age.

3. About 330,000 of the non-taxpaying tax units have a head in full time employment and 790,000 a head in part time employment. About 600,000 of them have wives working part time. Almost 1 million of the non-taxpaying wives in taxpaying tax units are working, all but a handful of them part time. So there are almost 3 million working non taxpayers, 90 percent of them working part time.

4. Of the non taxpaying tax units, 0.8 million have heads under 18 (all single); a further 1.1 million have heads over 17 but under 21; and 0.8 million have heads between 21 and 25. So in total 2.7 million have heads under 25. Only about 100,000 of these are married.

FST said 400,000.

IAN SCOTTER

	Non-taxpaying tax units	
	millions	%
(a) Pensioners	4.3	40%
(b) Under 21	1.9	18%
(c) Head in full-time employment	0.3	3%
(d) Head in part-time employment	0.6	6%
(e) Other (mainly unemployed)	3.5	33%
	<u>10.6</u>	<u>100%</u>

a
This is pretty muddled, but gives some idea of what's going on.

(NB may be some overlap between (b), (c) & (d))

NON-TAXPAYERS UNDER INDEXED 1987-88 TAX REGIME

	---Non-taxpaying--- -----tax units-----		Non-taxpayers in tax paying tax units*	Total non- taxpayers
	Number of units	Number of individuals		
<u>Working age</u>				
Single	3915	3915		3915
Married no children	760	1520	560	2080
Married with children	875	1750	1645	3395
Lone parent	705	705		705
<u>Pensioner</u>				
Single	3115	3115		3115
Married	1200	2400	35	2435
Total	10570	13405	2240	15645

* Wives with earnings below single allowance and with no other taxable income

FROM: MARK CALL
DATE: 12 APRIL 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Tyrie

JOHN SMITH UNDER FIRE

*Full pts re
to North market.
Oleum, how can
make a statement
all tax when
New has it
New PX*

*Committee
Should be
admission of
gathering
of
12/18
a
sky
a
with
d. 2. 4. 12.*

Mark Lennox-Boyd will be taking part in Granada TV's programme "Under Fire" next Tuesday. The format is that John Smith will be interviewed (the name of the programme suggests vigorously) by Mark Lennox-Boyd, Peter Oppenheimer (an Economist), and a Local Authority leader. Mark asked whether we had any particularly pointed questions he could put to John Smith.

2. He was already thinking of the following:

- Mr Kinnock has said that he would increase higher rates of Income Tax, but not up to Labour's former 83%. How consistent is that with what Labour spokesmen said at the time the rate was reduced to 60%? [Quote]
- Mr Kinnock has said there would be no change in the basic rate of Income Tax. How would Labour finance its public expenditure plans, and indeed, what are they?

3. I would add Mr Kinnock has said that a Labour government would not use scarce resources to buy back privatisation shares. Does that mean that a Labour government would confiscate them without compensation, or is that a commitment not to renationalise companies privatised under this government?

4. Ian Stewart in CRD, is collecting material relevant to these questions. In addition, I have asked him to look for some local anecdotal examples of economic success in the North West, to counter the inevitable allegation by Smith of a North-South divide. Do Ministers or Advisers have any suggestions for areas where John Smith might usefully be probed?

Mark Call
MARK CALL

BF 15/4



FROM: ROSIE CHADWICK

DATE: 14 APRIL 1988

MR CALL

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

JOHN SMITH UNDER FIRE

X The Paymaster General has seen your minute of the 12 April. He would strongly recommend counting the situations vacant pages in the Guardian (perhaps the average for the past month) and then asking Mr Smith what it is. If Mr Smith says he does not know, he could be tried out with ascending numbers: 3? 5? 7? until one gets near the number.

REC

ROSIE CHADWICK



FROM: MISS M P WALLACE

DATE: 18 April 1988

MR CALL

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Cropper
Mr Tyrie

JOHN SMITH UNDER FIRE

The Chancellor has seen your minute of 12 April. He has commented that it will clearly be essential to have bull points on the North. Otherwise, the main question is: how can Labour make any statements about tax when they haven't even decided their public expenditure commitments? Nevertheless, an admission of ^{ne}grotesque folly of 83/98 per cent would at least be a step in the right direction.

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE