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PART C

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PART C

1988 BUDGET BROADCASTING

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PART C

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**BUDGET LIST ONLY** Ref No: APH/52

FROM: A P HUDSON

DATE: 14 March 1988

**BUDGET**

MR PICKFORD

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mr Culpin
- Mr Odling-Smee
- Mr Sedgwick
- Mr R I G Allen
- Mr A C S Allan
- Miss C Evans
- Mr Flitton
- Mr Cropper
- Mr Tyrie
- Mr Call
- Mr MacManus IR

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**BUDGET BROADCAST: FINAL DRAFT**

I attach the final draft of the Budget Broadcast.

2. As you know, the Economic Section is to be recorded this morning. But if anybody has any comments on the opening or the Measures Section, I shall pass them on to the Chancellor.

A P HUDSON

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Draft of 14 March

**BUDGET BROADCAST: DRAFT OPENING SECTION**

Once upon a time, governments used to believe that it was their job to balance the budget: not to spend any more than they could raise from taxes. But taxes aren't popular. So governments found a clever way out. They borrowed.

Obviously a small amount of borrowing doesn't matter much. The trouble is, it's addictive. By the mid-'seventies, nearly one pound in every five the Labour Government spent was being paid for out of borrowed money. And we've all had to foot the bill in heavy interest payments ever since.

For nine years this government has fought to free Britain from that terrible inheritance. And the result is that tonight, for only the second time since the early 'fifties, I can tell you, as Chancellor, that once again Britain has a balanced budget. Last year the Government didn't need to borrow at all. And I mean to keep it that way.

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Balancing the budget hasn't been easy and it hasn't always been popular. But it means that we won't be loading a burden of debt on to future generations. And meanwhile, along with all our measures to liberate initiative and reward enterprise, it's produced outstanding results for Britain.

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**CHANCELLOR'S BUDGET BROADCAST: MARCH 15 1988**

[Opening Section]

CAPTION 1. Bar chart  
GDP from 1970.  
Reveal bars progressively  
from left as indicated  
by narration.

The best, single measure of any country's economic achievement is its total national output. If you go back to 1970, you see how Britain's output rose to a peak in 1973, then it dropped back, then it rose to another peak in 1979, and then it dropped again. But since 1981 we've had seven successive years of uninterrupted economic growth.

That's an astonishing record in itself. But there's something that makes it even more astonishing. Because side by side with this remarkable growth in output there's been a dramatic fall in inflation.

CAPTION 2. Graph.  
Inflation from 1970.  
Reveal as for caption 1.

Again, you have to go back to 1970 to see the full picture. It rose to a terrible peak - nearly 25% - in 1975, then it fell back, then it rose to another peak in 1980. But since then it's fallen dramatically, down to the lowest levels for 20 years.

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Those two charts are tremendously significant. But you only see their real significance when you put the two of them side by side.

CAPTION 3.  
GDP plus inflation.  
GDP bars appear first,  
inflation graph animates  
alongside  
as indicated by narration.

Then you see that inflation was always the spectre at the feast. The peak in 1973 was paid for by the inflation of 1974 and 1975. The peak of 1979 was paid for by the inflation that surged again up to 1980. In other words the growth couldn't last. Inflation always killed it.

In fact, that had been the story of what was called the British disease for many years before 1970. But look at the story in the 1980s.

CAPTION 3 cont'd.  
Animate as before.

Year after year of steadily rising output. But for the first time, inflation falling, falling dramatically, and staying low, while output rose. And that's the picture that really tells the story of Britain's new-found success.

There's no mystery about how we've done it. It's the result of a consistent economic policy over nine years. A commitment to controlling inflation, removing the shackles on business enterprise, and liberating the creative energy of the British people. It means letting people keep as much as possible of what

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they earn. And if you look at what that means for a married man on average earnings with two children, you can see the result.

CAPTION 4. Graph.  
Real take home pay.  
Reveal from left  
with narration.

Take home pay, corrected for inflation, bumped up and down through the stop-go years. But since 1981 it's risen year after year, until now living standards are way above what they've ever been before.

And unemployment is coming down fast, in every region of the country. Last year, it fell faster than in any other major nation.

There's still a long way to go, but it's now clear to everyone that we're going in the right direction. And today's measures will help us further along the road.

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**BUDGET MEASURES SEQUENCE**

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What I've been able to tell you this evening is a story of success. The story of a transformation of Britain's fortunes which has also transformed our standing in the world. If you look at the European economic growth league you can see how.

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● CAPTION 5.

European growth league.

Reveal with narration.

In the nineteen-sixties we were right at the bottom of the league table. In the 1970s we were still bottom of the table. But in the 1980s we've been right at the top of the league.

All the same, it doesn't mean we can sit back and relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. If it hadn't been so strong, the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage. Instead, we sailed through them all, virtually unscathed.

That's why we have to hold to our course and keep a firm hand on the reins. But so long as we stick with the policies that have served us so well these past nine years, we can look forward to a level of security and prosperity for ourselves and our children far higher than any of us has ever known.

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Draft of 14 March

**BUDGET BROADCAST: MEASURES SECTION**

In my Budget today, I've once again been able to cut income tax, bringing the basic rate down to 25 pence in the £, just as we promised we would in the Election. And people will be able to earn more before they start paying tax in the first place. As a result of this Budget, a married man on average earnings will take home almost £5 a week extra.

I've brought down the higher rates of tax, too. We've seen what happens if you tax top managers and engineers too heavily. Too many either opt for the quiet life, or go abroad where tax rates are lower. So what I've done will mean better-managed businesses and more jobs - and, at the end of the day, higher tax revenues as a result.

But at the same time, I've doubled the tax on company cars. It won't be popular, I know; but I believe it's right that those who have company cars should pay their fair share of tax.

And I've made this a tax reform Budget, too. In particular, I'm changing the income tax system to give married women a fair deal, for the first time ever. Instead of their income being taxed as if it belonged to

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their husband, as it has been for the past 200 years, it will at long last be truly their own.

So this Budget brings not only lower taxes, to encourage people to give of their best, but better taxes, too. That's an essential ingredient in Britain's continuing economic success. And it's only by having a more successful economy that we can afford better public services.

That's why, last Autumn, I was able to announce big increases in Government spending for the coming year, especially on priority areas like education, law and order, and the health service.

So it's been a hat-trick: higher Government spending, lower taxes, and the complete elimination of Government borrowing.

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FROM: **A P HUDSON**  
DATE: **14 March 1988**

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*MASTER -  
Psk let me  
Lan wish*

CHIEF SECRETARY

- cc Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Monck
- Mr Scholar
- Mr Sedgwick
- Mr Odling-Smee
- Mr Culpin
- Mr Turnbull
- Mr Peretz
- Mr A C S Allan

- Mr Pickford
- Mr R I G Allen
- Mr Cropper
- Mr Tyrie
- Mr Call
- Mr P R H Allen - C&E

*approved  
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Am he*

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**BUDGET STATEMENT: FINAL DRAFT**

... I attach the final draft of the Budget Speech.

- 2. Any essential comments by 1.00pm if possible, please.

*APH*

A P HUDSON

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Draft of 14 March (~~1988~~)

**CHANCELLOR OF THE EXCHEQUER'S BUDGET STATEMENT**

**15 MARCH 1988**

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**A INTRODUCTION**

A1. I am reliably informed that my Budget speech last year was the shortest this century. My Budget speech this year is likely to have a different claim to a place in the history books. Not, the House will be glad to learn, as the longest Budget speech this century, but as the last untelevised Budget speech. 54

A2. As I once again present the first Budget of a new Parliament, the British economy is stronger than at any time since the War. As the British people recognised last June, this has not happened by chance. It has happened because, for almost nine years now, we have followed the right policies and stuck to them. I reaffirm those policies today. In particular, there will be no letting up in our determination to defeat inflation. 73

A3. I shall begin, as usual, with the economic background to the Budget. I shall then deal with monetary policy, and with the public finances this year and next, and indeed for the remainder of this Parliament. Finally, I shall propose a number of measures designed to improve the performance of the economy still further, by changing the structure of taxation. For this will be a tax reform Budget. 67

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A4. As usual, the Financial Statement and Budget Report, together with a number of press releases filling out the details of my tax proposals, will be available from the Vote Office as soon as I have sat down. 37

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**B. THE ECONOMIC BACKGROUND**

B1. - I start with the economic background.

B2. The strength and durability of the economic upswing has now exceeded all post-War records. We are about to enter our eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. And even without looking to 1988, the six years to 1987 have been the longest period of steady growth, at a rate averaging 3 per cent a year, for half a century. 73

B3. This performance compares favourably not only with our own past, but also with the economic performance of other countries. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies. During the 1980s, our growth rate has been the highest of all the major European economies. 54

B4. In 1987 as a whole, output grew by getting on for  $4\frac{1}{2}$  per cent, rather more than the rate of inflation which averaged 4.2 per cent. At the same time unemployment fell faster than in any other year since the War, in every region of the country, and more than in any other major nation. 55

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B5. The plain fact is that the British economy has been transformed. Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise.

34

B6. Nowhere has this transformation been more marked than in manufacturing, where output rose last year by 5½ per cent. This outstanding performance was founded on a further big improvement in productivity. In the 1980s, output per head in manufacturing has gone up faster in Britain than in any other major industrial country, and we led the way once again last year. This is in stark contrast to the 1960s and 1970s, when in the growth of manufacturing productivity, as in so much else, we were bottom of the league.

89

B7. The current account of the balance of payments is now estimated to have been in deficit last year, ~~after~~ *after* seven successive years of surplus, by a little over £1½ billion, ~~↓~~ This is well below ~~the~~ the deficit I forecast at the time of last year's Budget, despite growth turning out stronger than forecast. The reason for ~~this was the~~ *(the smaller deficit was the)* better than expected performance of visible trade, with exports of manufactures up by 8½ per cent. This continues the pattern of the 1980s, with British manufacturers maintaining their share of an expanding world trade - the crucial test of competitiveness - after

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decades during which Britain's share was steadily declining.

B8. Looking ahead, I expect 1988 to be yet another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year. 43

B9. The pace of non-oil growth is likely to ease from now on, returning to the underlying trend of the past few years. Output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by  $3\frac{1}{2}$  per cent. Business investment is forecast to grow particularly strongly, with a rise of ~~8~~<sup>9</sup> $\frac{1}{2}$  per cent. 65

B10. As last year, inflation is forecast to end the year at 4 per cent. While this is still too high, it is a testimony to the soundness of our policies that the present strong and sustained upswing, unlike almost all its predecessors, has not led to a resurgence of inflation. 50

B11. With growth in the UK economy likely to continue to outpace that of most other major countries, particularly in continental Europe, and with our oil surplus falling as North Sea oil production declines, the current account of the balance of payments is forecast to remain in deficit this year, by some £4 billion, equivalent to less than one per cent of GDP. Given the strength of the

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economy in general, and of our public finances in particular, not to mention our massive net overseas assets, ~~position,~~ I foresee no difficulty in financing a temporary current account deficit of this scale.

32

B12. But the outlook both for exports and for jobs will depend critically on employers keeping their costs firmly under control. Unit labour costs in manufacturing scarcely rose at all in 1987. It is vital that employers do not let this slip, and keep a tight grip on all their costs, not least pay.

53

B13. In my Budget speech last year, I warned that:

"Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole."

40

That remains the case. The dramatic collapse in the world's equity markets last October was not the second coming of 1929 and the harbinger of a 1930s-style world slump, as so many feared at the time - although it could have been a great deal nastier had the authorities in the major nations not responded in a prompt and appropriate way. It was essentially an overdue market correction which did little more than reverse the rapid rise in share prices of the previous year. Certainly, business confidence does not seem to have been greatly affected, and growth in the seven major industrial countries as a

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whole this year is likely to be only slightly lower than last year. 13

B14. But Black Monday was also a warning. The world's three largest economies - the United States, Japan and Germany - have made a number of the policy adjustments necessary to reduce the imbalances which have for so long afflicted them, and there is evidence that the measures they have taken are starting to bear fruit. But there is still a long way to go; and meanwhile there is the constant danger that the process of adjustment, and with it the world economy as a whole, could be gravely damaged either by further wild gyrations in the dollar exchange rate or by a lurch into protectionism. 62 72

B15. Success in reducing these imbalances depends on countries putting the right fiscal and monetary policies in place, and keeping them there. But the necessary adjustments are much more likely to be achieved if the objective of greater exchange rate stability is given an explicit role in the process of international co-operation, as has been the case for well over two years now. I can assure the House that we shall continue to play our full part. 76

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**C. MONETARY POLICY**

C1. Meanwhile, the maintenance of sound money and prudent public finances will keep us in the best possible position to weather any storms we may face, either at home or abroad.

C2. The Medium-Term Financial Strategy, now entering its ninth year, will continue to provide the framework for reducing the growth of money GDP, and hence inflation, over the medium term. These will be achieved by maintaining firm monetary discipline, buttressed by a prudent fiscal stance.

C3. Achieving the gradual eradication of inflation requires a steady reduction in monetary growth in the medium term. While I shall continue to take account of broad money, or liquidity, as last year there will be no explicit target. For narrow money, M0, the target range for 1988-89 will be 1-5 per cent, as foreshadowed in last year's MTFS.

C4. Short term interest rates remain the essential instrument of monetary policy. Within a continuous and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure downward pressure on inflation.

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C5. Exchange rates play a central role in domestic monetary decisions as well as in international policy cooperation. I believe that most businessmen have welcomed the greater exchange rate stability over the past year. It is important that they also accept the financial discipline inherent in this policy.

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**D. PUBLIC SECTOR FINANCES**

D1. As I pointed out a moment ago, a sound monetary policy needs to be buttressed by a prudent fiscal stance.

D2. At one time, it was regarded as the hallmark of good government to maintain a balanced budget; to ensure that, in time of peace, government spending was fully financed by revenues from taxation, with no need for government borrowing. Over the years, this simple and beneficent rule was increasingly disregarded, culminating in the catastrophe of 1975-76, when the last Labour Government had a budget deficit, or Public Sector Borrowing Requirement, equivalent in today's terms to some £40 billion. 96

D3. This profligacy not only brought economic disaster and the national humiliation of a bail-out by the IMF. It also added massively to the burden of debt interest, not merely now but for generations to come. 36

D4. Thus one of our main objectives, when we first took office in 1979, was to bring down government borrowing. We steadily reduced the Public Sector Borrowing Requirement from the 5¼ per cent of GDP we inherited to only three quarters of one per cent in 1986-87. Today I am able to tell the House that in 1987-88, the year now 62

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ending, we are set to secure something previously achieved only on one isolated occasion since the beginning of the 1950s: a balanced budget. 23

D5. Indeed, we have gone even further. It looks as if the final outturn for 1987-88 will be a budget surplus of £3 billion. Instead of a PSBR, a PSDR: not a Public Sector Borrowing Requirement, but a public sector debt repayment. 42

D6. And, incidentally, even if there had been no privatisation proceeds at all, the resulting PSBR, at a half of one per cent of GDP, would still have been the lowest in all but one year since the beginning of the 'fifties. 41

D7. Some two thirds of this substantial undershoot of the PSBR-I set at the time of last year's Budget is the result of the increased tax revenues that have flowed from a buoyant economy; while the remaining third is due to lower than expected public expenditure, again the outcome of a buoyant economy: less in benefits for the unemployed, higher receipts from council house sales, and improved trading performance by the nationalised industries. 72

D8. A balanced budget is a valuable discipline for the medium term. It represents security for the present and an investment for the future. Having achieved it, I intend to stick to it. In other words, henceforth a zero 38

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PSBR will be the norm. This provides a clear and simple rule, with a good historical pedigree.

17

D9. In the very nature of things, there are bound to be fluctuations on either side from year to year. It is in this context that I have to set the precise fiscal stance for the year ahead, 1988-89.

39

D10. I have already announced, in the Autumn Statement last November, a £2½ billion increase in public expenditure plans for 1988-89, with resources allocated to programmes up by over £4½ billion. ~~In particular, we have increased our plans for spending on health and personal social services by over £1 billion, on education and science by £900 million, and on law and order by £500 million.~~

D11. These large increases in public expenditure programmes for the coming year will be financed partly from the saving in debt interest resulting from the reduction in Government borrowing. Debt interest <sup>payments</sup> now accounts for about three quarters of a percentage point less of GDP than <sup>they</sup> it did only three years ago. This may not sound very much, but it implies a saving of some £3 billion a year. And the balanced budget path I have set out in this year's MTFs will help to reduce debt interest payments still further.

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This means that over the coming year we will be spending at least £1,000 million more on health than in the year now ending, at least £900 million more on education, and at least £500 million more on law & order. 12

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D12. We have thus secured an enviable virtuous circle in public finance: lower borrowing and lower tax rates create both the scope and the incentive for the private sector to expand. And the private sector then generates higher revenues which permit further reductions in borrowing or tax.

D13. But even so, the increased public spending now planned for 1988-89 inevitably implies less scope for reducing taxation. Moreover, I have decided that for the year immediately ahead, the path of prudence and caution is to budget for a further surplus of the same size as this year's expected outturn - that is to say, a further public sector debt repayment of some £3 billion. 110

D14. What this means is that it will not be possible in this Budget to reduce the burden of taxation; that is to say, to reduce taxation as a share of GDP.

D15. However, the House may be pleased to know that, with a strong and healthy economy, a constant burden of taxation implies a reduction in tax rates.

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**E. TAX REFORM**

E1. I indicated at the outset that this will be a radical, tax-reforming Budget. 14

E2. Over the past few years there has been increasing recognition, throughout the industrialised world, of the importance of tax reform in improving economic performance. And for us in this country, the lesson is underlined by the success of the reform of business taxation I announced in my first Budget, at the start of the last Parliament. 56

E3. But while tax reform is a simple matter for the armchair critic, it is very much more difficult in practice. It is difficult technically and difficult politically - since any tax system, however it arose, creates powerful vested interests in favour of the status quo. Nor, indeed, is it right that change should be too violent. People have a right to expect a reasonable degree of stability in the framework within which they order their affairs. But ~~stability should not mean immobility. That way lies national decline.~~ <sup>change there has to be.</sup> 81

E4. So the tax-reforming Chancellor ~~has to~~ <sup>must</sup> tread a careful path. That I have sought to do in this Budget. 19

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The proposals I shall be making today amount to a substantial and coherent package which will be of increasing benefit to the taxpayer and the economy as a whole in the years to come.

34

E5. I have been guided by four basic principles. First, the need to reduce tax rates where they are clearly too high. Second, the need to reduce or abolish unwarranted tax breaks. Third, the need to make life a little simpler for the taxpayer. And, fourth, the need to remove some manifest injustices from the system.

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**F. INDEPENDENT TAXATION AND TAX PENALTIES ON MARRIAGE**

F1. My first reform concerns the taxation of marriage.

F2. The present system for the taxation of married couples goes back 180 years. It taxes the income of a married woman as if it belonged to her husband. Quite simply, that is no longer acceptable.

F3. This is a matter on which there has already been extensive consultation. The time has come to take action.

F4. I therefore propose a major reform of personal taxation, with two objectives. First, to give married women the same privacy and independence in their tax affairs as everyone else. And second, to bring to an end the ways in which the tax system can penalise marriage.

F5. I have decided to introduce, at the earliest practicable date, April 1990, a completely new system of independent taxation.

F6. Under this new system, a husband and wife will be taxed independently, on income of all kinds. All taxpayers, male or female, married or single, will be

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entitled to the same personal allowance, which will be available against all income, whether from earnings, pensions or savings. 19

F7. In addition, there will be a married couple's allowance, equal to the difference under the present system between the married man's allowance and the single allowance. This new allowance will go in the first instance to the husband, so that his tax threshold does not fall. But if he does not have enough income to use it in full, he will be able to transfer any unused portion to his wife, to set against her income. 73

F8. This ensures that the tax system will continue to recognise marriage, as it should do. At the same time, from 1990 married women will pay their own tax, on the basis of their own income, and have their own tax return, when one is necessary. There will, of course, be nothing to stop married women from asking their husbands to handle their tax affairs, or vice versa, as before; and many will no doubt do so. But what matters is that, for the first time ever, married women will have the right to complete independence and privacy so far as tax is concerned. 105

F9. In the same way, a husband and wife will be taxed independently on any capital gains they may have, with an annual exemption each, instead of one between them, as 30

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now. But transfers of capital between husband and wife will continue to be entirely free of any liability to tax. 20

F10. As I have said, the new system will come into force in 1990. This is much sooner than would have been possible for most of the alternatives that have been canvassed. The necessary legislation will be contained in this year's Finance Bill. The cost of this historic reform, which for the first time ever gives a fair deal to married women, will be ~~2550 million~~ <sup>a little over 1/2 billion</sup> in 1990-91. 71

F11. I mentioned a few moments ago the tax penalties on marriage. It is clearly wrong that some couples should find themselves paying more tax, simply because they are married. I propose to put that right. 35

F12. Independent taxation by itself will remove the most common penalty - the taxation of a married woman's income at her husband's marginal rate. But there are other tax penalties on marriage, and I propose to abolish all of them. These changes need not await the introduction of Independent Taxation. 48

F13. Under the present system an unmarried couple can get twice as much mortgage interest relief as a married couple. This has attracted increasing - and justified - criticism. I propose to put a stop to it as from August 37

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this year. Thereafter, the £30,000 limit on mortgage interest relief will be related to the house or flat, irrespective of the number of borrowers. This was the solution put forward in the 1986 Green Paper on Personal Taxation, and it was widely welcomed. Existing mortgages will be unaffected. 50

F14. Another anomaly is that an unmarried couple with children can each claim the Additional Personal Allowance intended for single parents, and thus get more tax relief than a married couple in the same position. I propose to confine them to a single Additional Personal Allowance, with effect from April 1989. 49

F15. Thus this Budget will not only, for the first time ever, give married women a fair deal from the tax system. It will also eliminate, for all practical purposes, all the other tax penalties which, under the present system, can arise on marriage. 43

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**G. BUSINESS TAXATION**

G1. I turn now to business taxation. 6

G2. The major reform of business taxation, which I introduced in 1984, and which was completed in 1986, has given us one of the lowest Corporation Tax rates in the world. This has encouraged overseas companies to invest in Britain and, most important of all, has greatly improved the quality of investment by British firms. It is a crucial part of an environment in which company profitability has recovered to its highest level for some twenty years. It has succeeded in its objectives. 82

G3. I do not therefore propose any further changes to the structure of Corporation Tax. And the main Corporation Tax rate for 1988-89 will be unchanged at 35 per cent. 70

G4. But I do have some changes to propose to specific aspects of business taxation. 14

G5. British exporters have done extremely well in recent years, thanks to major improvements in efficiency and quality. But no exporter could honestly claim that his success hinges on the fact that the cost of entertaining 35

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overseas customers is tax deductible, whereas business entertainment generally is not. I therefore propose to simplify the system by making all business entertainment non-deductible for tax purposes, including for VAT. 31

G6. In conjunction with my rt. hon. Friend the Secretary of State for Energy, I propose to restructure the tax regime for the new generation of Southern basin and onshore fields, so as to relate tax liability more closely to profitability. Accordingly, my rt hon Friend will shortly be bringing forward legislation to abolish royalties, from 1 July, for all such fields. At the same time, I propose to reduce the Petroleum Revenue Tax oil allowance for these fields. This will mean the end of royalties for all future fields. 38

G7. The 1986 Building Societies Act gives Building Societies the power to convert themselves into companies, if they so wish. At present, however, they would face a heavy, and unintended, tax charge if they did so. I propose to rectify this. 40

G8. I have two changes to propose to the tax arrangements for Lloyd's. The first meets the only point Lloyd's have raised on last year's legislation on reinsurance to close. The second will benefit both Lloyd's and the Inland Revenue by simplifying the administrative arrangements for taxing Lloyd's members. 48

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G9. I also propose to simplify the Section 482 rules for companies who wish to migrate overseas, so as to bring them broadly into line with most of our major competitors. In future, companies will be resident in the UK if they are incorporated here. Subject to that, instead of having to ask for Treasury consent, companies will be free to migrate, provided only that they pay their tax first. 69

G10. I now turn to a number of proposals to give further help to small businesses and new businesses, whose encouragement is a central theme of Government policy. The rate of new business formation, net of failures, has averaged 500 a week since 1979. This shows beyond any doubt the continuing vigour of this sector, which is such an important source of enterprise, innovation, and new jobs. 66

G11. Many new businesses have been greatly assisted by the Business Expansion Scheme, which has now been running for nearly five years. During that time it has enabled new and expanding companies to raise equity finance amounting to some £150 million a year. 42

G12. However, the rapid growth of the venture capital market since 1983 has meant that companies seeking relatively large amounts of equity investment can now 24

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raise these readily, while smaller companies looking for more modest amounts can still find it difficult to do so.

19

G13. To improve the targeting of the BES, I therefore propose to introduce a limit of half a million pounds on the amount any company can raise under the scheme in any one year. Investment should thus be better directed at the smaller and newer businesses, particularly those outside the South-East of England, which can still find it hard to raise equity finance in other ways. In the special circumstances of the ship chartering industry, however, the limit will be £5 million.

82

G14. I have one further proposal affecting the Business Expansion Scheme.

G15. One of the key reasons for our economic transformation has been the reform of the supply side of the economy.

30

G16. The tax relief I introduced last year for profit-related pay will, in time, help to increase pay flexibility and improve the working of the labour market. But if successful firms are to expand further, and create still more jobs, we also have to make it easier for people to move to where the new jobs are.

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G17. For years, the shortage of private rented accommodation has been an obstacle to labour mobility. The Government's proposals to deregulate new rents are already going through the House. Deregulation will, over time, substantially increase the supply of housing for rent. But this will not happen overnight, and there is a case for a special incentive to speed up the process in the early years. 64

G18. I therefore propose to extend the Business Expansion Scheme to include companies specialising in the letting of residential property on the new assured tenancy basis. 25

G19. The BES is well suited to this task. Since full tax relief is given immediately, it should bring forward new investment straight away. And we will be building on success. 30

G20. The limit for this type of investment will be £5 million a year for any one company. But since the relief is specifically designed to provide an extra stimulus in the early years of deregulation, it will run only for investments made before the end of 1993. 46

G21. This change will powerfully reinforce the impact of decontrol in reviving the private rented sector of housing in Britain. 19

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G22. In last year's Budget I raised the ceiling for capital gains tax retirement relief from £100,000 of gain to £125,000. But I believe it is necessary to do more to help the small businessman whose wealth is tied up in his business and who is faced with the disincentive of a heavy capital gains tax bill when he sells up on retirement. I therefore propose to extend capital gains tax retirement relief so that, on top of the exemption, half of any gain between £125,000 and £500,000 will also be completely free of tax. 97

X

G22A. While on the subject of capital gains tax, I propose to extend rollover relief to a group of assets whose common characteristic is that they ~~did not exist~~ <sup>basely exist</sup> when the present list of qualifying assets was drawn up. They are milk quotas, potato quotas, satellites and spacecraft. I know that this will be warmly welcomed in the farming and extra-terrestrial communities alike. 62

G23. Lastly, on the small business front, I propose to increase the VAT threshold to £22,100, the maximum permitted under existing European Community Law. 24

G24. Throughout my time as Chancellor, I have been on the look-out for taxes to abolish. Abolition is clearly the simplest variety of reform. I have already abolished the National Insurance surcharge, the Investment Income 35

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surcharge, Development Land Tax, and the tax on lifetime gifts. 10

G25. At present, companies have to pay a Capital Duty of 1 per cent whenever they raise new capital - whenever, for example, a new company is formed or an existing company sells new shares to the public. This is undesirable on two counts. It is a burden on companies who need to secure external finance for expansion. And it discriminates against equity capital as compared with debt finance and bank borrowing. 70

G26. Capital Duty is a relatively recent impost which had to be introduced in 1973 in compliance with our obligations under European Community Law. But the relevant Community Directive has now been amended. Accordingly, I propose to abolish Capital Duty with effect from midnight tonight. 44

X  
G27 At the same time, I propose to get rid of the Unit Trust Instrument Duty, a similar though much less substantial tax, which is levied at the rate of  $\frac{1}{4}$  per cent on all ~~property~~ <sup>assets</sup> put into a unit trust. I know the unit trust movement will welcome this minor relief, and I trust the benefit will be fully passed on to investors. 63

G28. The cost of abolishing these two taxes will be of the order of £100 million in 1988-89. Not counting minor 21

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imposts, the demise of Capital Duty brings the number of taxes I have abolished up to five: an average of one a Budget.

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## H. COVENANTS AND MAINTENANCE

H1. I now turn to an important area of personal taxation which is ripe for reform and simplification: the taxation of payments made under deeds of covenant and maintenance arrangements.

H2. Covenants to charity will be wholly unaffected by the changes I am about to propose. 44

H3. Other covenants, and maintenance arrangements, are essentially ways of transferring income from one individual to another, usually from one member of a family to another, whether it is a parent or grandparent covenanting to a child, or a husband paying maintenance to an ex-wife. <sup>of the</sup> Most financial transfers that take place within families are rightly and properly outside the scope of the tax system altogether. I propose, as far as is practicable, to take covenants and maintenance out as well. This will greatly simplify an unnecessarily complex part of the tax system. 94

H4. First, covenants. Charitable covenants apart, I propose to take all new covenants made by individuals on or after today out of the tax system altogether. In other words, people receiving payments under covenants will not be liable to tax on them, and those making the 45

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payments will not be able to claim tax relief on them.  
The tax treatment of existing covenants will continue unchanged. 90

H5. The largest single group of people affected by this change will be students, together with their parents, many of whom nowadays choose to make their contribution to the student maintenance grant by covenant. This has arisen as an unintended by-product of the reduction in 1970 of the legal age of majority from 21 to 18. 56

X  
H6. As I have already indicated, those who have already made such covenants will continue to benefit from ~~them~~ <sup>tax relief.</sup>  
For new students, the parental contribution to the maintenance grant will be assessed on a new and more generous scale, to reflect the withdrawal of tax relief on new covenants. My rt hon Friend <sup>Secretary</sup> ~~the Secretary~~ of State for Education and Science <sup>and for Scotland</sup> will be publishing the new scale tomorrow. 70

X  
H7. One desirable side-effect of this reform is that future students will no longer be deterred from taking vacation jobs because their covenant income has already absorbed their personal allowance. 30

H8. Student covenants apart, there will be no compensation for the loss of tax advantage arising from these proposals. But once rates of income tax are set at 27

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reasonable levels, this is precisely the sort of tax shelter it is right to dispense with. 16

H9. Next, maintenance. Here, too, we tax the recipient, only to give tax relief to the payer. The present rules can be complex and confusing for people going through separation and divorce. The tax system ought to intrude as little as possible, though it is reasonable that there should be some recognition of the fact that an ex-husband is continuing to support his ex-wife, or vice versa. 68

H10. Accordingly, I propose that, for new maintenance arrangements, recipients will not be liable to any tax whatever on maintenance payments. Relief to the payer will be restricted to payments to a separated or divorced spouse, up to a limit equal to the difference between the married and single allowances. 49

H11. For existing maintenance arrangements, the present rules will continue to apply in 1988-89, except that a separated or divorced spouse will be exempt from tax on receipts up to the difference between the married and single allowances. Full relief will continue for all those who are making payments under existing Court Orders or agreements. The same protection will also apply to those who have already applied for Court Orders, provided these are made by 30 June. From April 1989 there will be special transitional rules to continue protection for existing arrangements. 92

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H12. While the transitional provisions are inevitably somewhat complex, the new system will be very much simpler than the old, for all concerned. It will reduce the tax relief that can be obtained by the better-off payers of large amounts of maintenance, but for most couples the ex-husband will continue to enjoy full tax relief while the ex-wife will not be taxed. 63

H13. The reform of the tax treatment of maintenance I am proposing today will also remove one of the lesser known tax penalties on marriage. At present, an unmarried couple can make large payments either between themselves or to their young children, and get tax relief that would not have been available had they been married. My proposed reform will put an end to that. 64

H14. As I have said, this reform and simplification of the taxation of covenants and maintenance in no way affects covenants to charity. Indeed, I have a proposal to help charities further. 31

H15. The payroll giving scheme has now been running for nearly a year. I am glad that so many employers have already set up schemes, and I hope as many employees as possible will take advantage of them. In order to give further encouragement to charitable giving, and to assist the growth of the payroll giving scheme, I propose to double the annual limit on tax-allowable donations under the scheme to £240, or £20 a month. 76

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**J. TAXES ON SPENDING**

J1. I now turn to the taxation of spending. 8

J2. ~~I have no major change to propose to the coverage of Value Added Tax, which will remain at 15 per cent.~~

72.

J3. I propose to raise the excise duties as a whole broadly in line with inflation, but to make some modest adjustments within the total. The duty on cigarettes and hand-rolling tobacco will be increased, by the equivalent, including VAT, of between threepence and fourpence for a packet of 20 cigarettes. This will take effect from midnight on Thursday. The duty on a packet of five small cigars will rise by twopence, but that on pipe tobacco will remain unchanged. 78

J4. As to the alcohol duties, I propose increases which, including VAT, will put about a penny on the price of a pint of average-strength beer and cider, fourpence on a bottle of table wine, and sixpence on a bottle of sparkling or fortified wine. There will once again be no increase in the duty on spirits. These changes will take effect from 6 o'clock tonight. 65

J5. The existing duty structure is inhibiting sales of drinks known as 'coolers' which are mixtures of an alcoholic drink and a soft drink. I propose to introduce 27

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new lower rates of duty for these products, so as to encourage the young in particular to change to drinks with a lower alcohol content. For the same reason, I propose from 1 October to abolish the minimum duty charge on beer, which will encourage the promotion of ~~low-alcohol~~ *(lower-strength)* beers. 51

J6. I propose once again to leave the main rates of Vehicle Excise Duty unchanged. To recover the revenue forgone, I propose increases in petrol and derv duty over and above the rate of inflation, which, including VAT, will raise the price of petrol by between fivepence and sixpence a gallon, and that of derv by ~~less than~~ *a 14% under* fivepence a gallon. These changes will take effect from 6 o'clock tonight. 68

J7. In my Budget last year, I sought to promote the use of lead-free petrol, with all the environmental benefits it brings, by introducing a duty differential in its favour. As a result, the number of garages selling lead-free petrol has more than trebled. But consumption remains disappointingly low. 50

J8. Accordingly, I propose to double the duty differential in its favour by exempting it altogether from the duty increase I have just announced for leaded petrol. This means that, despite the higher production costs, the pump price of unleaded petrol should in future 43

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be below that of ordinary 2-star petrol. I very much hope the petrol companies will now reinforce this concession by vigorously promoting the use of lead-free petrol.

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**K. TAXES ON CAPITAL**

K1. I now turn to taxes on capital. 7

K2. The emergence of the capital-owning democracy has been one of the most remarkable features of the 1980s. Encouraged by Government policy, more than 2½ million families have bought their homes, bringing the total to nearly two households in three. And our proposals for personal pensions, which come in to effect in July, will give a new dimension to pension ownership. 60

K3. But the most dramatic change has been in share ownership. In last year's Budget, I announced the results of a joint Treasury/Stock Exchange survey of the number of shareholders in this country. This revealed that some 8½ million people - one adult in five - owned shares, about three times the number in 1979. 53

K4. A similar survey has been carried out this year. Despite all the stories of people taking quick profits on privatisation shares, and despite the stock market collapse, the results show that the number of individual shareholders has if anything risen further over the past 12 months, to very nearly 9 million. This illustrates in a quite remarkable fashion how wider share ownership is now taking root. 66

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K5. I have two proposals to encourage share ownership still further to announce today. 13

K6. First, Personal Equity Plans are off to a successful start. Over a quarter of a million people took out PEPs in 1987, and subscribed nearly £½ billion between them. To give further encouragement to this form of investment, I propose to increase the annual limit from £2,400 to £3,000. The new higher limit will apply to all plans taken out this year. 62

K7. Second, measures to encourage employee share ownership have featured in seven out of the last eight Budgets. As a result, the number of approved all-employee share schemes has risen from 30 in 1979 to over 1400 today, involving well over 10,000 companies, and providing shares and options for well over 1½ million employees. 54

K8. Following extensive consultation, including the publication of draft clauses, I propose to relax the provisions of Section 79 of the 1972 Finance Act. This will make it easier for companies to provide shares to their employees outside the approved schemes without giving rise to an undue charge to tax. This will be of particular benefit to subsidiary companies and their employees. 59

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K9. In previous Budgets I have already substantially reformed the taxation of capital, with the replacement of Capital Transfer Tax by Inheritance Tax. But I believe this process can and should be taken further. Last year, I reduced the number of inheritance tax rates from seven to four. This year, I propose to simplify the tax still further by levying it at a flat rate of 40 per cent. 68

K10. At the same time I propose to raise the threshold from £90,000 to £110,000. 14

K11. The increase in the threshold will reduce the number of estates liable to tax by a quarter, allowing many more people to inherit the family home free of tax. And the flat rate of 40 per cent means that for the family business, enjoying 50 per cent business relief, the effective rate of tax can never exceed 20 per cent, one of the lowest inheritance tax rates in the industrialised world. 71

K12. The cost of these changes will be £100 million in 1988-89. 12

K13. Lastly, Capital Gains Tax. Strictly speaking, this should not be a tax on the original capital at all. Nor is it, so far as gains which have arisen since 1982 are concerned, thanks to the indexation provisions introduced by my predecessor in 1982, and extended in my 1985 Budget. 49

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K14. But for gains that arose before 1982, the tax falls largely on purely paper profits resulting from the rampant inflation of the 'seventies. In other words, it bites deeply, and capriciously, into the capital itself.

K15. This has long been recognised as manifestly unjust. Indeed, from the time I first entered this House I have argued that Capital Gains Tax should fall only on real gains, and not on paper gains. I have therefore looked hard to see if the indexation provisions could be applied right back to the inception of the tax in 1965. Unfortunately, they cannot. The necessary information is in many cases no longer available. 108

K16. Accordingly, I have decided to bring the base date for the tax forward from 1965 to 1982. That is to say, for all disposals on or after 6 April, that part of any capital gain which arose before April 1982 will be exempt from tax altogether, for individuals and companies alike. 50

K17. This Budget thus ends once and for all the injustice of taxing purely inflationary gains. This will benefit the economy by unlocking assets which have been virtually sterilised because of the penal tax that would have arisen on any sale. And it will help many small businessmen and farmers in particular. 51

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K18. At present, the first £6,600 a year of capital gain is tax free. The relatively high level of this threshold stems from the substantial increase my predecessor made in 1982, explicitly as rough and ready partial compensation for the continued taxation of pre-1982 paper gains. Now that I have taken pre-1982 gains out of tax altogether, I propose to reduce the capital gains tax threshold to £5,000. It should also be borne in mind that, with the introduction of independent taxation in 1990, a husband and wife will each have their own threshold for capital gains tax as well as for income tax. 105

K19. Rebasing the tax so as to produce a fully indexed system makes it possible to bring the taxation of gains closer to that of income. In principle, there is little economic difference between income and capital gains, and many people effectively have the option of choosing to a significant extent which to receive. And, insofar as there is a difference, it is by no means clear why one should be taxed more heavily than the other. Taxing them at different rates distorts investment decisions and inevitably creates a major tax avoidance industry. 94

K20. Moreover, at present, with capital gains taxed at 30 per cent for everybody, higher rate taxpayers face a lower - sometimes much lower - rate of tax on gains than on investment income, while basic rate taxpayers face a 41

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higher rate of tax on gains than on income. This contrast is hard to justify. 15

K21. I therefore propose a fundamental reform. Subject to the new base date, capital gains will continue to be worked out as now, with the present exemptions and reliefs. In particular, the principal private residence will remain tax-free. But the indexed gain will be taxed at the income tax rate that would apply if it were the taxpayer's marginal slice of income. In other words, I propose in future to apply the same rate of tax to income and capital gains alike. 81

K22. These changes will not take effect until 6 April. 9

K23. Taxing capital gains at income tax rates makes for greater neutrality in the tax system. It is what we now do for companies. And it is also the practice in the United States, with the big difference that there they have neither indexation relief nor a separate capital gains tax threshold. 51

K24. The changes I have announced represent a thoroughgoing reform of capital gains tax which will benefit the economy and eradicate a major injustice. They will sharply reduce the damaging effects of the tax, while ensuring that capital gains remain properly taxed and the yield of income tax adequately protected. 50

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K25. They are expected to cost \$210 million in 1989-90.

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**L. INCOME TAX**

L1. Finally, I turn to income tax.

L2. The way to a strong economy is to boost incentives and enterprise. And, that means, among other things, keeping income tax as low as possible. 31

L3. Income tax has now been reduced in each of the last six Budgets - the first time this has ever occurred. And the strength of the economy over that period speaks for itself. 32

L4. However, reforming Income Tax is not simply a matter of cutting the rates. I also have to look at all the various allowances and reliefs to ensure that they are still justified. 32

L5. With this in mind, I have a number of proposals to announce. 12

L6. First, forestry. I accept that the tax system should recognise the special characteristics of forestry, where it can take anything up to a hundred years between the costs of planting and the income from selling the felled timber. 38

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L7. But the present system cannot be justified. It enables top rate taxpayers in particular to shelter other income from tax, by setting it against expenditure on forestry, while the proceeds from any eventual sale are effectively tax free. 37

L8. The time has come to bring it to an end. I propose to do so by the simple expedient of taking commercial woodlands out of the income tax system altogether. That is to say, as from today, and subject to transitional provisions, expenditure on commercial woodlands will no longer be allowed as a deduction for income tax and corporation tax. But, equally, receipts from the sale of trees or felled timber will no longer be liable to tax. 78

L9. It is, perhaps, a measure of the absurdity of the present system that the exemption of commercial woodlands from tax will, in time, actually increase tax revenues by over £10 million a year. 33

L10. At the same time, in order to further the Government's objectives for the rural areas, I have agreed with my rt hon. Friends who have responsibilities for forestry and the environment that, in parallel, there should be increases in planting grants. Full details of the new grant scheme will be announced next week. 53

L11. The net effect of these changes will be to end an unacceptable form of tax shelter; to simplify the tax 20

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system, abolishing the archaic Schedule B in its entirety; and to enable the Government to secure its forestry objectives with proper regard for the environment, including a better balance between broad-leaved trees and conifers. 35

L12. One of the legacies of the years of penal top tax rates is the complicated special relief for large redundancy payments. This is no longer justified. I propose to increase the exemption limit for these payments from £25,000 to £30,000, and to abolish the additional relief for larger amounts. 49

L13. Next, benefits in kind - perhaps better known as perks. One of the biggest tax-induced distortions in the economy today is the growing tendency to provide remuneration in kind rather than in cash. It must be right to move towards a system of lower taxes all round and fewer tax breaks of this kind. 54

L14. Far and away the most widespread benefit in kind is the company car, which is substantially undertaxed. Independent studies, based on figures supplied by the AA, suggest that an employee with a typical company car may be taxed on only about a quarter of its true value. 48

L15. This discrepancy is too great to be allowed to continue. On the other hand, the scale of the undertaxation is so great that it cannot be put right in 30

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a single year. But in a Budget when I am able to reduce tax rates, there is a strong case for a substantial increase in the taxation of these benefits. I therefore propose to double the car scales for 1988-89. This increase replaces the 10 per cent increase which I had already announced for 1988-89. The yield will be £260 million in 1988-89. 64

L16. The scales for the taxation of car fuel adequately reflect the value of the benefit, and I propose to leave them unchanged for 1988-89. 24

L17. However, the taxation of the benefit of free car parking threatens to become an administrative nightmare. I propose to exempt this particular benefit from tax altogether. 26

L18. Next, mortgage interest relief. This Government is committed to the further spread of home ownership. Mortgage interest relief has an important role to play in achieving that aim. 28

L19. However, in addition to the decision to apply the £30,000 limit to the house or flat, which I have already announced, and which will remove the most widely-resented tax penalty on marriage, I have a further reform to propose in this area. 44

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L20. This concerns the parallel tax relief for home improvement loans. Most of these loans are for fittings such as double glazing, and have played a significant part in the recent growth of consumer credit without in any way contributing to the expansion of home ownership. This may be partly due to the substantial scope for abuse, as loans ostensibly taken out for home improvements are used for other purposes, a matter which was the subject of a recent report from the Public Accounts Committee. 83

L21. I propose, therefore, to end tax relief for all new home improvement loans taken out after 5 April. Existing home improvement loans will be unaffected. This is expected to yield £80 million in 1988-89.

L22. Finally, I turn to income tax itself. 42.

L23. The statutory indexation formula means that I should increase all the principal income tax allowances and bands by the increase in the RPI over the year to last December, or 3.7 per cent, rounded up. I propose to do more than that; indeed twice as much. 46

L24. Thus the single allowance will go up not by £90, as required by indexation, but by £180, to £2605; and the married allowance will go up not by £150 but by £300, to £4095. The additional personal allowance and widow's bereavement allowance will thus rise by £120 to £1490. 50

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Similarly the single age allowance will rise by £220 to £3180 and the married age allowance by £360 to £5035. The higher allowances for taxpayers aged 80 and over, which I introduced in the last Budget, will correspondingly be increased by £240 and £360 to £3310 and £5205 respectively, and the new age allowance income limit will be £10,600. The upper limit of taxable income for the basic rate band will be increased to £19,300. 75

L25. The increases I have just announced mean that the basic tax thresholds will be fully 25 per cent higher, in real terms, than they were in 1978-79, Labour's last year. Indeed, the married man's tax threshold will be at its highest level in real terms for nearly half a century. 49

L26. Given these substantial increases in the main allowances, I am taking the opportunity to simplify the system by abolishing three minor personal allowances which have been unchanged, in cash terms, for over twenty years: the housekeeper allowance, the dependent relative allowance, and the son's or daughter's services allowance. 119

L27. In our general election manifesto last year, we committed ourselves to reducing the basic rate of income tax to 25 pence in the £ as soon as it was prudent to do so. This pledge followed a reduction of twopence in the £ to 27 pence in last year's Budget. 49

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L28. At the time, this was regarded with some scepticism, not to say cynicism, by the Opposition, who no doubt recalled that Labour Governments used to reduce tax only in front of an election, and at all other times increased it. Indeed, shortly before last year's Budget the rt hon Gentleman the deputy leader of the Labour Party said this: 39

"I must advise the Chancellor of something that he already knows: whichever party wins the general election, the tax cuts he makes in this Budget will be reversed." 40

L29. The time has come to put the rt hon Gentleman out of his misery. So far from reversing the 1987 Budget tax reductions, I propose to take this, the first opportunity since the general election, to fulfil our manifesto pledge. The basic rate of income tax for 1988-89 will be 25 pence in the pound. 56

L30. The small companies' rate of corporation tax will similarly be reduced to 25 per cent. This means that the basic rate of income tax, and the corporation tax rate for small companies, will both be at their lowest level since the War. 42

L31. Life Assurance premium relief remains in place for policies taken out before the 1984 Budget. It has traditionally been given at half the basic rate of income tax. I therefore propose to reduce it from 15 per cent 38

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to 12½ per cent. But, to give life offices time to adjust, this change will not take effect until 6 April 1989.

L32. I also propose to reduce the additional rate which applies to the income of discretionary trusts and for certain other purposes from 18 per cent to 10 per cent. 51

L33. It is now nine years since my predecessor, in his first Budget in 1979, reduced the top rate of tax from the absurd 83 per cent that prevailed under Labour to 60 per cent, where it has remained ever since. 40

L34. At that time, this was broadly in line with the European average for the top rate of tax. It is now one of the highest. And not only do the majority of European countries now have a top rate of tax below 60 per cent, but in the English-speaking countries outside Europe - not only the United States and Canada, but Labour Australia and New Zealand, too - the top rate is now below 50 per cent, sometimes well below. 79

L35. The reason for the worldwide trend towards lower top rates of tax is clear. Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenue, over time they actually raise less. 46

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L36. By contrast, a reduction in the top rates of income tax can, over time, result in a higher, not a lower, yield to the Exchequer. Despite the substantial reduction in the top rate of tax in 1979, and the subsequent abolition of the investment income surcharge in 1984, the top five per cent of taxpayers today contribute a third as much again in real terms as they did in 1978-79, Labour's last year; while the remaining 95 per cent of taxpayers pay ~~slightly less~~ <sup>about the same</sup> in real terms. *as they did in*

1978-79.

95.

L37. After nine years at 60 per cent I believe the time has come to make a further reduction in the top rate of income tax. At present there are no fewer than five higher rates of income tax: 40 per cent, 45 per cent, 50 per cent, 55 per cent, and 60 per cent. I propose to abolish all the higher rates of tax above 40 per cent. 68

L38. This major reform will leave us with one of the simplest systems of income tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. And, indeed, a system of personal taxation in which there is no rate anywhere in excess of 40 per cent. 55

L39. I believe that 40 per cent is an acceptable top rate of tax. But, bearing in mind that the basic rate of income tax is also the starting rate, 25 per cent is still too high. 36

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L40. Since we first took office in 1979, we have reduced the basic rate of income tax from 33 per cent - one third - to 25 per cent - a quarter. Our aim should now be to get it down to a fifth - a rate of 20 pence in the pound - as soon as we prudently and sensibly can. 56

L41. Meanwhile, I have today been able to reduce income tax at all levels, with increases in both the personal allowances and the basic rate limit, and reductions in both the basic and higher rates. The tax reduction for a married man on average earnings will be worth nearly £5 a week. The changes will take effect under PAYE on the first pay day after 14 June. They will cost £4½ billion in 1988-89 over and above statutory indexation, of which three quarters represents the cost of increasing tax thresholds and reducing the basic rate. 95

L42. The total cost of all the measures in this year's Budget, again on an indexed basis, is a shade under £4 billion. 21

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**M. PERORATION**

M1. Mr Deputy Speaker, in this Budget, I have reaffirmed the prudent policies which have brought us unprecedented economic strength. I have announced a radical reform of the taxation of marriage, which for the first time ever will give married women a fair deal from the tax system. I have eliminated the long-standing injustice of taxing inflationary gains, and abolished a fifth tax. I have radically reformed the structure of personal taxation, so that there is no rate anywhere in the system in excess of 40 per cent.

M2. After an Autumn Statement which substantially increased public spending in priority areas, I have once again cut the basic rate of income tax, fulfilling our manifesto pledge of a basic rate of 25 pence in the £ and setting a new target of 20 pence in the £.

M3. And I have balanced the Budget.

M4. I commend this Budget to the House.

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**J. TAXES ON SPENDING**

J1. I now turn to the taxation of spending.

A

J2. I have one change to propose today affecting the coverage of Value Added Tax, which will remain at 15 per cent. Confectionery was brought in to VAT by the RHM for Leeds East in 1974, and the legal definition of confectionery goes back further still to the days of purchase tax. The emergence of new products has rendered this definition somewhat obsolete. In particular, recent legal decisions mean that some cereal bars are subject to VAT, while others are not. I propose to clarify the law so that all cereal bars are taxed.

J3. I propose to raise the excise duties as a whole in line with inflation, but to make some modest adjustments within the total. The duty on cigarettes and hand-rolling tobacco will be increased, by the equivalent, including VAT, of between threepence and fourpence for a packet of 20 cigarettes. This will take effect from midnight on Thursday. The duty on a packet of five small cigars will rise by twopence, but that on pipe tobacco will remain unchanged.



C.

## BROADCAST

1. I'm afraid I haven't yet had chance for even a quick go at Budget measures.
2. No comments received on charts yet, but I've told everybody to be ready at the meeting.
3. 2 new things:
  - (a) more US press cuttings, tho' not much help;
  - (b) the missing maroon card! I forgot to put it in on Friday (sorry), having annotated <sup>chart</sup> para 15 a in S. Pickford's note. You asked for imaginative ideas to make the PSBR look menacing.

Over  
2

I asked Neil in the office (he  
of the penguins, fish, etc for the  
Private Office party). The  
result is on the maroon card at  
the very back. Shows someone  
has some imagination, though I'm  
not sure it's right for the TV!

~~AND~~

22. 2.



PHF

C.

### BUDGET BROADCAST

1. Here are:

1 - Tony Jay's draft

2 - last year's broadcast

- Revised charts (S. Pickford of 16 Feb)

- UK press cuttings (RIGA of 18 Feb)

- Foreign press cuttings - all sorts, just arrived, I'll look at them over the weekend.

- Robert's draft on budget measures

2. Next meeting is Tuesday, 23 Feb, 3.45pm.

PHF

ed conference with Monro, 'United States' France, Germany, Japan, US (one talk) in a single package But what can we do for US Now one appropriate article for the Atlantic Journal & Society Journal - who is responsible (what is it?).

difficult to deal with  
New use can be used when we have looked @ these charts

See comments below

on paper



C.

BUDGET BROADCAST

Thanks.  
The Budget matters  
but work of special  
importance this year.  
Post ask Mr  
Culpin to  
have  
for


Be

1. This is not action for this weekend -  
the next meeting is 23 Feb - but you  
may like to have a look at Tony  
Jay's draft, and my own shot at  
an opening about the balanced budget.

2. I'm getting comments on both.

Tony's piece, as usual, ~~was~~ a bit  
of well turned is just the job in  
most places, though - no fault of his  
will need attention in others.

3. I've got the embassies looking for  
foreign press cuttings.

  
Budget  
Post for  
the bank  
of the  
effort  
Mr.

Sir A. JAYS  
DRAFT

Draft of 9 February

**CHANCELLOR'S BUDGET BROADCAST: MARCH 15 1988**

**FIRST DRAFT**

*Four bar  
charts in  
a row too  
much*

*Stimulus  
blow  
higher on  
Went  
Storm  
(with a  
@)*

If you read the paper every day, or hear the news every evening on radio or television, it's very hard to grasp what's really happening to Britain's economy. I don't mean this as a criticism of journalists and broadcasters: it's their job to tell us what's new today, and to make it as dramatic as possible. But the economy of a great industrial nation moves slowly. Nothing much changes in a day, or a week for that matter. So if you want to understand it, you have to step back and take a wider view. And if you do that, you see something quite remarkable. Something unknown in this country for X years.

CAPTION 1. Bar chart  
GDP from 1970.  
Reveal bars progressively  
from left as indicated  
by narration.

The key measure of any country's economic achievement is the Gross Domestic Product: its total output. If you go back to 1970, you see how Britain's output rose to a peak in 1973, then dropped back, then rose to another peak in 1979, then dropped again. But since 1981 we have had seven successive years of uninterrupted growth.

That's an astonishing record in itself. But there's something that makes it even more astonishing. Because side by side with this phenomenal growth in output there has been a dramatic fall in inflation.

CAPTION 2. Bar chart.  
Inflation from 1970.  
Reveal as for caption 1.

Again you have to go back to 1970 to see the full picture. It rose to a terrible peak - nearly ~~by~~ 25% - in 1975, then it fell back, then it rose to another peak in ~~1981~~ <sup>1980.</sup> But since then it has fallen dramatically, until now it's down to [the lowest level for X years.]

Those two charts are tremendously significant. But you only see their real significance when you put the two of them side by side.

CAPTION 3. Bar chart.  
GDP plus inflation.  
GDP appears first,  
inflation bars animate  
alongside  
as indicated by narration.

Then you see that inflation was always the spectre at the feast. The peak in 1973 was paid for by the inflation of 1974 and 1975. The peak of 1979 was paid for by the inflation from the end of 1978 up to 1980. In other words it was phoney growth. Inflation always killed it.

*Don't look unless you go back to 1970. Two charts & superimpose one on the other*

In fact, that had been the story of what was called the British disease for many years before 1970. But look at the story since 1980.

CAPTION 3 cont'd.  
Animate as before.

Year after year of steadily rising output. But for the first time, inflation actually falling, and falling dramatically, while output rose. And that is the picture that really tells the story of Britain's extraordinary success.

There's no mystery about how we've done it. It's the result of a consistent economic policy over nine years. A commitment to controlling inflation, removing the shackles on business enterprise, and liberating the creative energy of the British people. It means letting people keep as much as possible of what they earn. And if you look at what that means for a married man on average earnings with two children, you can see the result.

CAPTION 4. Bar chart.  
Real take home pay.  
Reveal from left  
with narration.

Real take home pay, corrected for inflation, bumped up and down through the stop-go years. But since 1981 it has risen year after year until now it's at an all time high.

The toughest problem of all was unemployment. Lots of people urged us to pump money into the economy to create jobs. But that was the cause of the inflation peaks in the sixties and seventies. That was why growth always collapsed after a few years. So we stuck to our guns. We knew that sustained growth was the only lasting solution to unemployment.



CAPTION 5. GRAPH

Fall in unemployment over  
the past 2 years.

Animate with narration.

*or UK.  
comparison?*

And now you can see the  
result. Adult unemployment  
started falling in the autumn  
of 1986. It's fallen every  
month since then, a total of  
600,000, the largest  
sustained fall on record.

In the last year alone, it's fallen by half a million. That's  
faster than any other major industrial country. And it has fallen  
in every region. There's still a long way to go, but it's very  
clear that we're going in the right direction.

This tremendous turnaround in our fortunes has transformed our  
standing in the world. If you look at the European growth league  
tables you can see why.

CAPTION 6.

European growth league.

Reveal with narration.

In the ten years from 1960 we  
were bottom of the table. In  
the 1970s we were still  
bottom of the table. But in  
the 1980s we're top of the  
league.

It might be putting it a bit too strongly to say that we've become  
one of the economic wonders of the world, but if you read what other  
countries are saying about us you might get that impression.

(Foreign press sequence to follow).

So that's the background to this year's budget. And it's a budget which carries on the same policies that have brought us to this enviable position: control spending, liberate enterprise, reward effort, and support those who can't support themselves.

-----  
BUDGET MEASURES SEQUENCE  
-----

It's been a happy and a proud story I've been able to tell you this evening, but it doesn't mean we can all relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. It has taken nine years to get us to where we are, nine years of determined effort and successful enterprise. But a return to the high-spending, money-printing days of the sixties and seventies could destroy it all in a few months. That's why we have to hold to our course and keep a firm hand on the reins. But so long as we stick with the policies that have served us so well these past nine years, we can look forward to a level of security and prosperity for ourselves and our children that is higher than any of us has ever known.

950 words (ie 7 minutes)

Excluding Foreign Press sequence and Budget measures.

## DRAFT OPENING FOR BUDGET BROADCAST

The balanced Budget

1. When most people talk about their "budget", they mean the amount of money they have to spend. In other words, they have to stay within their budget.
  
2. In my budget today, I was able to announce that the Government had done just that, for the first time for nearly twenty years. We have balanced the books - what used to be the hallmark of good housekeeping.
  
3. To see why that's so important, you only have to think back to the 1970s. Then, because Governments didn't balance the books, we saw Government borrowing going through the roof [chart]. This meant that inflation went through the roof, too, not long afterwards. And we are all still paying the bill for that borrowing, because of the high interest payments.
  
4. Many people thought that we would never be able to have a balanced budget again. But over the years, we have steadily brought borrowing down. And last year, we finally balanced the budget [chart].
  
5. Of course, this is not the only change from how things were in the 1970s. [Go on to the strength of the economy].



*mp*  
FROM: A P HUDSON

DATE: 15 March 1988

MR PICKFORD

cc Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr R I G Allen  
Mr A C S Allan  
Mr Flitton  
Mr Curw~~o~~n (2 copies)  
Mr Tyrle

**BUDGET BROADCAST**

... I attach the current version of the Budget Broadcast. If the Chancellor makes any changes in the course of the day, I shall let you know.

A handwritten signature in black ink, appearing to be 'APH'.

A P HUDSON

BUDGET SECRET: BUDGET LIST ONLY  
until after Budget Speech

Final Draft

**BUDGET BROADCAST, 15 MARCH 1988**

Once upon a time, governments used to believe that it was their job to balance the budget: not to spend any more than they could raise from taxes. But taxes aren't popular. So governments found a clever way out. They borrowed.

Obviously a small amount of borrowing doesn't matter much. The trouble is, it's addictive. By the mid-'seventies, nearly one pound in every five the Labour Government spent was being paid for out of borrowed money. And we've all had to foot the bill in heavy interest payments ever since.

For nine years this government has fought to free Britain from that terrible inheritance. And the result is that tonight, for only the second time since the early 'fifties, I can tell you, as Chancellor, that once again Britain has a balanced budget. Last year the Government didn't need to borrow at all. And I mean to keep it that way.

Balancing the budget hasn't been easy and it hasn't always been popular. But it means that we won't be loading a burden of debt on to future generations. And meanwhile, along with all our measures to liberate initiative and reward enterprise, it's produced outstanding results for Britain.

CAPTION 1. Bar chart

GDP from 1970.

Reveal bars progressively  
from left as indicated  
by narration.

The best, single measure of any country's economic achievement is its total national output. If you go back to 1970, you see how Britain's output rose to a peak in 1973, then it dropped back, then it rose to another peak in 1979, and then it dropped again. But since 1981 we've had seven successive years of uninterrupted economic growth.

That's an astonishing record in itself. But there's something that makes it even more astonishing. Because side by side with this remarkable growth in output there's been a dramatic fall in inflation.

CAPTION 2. Graph.

Inflation from 1970.

Reveal as for caption 1.

Again, you have to go back to 1970 to see the full picture. It rose to a terrible peak - nearly 25% - in 1975, then it fell back, then it rose to another peak in 1980. But since then it's fallen dramatically, down to the lowest levels for 20 years.

Those two charts are tremendously significant. But you only see their real significance when you put the two of them side by side.

CAPTION 3.  
GDP plus inflation.  
GDP bars appear first,  
inflation graph animates  
alongside  
as indicated by narration.

Then you see that inflation was always the spectre at the feast. The peak in 1973 was paid for by the inflation of 1974 and 1975. The peak of 1979 was paid for by the inflation that surged again up to 1980. In other words the growth couldn't last. Inflation always killed it.

In fact, that had been the story of what was called the British disease for many, many years before 1970. But look at the story in the 1980s.

CAPTION 3 cont'd.  
Animate as before.

Year after year of steadily rising output. But for the first time, inflation falling, falling dramatically, and staying low, while output rose. And that's the picture that really tells the story of Britain's new found success.

There's no mystery about how we've done it. It's the result of a consistent economic policy over nine years. A commitment to controlling inflation, to removing the shackles on business enterprise, and liberating the creative energies of the British people. It means letting people keep as much as possible of what they earn. And if you look at what that means for a married man on average earnings with two children, you can see the result.

CAPTION 4. Graph.  
Real take home pay.  
Reveal from left  
with narration.

Take home pay, even corrected for inflation, bumped up and down through the stop-go years. But since 1981 it's risen year after year, until now living standards are way above what they've ever been before.

And unemployment is coming down fast, in every region of the country. Last year, it fell faster than in any other major nation.

Of course, there's still a long way to go, but it's now clear to everyone that we're going in the right direction. And today's measures will help us further along the road.

In my Budget today, I've once again been able to cut income tax, bringing the basic rate down to 25 pence in the £, just as we promised we would in the Election. And people will be able to earn more before they start paying tax in the first place. As a result of this Budget, a married man on average earnings will take home almost £5 a week extra.

I've brought down the higher rates of tax, too. We've seen what happens if you tax top managers and engineers too heavily. Too many either opt for the quiet life, or go abroad where tax rates are lower. So what I've done will mean better-managed businesses and more jobs - and, at the end of the day, higher tax revenues as a result.



But at the same time, I've doubled the tax on company cars. It won't be popular, I know; but I believe it's right that those who have company cars should pay their fair share of tax.

And I've made this a tax reform Budget, too. In particular, I'm changing the income tax system to give married women a fair deal, for the first time ever. Instead of their income being taxed as if it belonged to their husband, as it has been for the past 200 years, it will at long last be truly their own.

So this Budget brings not only lower taxes, to encourage people to give of their best, but better taxes, too. That's an essential ingredient in Britain's continuing economic success. And it's only by having a more successful economy that we can afford better public services.

That's why, last Autumn, I was able to announce big increases in Government spending for the coming year, especially on priority areas like education, law and order, and the health service.

So it's been a hat-trick: higher Government spending, lower taxes, and the complete elimination of Government borrowing.

What I've been able to tell you this evening is a story of success. The story of a transformation of Britain's fortunes which has also transformed our standing in the world. If you look at the European economic growth league you can see how.

CAPTION 5.

European growth league.

Reveal with narration.

In the nineteen-sixties we were right at the bottom of the league table. In the 1970s we were still bottom of the table. But in the 1980s we've been right at the top of the league.

All the same, it doesn't mean we can sit back and relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. If it hadn't been so strong, the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage. Instead, we sailed through them all, virtually unscathed.

That's why we have to hold to our course and keep a firm hand on the wheel. But so long as we stick with the policies that have served us so well these past nine years, we can look forward to a level of security and prosperity for ourselves and for our children far higher than any of us has ever known.

BUDGET SECRET: BUDGET LIST ONLY  
until after Budget Speech

PWP



COPY NO 1 OF 10.

FROM: A.P. HUDSON

DATE: 15 March 1988

CHANCELLOR

cc Mr Culpin  
Mr R I G Allen  
Mr Pickford  
Mr ACS Allan  
Mr Flitton  
Mr Curwen (2 copies)

BUDGET BROADCAST

I attach the text incorporating the minor changes you made this morning. Mr Flitton will give this to the BBC, after the Speech, to put on the autocue.

AH

A.P. HUDSON

Final Draft: 15 March, 1pm

**BUDGET BROADCAST, 15 MARCH 1988**

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1152

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Reveal as for caption 1.

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181

170

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CAPTION 3.  
GDP plus inflation.  
GDP bars appear first,  
inflation graph animates  
alongside  
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28

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with narration.

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European growth league.  
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All the same, it doesn't mean we can sit back and relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. If it hadn't been so strong, the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage. Instead, we sailed through them all, virtually unscathed.

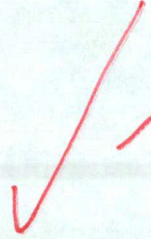
That's why we have to hold to our course and keep a firm hand on the wheel. But so long as we stick with the policies that have served us so well these past nine years, we can look forward to a level of security and prosperity for ourselves and for our children far higher than any of us has ever known.

BUDGET SECRET: BUDGET LIST ONLY  
until after Budget Speech



<sup>PWP</sup>  
COPY NO 7 OF 10.  
FROM: A.P. HUDSON  
DATE: 15 March 1988

CHANCELLOR



cc Mr Culpin  
Mr R I G Allen  
Mr Pickford  
Mr ACS Allan  
Mr Flitton  
Mr Curwen (2 copies)

BUDGET BROADCAST

~~I attach the text incorporating the minor changes you made this morning. Mr Flitton will give this to the BBC, after the Speech, to put on the autoque.~~

STANDBY SCRIPT  
FOR VISION ONLY  
BROADCAST WITH  
NO GRAPHICS

A stylized handwritten signature consisting of the letters 'A', 'P', and 'H'.

A.P. HUDSON

Final Draft: 15 March, 1pm

**BUDGET BROADCAST, 15 MARCH 1988**

Once upon a time, governments used to believe that it was their job to balance the budget: not to spend any more than they could raise from taxes. But taxes aren't popular. So governments found a clever way out. They borrowed.

Obviously a small amount of borrowing doesn't matter much. The trouble is, it's addictive. By the mid-'seventies, nearly one pound in every five the Labour Government spent was being paid for out of borrowed money. And we've all had to foot the bill in heavy interest payments ever since.

For nine years this government has fought to free Britain from that terrible inheritance. And the result is that tonight, for only the second time since the beginning of the 'fifties, I can tell you, as Chancellor, that once again Britain has a balanced budget. Last year the Government didn't need to borrow at all. And I mean to keep it that way.

Balancing the budget hasn't been easy and it hasn't always been popular. But it means that we won't be loading a burden of debt on to future generations. And meanwhile, along with all our measures to liberate initiative and reward enterprise, it's produced outstanding results for Britain.

CAPTION 1. Bar chart  
GDP from 1970.  
Reveal bars progressively  
from left as indicated  
by narration.

*For many years  
output has gone up and  
down, stop and  
go, with every  
surge followed  
by a slump.*

The best, single measure of  
any country's economic  
achievement is its total  
national output. If you go  
back to 1970, you see how  
Britain's output rose to a  
peak in 1973, then it dropped  
back, then it rose to another  
peak in 1979, and then it  
dropped again. But since  
1981 we've had seven succes-  
sive years of uninterrupted  
economic growth.

That's an astonishing record in itself. But there's something that  
makes it even more astonishing. Because side by side with this  
remarkable growth in output there's been a dramatic fall in  
inflation.

CAPTION 2. Graph.  
Inflation from 1970.  
Reveal as for caption 1.

[Again], you have to go back to 1970 to  
<sup>get</sup>  
[see] the full picture. It rose to a  
terrible peak - nearly 25% - in 1975,  
then it fell back, then it rose to  
another peak in 1980. But since then  
it's fallen dramatically, down to  
the lowest levels for 20 years.

INSERT 1

... levels for 20 years.

But it's the two of them taken together that tell the really dramatic story. Because every time, it was inflation that killed the expansion.

But in the eighties we have at last broken out of that prison. Since 1981 we've had year after year...

Those two charts are tremendously significant. But you only see their real significance when you put the two of them side by side.

CAPTION 3.

GDP plus inflation.

GDP bars appear first,  
inflation graph animates  
alongside

as indicated by narration.

Replaced by  
~~the~~  
INSERT 1

Then you see that inflation was always the spectre at the feast. The peak in 1973 was paid for by the inflation of 1974 and 1975. The peak of 1979 was paid for by the inflation that surged again up to 1980. In other words the growth couldn't last. Inflation always killed it.

In fact, that had been the story of what was called the British disease for many, many years before 1970. But look at the story in the 1980s.

28

CAPTION 3 cont'd.

Animate as before.

Year after year of steadily rising output. But for the first time, inflation falling, falling dramatically, and staying low, while output rose. And that's the picture that really tells the story of Britain's new-found success.

There's no mystery about how we've done it. It's the result of a consistent economic policy over nine years. A commitment to controlling inflation, to removing the shackles on business

. . . what they earn.

And for a married man on average earnings, that has meant an end to the up-&-down switchback of the stop-go years.

Since 1981, <sup>his</sup> take home pay - even corrected for inflation - has risen

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CAPTION 4. Graph.  
Real take home pay.  
Reveal from left  
with narration.

*Replace  
by  
INSERT 2*

Take home pay, even corrected for inflation, bumped up and down through the stop-go years. But since 1981 it's risen year after year, until now living standards are way above what they've ever been before.

And unemployment is coming down fast, in every region of the country. Last year, it fell faster than in any other major nation.

Of course, there's still a long way to go, but it's now clear to everyone that we're going in the right direction. And today's measures will help us further along the road.

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CAPTION 5.

European growth league.  
Reveal with narration.

In the nineteen-sixties we were right at the bottom of the <sup>European growth</sup> league table. In the 1970s we were still bottom of the table. But in the 1980s we've been right at the top of the league.

All the same, it doesn't mean we can sit back and relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. If it hadn't been so strong, the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage. Instead, we sailed through them all, virtually unscathed.

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Final Draft: 15 March, 1pm

FINAL TEXT

## BUDGET BROADCAST, 15 MARCH 1988

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*Pl. file carefully.*



FROM: A P HUDSON  
DATE: 18 March 1988

*APH*

MR ELITTON

*2*

**BUDGET BROADCAST 1988**

For the record, do you have the exact timing for this year's Budget Broadcast? If you would like one of our clerks to put the stop watch on it, please let me know.

*APH*

A P HUDSON

*Mr Hudson*

*9 minutes 7 seconds!*

*John Firth*  
*18/3*

BUDGET DAY AND POST BUDGET MEDIA PROGRAMME.

BUDGET DAY, 15 MARCH.

The following programmes are arranged for immediately after the Budget.

	Bid rcvd.	Accepted	Last year	This year
ITN Budget Special at NShaw.			Financial Secretary	FST
BBC Budget Special at NShaw.			Financial Secretary	FST
Channel 4 News at 7 at NShaw.			Chief Secretary	FST
BBC Radio 4 at NShaw.			Economic Secretary	PMG
IRN Budget Special, Bridge St.	NOT REQUIRED THEY WILL HAVE	THIS YEAR: SUFFICIENT MATERIAL	Paymaster Gen.	=
BBC Local Radio, Bridge St.			Economic Secretary	PMG
Newsnight, BBC TV Centre, 10.30pm.			Chief Secretary	CST
Financial World Tonight, recorded at HMT during the evening.			Financial Secretary	FST

WEDNESDAY, 16 MARCH

Bid rcvd. Accepted Last year

This year

Breakfast Time, Lime Grove, 8,0am-ish.	YES, CHANCELLOR OR CHIEF SEC		Chief Secretary	CST
TV-Am, Camden Lock, 8 am-ish.	YES TREASURY MINISTER		Economic Secretary	FST
Radio 4 "Today", Downing St. 8.05am.			Chancellor	Ch
LBC AM, Downing St, 8.30am.	YES CHANCELLOR		Chancellor	Ch
Kilroy, BBC TV Centre, 9.0am.	YES TREASURY MINISTER		n/a	FST (at am)
Business Daily, recorded at			n/a	PMQ
HMT during morning.				
THURSDAY 17 March.				
Jimmy Young Prog, Broadcasting House, 11am.	YES CHANCELLOR		Chancellor	Ch
<del>BBC 1</del> Radio 2 Question Time, London, evening.	YES, CHANCELLOR OR CHIEF SEC.		Chief Secretary	CST
FRIDAY, 18 MARCH				
Radio 4 Any Questions, Oxford, evening.	YES, CHANCELLOR		Chief Secretary	FST
Anglia Questions.	Yes	Yes	Chief Secretary	Chief Secretary.
SATURDAY, 19 MARCH				
Radio 4 "Money Box" recorded			n/a	

at HMT Thurs or Fri.

SUNDAY, 20 MARCH

Bid rcvd. Accepted Last year

This year

BB2 Money Programme, TV Centre.				FST
Channel 4 Business Programme, South Bank.				EST
BBC1 This Week Next Week, TV Centre.	YES CHANCELLOR			CST
ITV Weekend world, South Bank.	YES CHANCELLOR.		Chancellor	Ch
Radio 4, World This Weekend, B'casting House.				PMG

FROM: ROBERT CULPIN  
DATE: 9 MARCH 1987

*See Marginal  
Annals!*

CHANCELLOR

ODDS AND SODS

### Pre-Budget Photos

Newspapers keep wanting exclusive photos, in addition to the free-for-alls. We have one-off bids from the FT, the Sunday Times and Today. May I turn these down, on the ground that we have provided enough opportunities already?

### Late Bids from Broadcasters

2. We have lined up most TV and radio as planned, but there may be a few changes. In particular:

a. Channel 4 News want to mount a 3-party discussion this year instead of re-running interviews from ITN. I propose to offer this to the Chief Secretary.

b. We may have an acceptable offer from TVAM. If so, I propose to put it to the Economic Secretary (the Chief Secretary and Financial Secretary being already committed).

c. We do not have the expected bid from Channel 4's "Business Programme", but we have an unexpected one from BBC's "Money Programme" on the same day. I propose to switch the Financial Secretary from the one to the other.

Are you content for me to sort out this sort of thing with the other Ministers? I will of course let you have a final schedule nearer the time.

Day Programme

*Conventions*

3. We need to decide whether to stick to the conventional sort of Today interview or to admit a bit of vox pop - see Mr Gunton's note of 6 March below. What do you think?

**Briefing for Economic Correspondents.**

4. We need to decide which journalists to invite to the usual briefing on Budget Wednesday. I recommend that it should be on the record; we should therefore include agencies; and we might as well invite the International Herald Tribune, whose man has asked twice to see you. That implies the list of 18 attached (Mr Gunton of 4 March). It is probably three or four longer than last year - there are some new papers - but perfectly manageable in the State Room.

**Jenkins and Neil**

5. Peter Jenkins and Andrew Neil have both asked to see you. I suggest you try to do Jenkins on Wednesday, and the abominable Neil on Thursday afternoon.

6. Wednesday is a bit tricky; but I think the best running order is probably something like this:-

- 8.00+ (Today  
( IRN
- 9.00 Prayers
- 9.30 Markets
- 10.30 Economic Correspondents
- 11.30 Phone Sam Brittan
- 12 noon Peter Jenkins
- 1.00 Economist Lunch
- 3.00 Rutherford
- 4.00 free
- 5.00 Prime Minister

Does this look broadly OK?

**Economist and Regionals Lunches**

7. We need some Treasury officials to eat with the Economist on Wednesday and the Regionals on Thursday.

8. The Economist team will definitely be 6: Pennant-Rea, Macrae, Cairncross, Crook, Pam Woodall and John Peet. I suggest we match them with Cassell, Monck, Scholar, Pickford, you and me.

9. The Regionals are less certain, but also easier to deal with. There will probably be 7. If so, I suggest 5 to match - Cassell, Scholar, you, me and (depending on availability) either Pickford or Towers.

10. Both Sir Peter Middleton and Sir Terence Burns have other engagements, one of them (as always) with Sir William Keegan.

**Weekend World**

11. We have a provisional bid from Weekend World and a firm no-bid from from the rival This Week Next Week (which has the Home Secretary). Weekend World has gone to the dogs, but I assume you will do it.

**Radio Leicester**

12. Finally, do you want to do an interview with someone called Morgan Cross, followed by a phone-in on the Budget, on Radio Leicester at 11.00 o'clock on 27 March? I understand you will be in the constituency that day.

*when*

*1*

*No. I am there on the evening of 27/3, for my constituency assn. AGM, but will not be until shortly before then. M.*

ROBERT CULPIN

FROM: MICHAEL GUNTON

DATE: 6 MARCH 1987

MR CULPIN

cc Mr Pickford

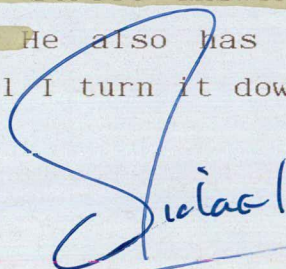
BBC RADIO 4 TODAY PROGRAMME

The Chancellor normally does his post-budget "Today" programme interview at about 8 am on the Wednesday following the Budget. They have already put in a bid this year which has been agreed to in principle.

They have now come forward with a variation and they would like the Chancellor's view.

On Budget morning they will be interviewing representatives from four groups of people - housewives, young executives etc from various parts of the country, asking them what they expect from the Budget. What they would now like to do on Wednesday morning is bring those people to Downing Street with Brian Redhead so that they can each ask the Chancellor one question for him to answer. Brian Redhead would then carry out the traditional interview.

I feel that this might cause too many complications and cannot imagine the Chancellor standing in the street answering what could be damn fool questions. He also has to do an LBC interview at 8.35 am. Shall I turn it down?



MICHAEL GUNTON

280/3



FROM: MICHAEL GUNTON

DATE: 4 MARCH 1987

1. MR CULPIN
2. CHANCELLOR

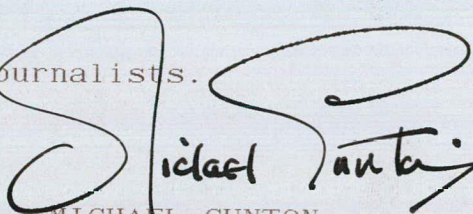
cc Mr Pickford

CHANCELLOR'S POST-BUDGET BRIEFING -  
ECONOMIC CORRESPONDENTS.

Herewith the list of Economic Correspondents  
who should be invited to the post-Budget briefing.

Financial Times - Philip Stephens  
Times - Rodney Lord  
Guardian - Hamish McRae  
Telegraph - Anne Segall  
Independent - Sarah Hogg  
Today - Clifford German  
London Daily News - Jim Levi  
Daily Express - Philip Robinson  
Daily Mail - Andrew Alexander  
Sun - Trevor Kavanagh  
Mirror - Robert Head  
Standard - Anthony Hilton  
Spectator - Christopher Fildes  
Wall Street Journal - Peter Norman  
Herald Tribune - Warren Getler  
PA - Larry Elliott  
Reuters - Sten Stovall  
AP Dow Jones - Marshall Gittler

A total of 18 journalists.

  
MICHAEL GUNTON

FROM: MICHAEL GUNTON

DATE: 6 MARCH 1987

MR CULPIN

cc Mr Pickford

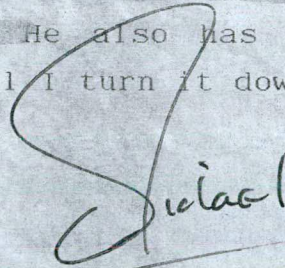
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They have now ~~come forward with a variation~~ and they would like the Chancellor's view.

On Budget morning they will be ~~interviewing~~ ~~representatives from four groups~~ of people - housewives, young executives etc from various parts of the country, asking them what they expect from the Budget. What they would now like to do on Wednesday morning is ~~bring these people to Downing Street with Brian Redhead~~ so that they can each ask the Chancellor one question for him to answer. Brian Redhead would then carry out the traditional interview.

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DATE: 4 MARCH 1987

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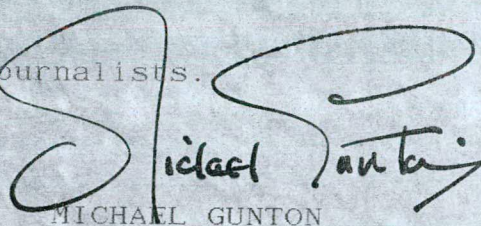
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Financial Times - Philip Stephens  
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Telegraph - Anne Segall  
Independent - Sarah Hogg  
Today - Clifford German  
London Daily News - Jim Levi  
Daily Express - Philip Robinson  
Daily Mail - Andrew Alexander  
Sun - Trevor Kavanagh  
Mirror - Robert Head  
Standard - Anthony Hilton  
Spectator - Christopher Fildes  
Wall Street Journal - Peter Norman  
Herald Tribune - Warren Getler  
PA - Larry Elliott  
Reuters - Sten Stovall  
AP Dow Jones - Marshall Gittler

A total of 18 journalists.

  
MICHAEL GUNTON

FROM: ROBERT CULPIN  
DATE: 11 FEBRUARY 1987

*Answers to  
Mason -  
per spk re  
Oxf - vote.*

CHANCELLOR

BUDGET PUBLICITY

I need to ask you about 4 bids and, if you care, where you are going to walk in the park.

2. The bids, with recommendations, are these - in chronological order.

(a) ITN filler for Budget Special. "Has Budget-making become more or less difficult?" - that sort of thing. Only about 10 minutes, filmed in No.11. Already accepted for BBC. Accept.

(b) Central TV profile. Film of you in the constituency - they want to follow you around at a weekend - and in No.11, plus interview. Likely to mean a high ratio of your input to their output. And Central could use instead the ITN stuff at (a). Reject unless constituency interests predominate.

(c) Thames TV's "This Week" on Thursday, 19 March. Thirty minute programme devoted to an interview with you. No one else interviewed. The interviewer would be Jonathan Dimbleby - who seems to have a poor reputation. Could be live. Either accept yourself or offer the Chief Secretary.

(d) "Question Time" on Thursday, 19 March, probably with John Smith, Baroness Seear and Harvey Jones. Same night as (c). Usual free gift to the Alliance. By no means confined to the Budget. Reject, but offer another Treasury Minister. Subject to the answer on (c), should it be the Chief Secretary

CULPIN  
→ CH/EX  
11/2

*OK*

*Reject*

*I will do this*

*CST*

- who is on "Any Questions" the next day - or the Financial Secretary? (The Chief Secretary did it last year, but he wasn't on "Any Questions" - John Moore did that.)

*high*  
3. We have no bids yet for the post-Budget weekend. I will consult you separately when we have. I will also consult you separately on the division of labour between other Treasury Ministers on Budget day.

*yes*  
4. Finally, I am sitting on learned advice from Simon Woodall - attached - on where you should walk in the park. (We need to tell the police.) Are you content for him to sort this out with Therese?

---



ROBERT CULPIN

Encs

*ml*

BUDGET RADIO AND TELEVISION

INTERVIEW PROGRAMME

17 March - 22 March 1987

Budget '87 Radio and Television Interview Programme.

1. Overall programme

BUDGET DAY

Assuming Budget Speech ends before 5 pm.

5.00 pm Financial Secretary to Normanshaw North studios for ITN interview. (Escorted by Mr Gunton who will meet him in Speaker's Court after the Speech ends.

5.15 pm FST interview by BBC Budget Special programme.

5.30 pm FST interview by BBC TV News.

NOTE: These times are approximate. If the FST can make a fast exit from the House and quickly get to Normanshaw before the chaos starts the interviews can be done quickly. It is almost a question of "first there, first served."

5.45 pm Minister of State to Bridge Street Studios for IRN interview. (He will be met in Speaker's Court by Mr Gunton).

6.00 pm Economic Secretary to Normanshaw for BBC Radio 4 interview. (Hopefully he will be met in Speaker's Court by Mr Gunton)

6.15 pm EST at Bridge Street Studio for BBC Local Radio interview. (Bridge Street studios are on the way back from Normanshaw to House)

6.30 pm Chancellor's BUDGET BROADCAST from No.11

7.00 pm Chancellor records COI Overseas Radio interview at No. 11

- 6.50 pm Chief Secretary to ITN House, Wells Street,  
for CHANNEL 4 NEWS AT 7 discussion with Roy  
Hattersley and Roy Jenkins.
- 7.00 pm approx. Financial Secretary at HMT for BBC's  
THE WORLD TONIGHT interview (about 15 minutes).  
Mr Gunton will be on hand.
- 10.30 pm Chief Secretary to BBC's Lime Grove studio  
for NEWSNIGHT discussion with Roy Hattersley  
and Roy Jenkins.

Wednesday 18 March

- 6.50 am Economic Secretary at ITV's Camden Lock studios  
for TV AM programme (until 8.20 am). He will  
be met at studio by Mr Gunton. (Subject to EST  
agreement)
- 7.45 am Chief Secretary at BBC's Lime Grove studio  
for BBC's BREAKFAST PROGRAMME. Ian Wigglesworth  
is on at 7 am; Brian Gould at 7.30 am; the CST  
will be on at about 8 am)
- 8.00 am Chancellor interviewed by BBC TODAY programme  
in radio car in Downing Street.
- 8.35 am Chancellor interviewed by LBC AM Programme  
in radio car in Downing Street.

Thursday 19 March

- 12 noon Chancellor at Broadcasting House for JIMMY  
YOUNG PROGRAMME
- 4.15 pm Financial Secretary to BBC's Lime Grove studio  
for BBC's DAY-TO-DAY (Kilroy-Silk) interview.  
Escorted by Mr Gunton.
- 6.30 pm Chief Secretary at Greenwood Theatre, Guy's  
Hospital, for QUESTION TIME - with Sir John



Harvey-Jones, Baroness Seear and John Smith)

7.30 pm Chancellor at Thame's Television's Euston Road studio for THIS WEEK interview. Accompanied by Mr Gunton.

Interviewer Jonathan Dimbleby.

Friday 20 March

5.45 pm Chief Secretary at the Chesa Restaurant, Odiham Hants, for ANY QUESTIONS programme - with David Owen, Janet Cohen of Charterhouse Merchant Bankers and John Prescott (of Tea Room fame)

Sunday 22 March

12.30 am Chancellor at London Weekend Television's South Bank Studio for WEEKEND WORLD interview with Matthew Parris. Accompanied by Mr Gunton.

NOTE: A provisional bid for the Financial Secretary has been put forward by BBC2's MONEY PROGRAMME which will be confirmed after the Budget.

PROGRAMMES

FOR

EACH MINISTER

CHANCELLOR

BUDGET DAY

6.30 pm BUDGET BROADCAST at No.11

7.00 pm COI Overseas Radio interview at No.11

Wednesday 18 March

8.00 am BBC RADIO 4 interview in radio car in Downing Street (Interviewer: Brian Redhead).

8.35 am LBC AM interview in radio car in Downing Street (Interviewer: Doug Moffitt)

Thursday 19 March

12.00 noon Broadcasting House for JIMMY YOUNG PROGRAMME

7.30 pm At Thames Television's Euston Road studio for THIS WEEK interview with Jonathan Dimbleby Accompanied by Mr Gunton.

Sunday 22 March

12.30 pm London Weekend Television's South Bank studio for WEEKEND WORLD interview with Matthew Parris. (Chancellor will be met at studio by Mr Gunton)

CHIEF SECRETARY

BUDGET DAY

6.50 pm ITN House, Wells Street, for CHANNEL 4 NEWS  
AT 7 discussion with Roy Hattersley and Roy  
Jenkins.

10.30 pm BBC's Lime Grove studio for NEWSNIGHT  
discussion with Roy Hattersley and Roy Jenkins.

Wednesday 18 March

7.45 am BBC's Lime Grove studio for BREAKFAST TIME  
interview at 8 am. (Ian Wrigglesworth is on  
at 7 am; Brian Gould at 7.30 am)

Thursday 19 March

6.30 pm Greenwood Theatre, Guy's Hospital, for QUESTION  
TIME with Sir John Harvey-Jones, Baroness Seear  
and John Smith.

Friday 20 March

5.45 pm The Chesa Restaurant, Odiham, Hants, for  
reception before ANY QUESTIONS with David Owen,  
Janet Cohen and John Prescott

FINANCIAL SECRETARY

BUDGET DAY

- 5.00 pm Normanshaw North studios for ITN interview
- 5.15 pm Normanshaw - BBC Budget Special
- 5.30 pm Normanshaw - BBC TV News
- 7.00 pm approx HMT for "THE WORLD TONIGHT" (About 15 minutes). Mr Gunton will be on hand.

Thursday 19 March

- 4.10 Lime Grove for BBC's "DAY-TO-DAY" interview. (Kilroy-Silk). Accompanied by Mr Gunton.
- NOTE: A video recording of this programme is available in the Press Office if the Minister would like to acquaint himself with the format.

Sunday 22 March

The BBC2's MONEY PROGRAMME has put in a bid for the FST. They would like to confirm this after the Budget. Their feeling is that by the weekend there is usually little left to say about the Budget - it depends largely on what it contains.

ECONOMIC SECRETARY

BUDGET DAY

6.10 pm Normanshaw North studio for BBC RADIO 4 BUDGET SPECIAL. ( The Minister will be met by Mr Gunton in Speaker's Court.)

6.20 pm Bridge Street studio for BBC Local Radio.  
(The Bridge Street studio is on the way back from Normanshaw to the House.)

Wednesday 18 March

Subject to the Minister's agreement.

6.50 am ITV's Camden Local, Hawley Avenue, NW1, studio for the TV AM programme GOOD MORNING BRITAIN.  
The Minister will be met by Mr Gunton at the studio.

It is expected that the Minister will be able to get away by 8.20 am.

MINISTER OF STATE

BUDGET DAY

5.45 pm Bridge Street studio for IRN Budget Special programme interview. The Minister will be met by Mr Gunton in the Speaker's Courtyard.

Ch  
Could be done just - Kennock  
if you & CST thought  
worthwhile. But who  
is being put up against him?

FROM: MICHAEL GUNTON  
DATE: 18 FEBRUARY 1988

1. MR ALLAN
2. CHANCELLOR

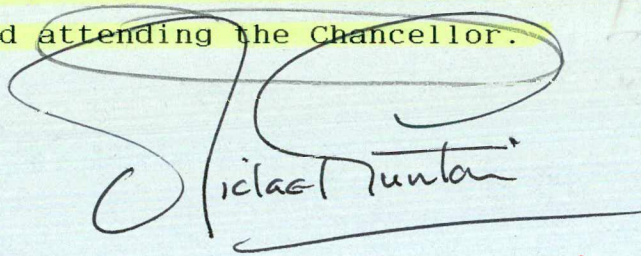
AA

cc Mr Bush

BUDGET: ADDITIONAL MEDIA BID

The BBC Budget Special programme has put in a bid for the Chief Secretary to take part in a three-way discussion immediately after the Budget speech has finished or, alternatively, twenty minutes after.

I have told them this is very unlikely as the Chief Secretary has many post-Budget duties including Bench duty and attending the Chancellor.

  
Michael Gunton

MICHAEL GUNTON

This is a small  
job by a  
junior backbencher,  
in a small  
Cabinet, no-one  
takes notice of it.



UNCLASSIFIED



FROM: A C S ALLAN  
DATE: 22 February 1988

*pas*

MR M GUNTON

**BUDGET: ADDITIONAL MEDIA BID**

The Chancellor was grateful for your minute of 18 February, but does not feel that we need offer a Treasury Minister for the BBC Budget Special Programme.

*ACSA*

A C S ALLAN

UNCLASSIFIED

*plp*



FROM: A P HUDSON

DATE: 22 March 1988

MR PICKFORD

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Scholar
- Mr Culpin
- Mr Odling-Smee
- Mr Sedgwick
- Mr R I G Allen
- Mr Flitton
- Mr Cropper
- Mr Tyrie
- Mr Call
- Mr N Forman MP
- Mr McManus - IR

**BUDGET BROADCAST, 15 MARCH 1988: FINAL TEXT**

... For the record, I attach the final text of this year's Budget Broadcast.

*APH*

A P HUDSON

~~Final Draft, 15 March, 1988~~FINAL TEXT

## BUDGET BROADCAST, 15 MARCH 1988

Once upon a time, governments used to believe that it was their job to balance the budget: not to spend any more than they could raise from taxes. But taxes aren't popular. So governments found a clever way out. They borrowed.

Obviously a small amount of borrowing doesn't matter much. The trouble is, it's addictive. By the mid-'seventies, nearly one pound in every five the Labour Government spent was being paid for out of borrowed money. And we've all had to foot the bill in heavy interest payments ever since.

For nine years this government has fought to free Britain from that terrible inheritance. And the result is that tonight, for only the second time since the beginning of the 'fifties, I can tell you, as Chancellor, that once again Britain has a balanced budget. Last year the Government didn't need to borrow at all. And I mean to keep it that way.

Balancing the budget hasn't been easy and it hasn't always been popular. But it means that we won't be loading a burden of debt on to future generations. And meanwhile, along with all our measures to liberate initiative and reward enterprise, it's produced outstanding results for Britain.

CAPTION 1. Bar chart  
GDP from 1970.  
Reveal bars progressively  
from left as indicated  
by narration.

The best, single measure of any country's economic achievement is its total national output. If you go back to 1970, you see how Britain's output rose to a peak in 1973, then it dropped back, then it rose to another peak in 1979, and then it dropped again. But since 1981 we've had seven successive years of uninterrupted economic growth.

That's an astonishing record in itself. But there's something that makes it even more astonishing. Because side by side with this remarkable growth in output there's been a dramatic fall in inflation.

CAPTION 2. Graph.  
Inflation from 1970.  
Reveal as for caption 1.

Again, you have to go back to 1970 to see the full picture. It rose to a terrible peak - nearly 25% - in 1975, then it fell back, then it rose to another peak in 1980. But since then it's fallen dramatically, down to the lowest levels for 20 years.

Those two charts are tremendously significant. But you only see their real significance when you put the two of them side by side.

CAPTION 3.  
GDP plus inflation.  
GDP bars appear first,  
inflation graph animates  
alongside  
as indicated by narration.

Then you see that inflation was always the spectre at the feast. The peak in 1973 was paid for by the inflation of 1974 and 1975. The peak of 1979 was paid for by the inflation that surged again up to 1980. In other words the growth couldn't last. Inflation always killed it.

In fact, that had been the story of what was called the British disease for many, many years before 1970. But look at the story in the 1980s.

28

CAPTION 3 cont'd.  
Animate as before.

Year after year of steadily rising output. But for the first time, inflation falling, falling dramatically, and staying low, while output rose. And that's the picture that really tells the story of Britain's new-found success.

There's no mystery about how we've done it. It's the result of a consistent economic policy over nine years. A commitment to controlling inflation, to removing the shackles on business

enterprise, and liberating the creative energies of the British people. It means letting people keep as much as possible of what they earn. And if you look at what that means for a married man on average earnings with two children, you can see the result.

CAPTION 4. Graph.

Real take home pay.

Reveal from left

with narration.

Take home pay, even corrected for inflation, bumped up and down through the stop-go years. But since 1981 it's risen year after year, until now living standards are way above what they've ever been before.

And unemployment is coming down fast, in every region of the country. Last year, it fell faster than in any other major nation.

Of course, there's still a long way to go, but it's now clear to everyone that we're going in the right direction. And today's measures will help us further along the road.

In my Budget today, I've once again been able to cut income tax, bringing the basic rate down to 25 pence in the £, just as we promised we would in the Election. And people will be able to earn more before they start paying tax in the first place. As a result of this Budget, a married man on average earnings will take home almost £5 a week extra.

I've brought down the higher rates of tax, too. We've seen what happens if you tax top managers and engineers too heavily. Too many either opt for the quiet life, or go abroad where tax rates are lower. So what I've done will mean better-managed businesses and more jobs - and, at the end of the day, higher tax revenues as a result.

But at the same time, I've doubled the tax on company cars. It won't be popular, I know; but I believe it's right that those who have company cars should pay their fair share of tax.

And I've made this a tax reform Budget, too. In particular, I'm changing the income tax system to give married women a fair deal, for the first time ever. Instead of their income being taxed as if it belonged to their husband, as it has been for the past 200 years, it will at long last be truly their own.

So this Budget brings not only lower taxes, to encourage people to give of their best, but better taxes, too. That's an essential ingredient in Britain's continuing economic success. And it's only by having a more successful economy that we can afford better public services.

That's why, last Autumn, I was able to announce big increases in Government spending for the coming year, especially on priority areas like education, law and order, and of course the health service.

So it's been a hat-trick: higher Government spending, lower taxes, and the complete elimination of Government borrowing.

What I've been able to tell you this evening is a story of success. The story of a transformation of Britain's fortunes which has also transformed our standing in the world. If you look at the European economic growth league you can see how.

CAPTION 5.  
European growth league.  
Reveal with narration.

In the nineteen-sixties we were right at the bottom of the league table. In the 1970s we were still bottom of the table. But in the 1980s we've been right at the top of the league.

All the same, it doesn't mean we can sit back and relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. If it hadn't been so strong, the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage. Instead, we sailed through them all, virtually unscathed.

That's why we have to hold to our course and keep a firm hand on the wheel. But so long as we stick with the policies that have served us so well these past nine years, we can look forward to a level of security and prosperity for ourselves and for our children far higher than any of us has ever known.



UNCLASSIFIED



FROM: A P HUDSON  
DATE: 30 March 1988

*PHF*

MR TYRIE

cc Mr R I G Allen  
Mr Pickford

**BUDGET BROADCAST CHARTS**

Steven Rogan, from Central Office press department, rang me yesterday with a query about the Budget Broadcast charts.

2. He had had a request from the Managing Director of AGFA (who, I gather, is well disposed towards the Conservative Party), who wanted to use the Budget Broadcast charts for what Mr Rogan thought was internal management purposes.

3. I explained that there were no physical graphics this year, and that all we had were the last set of EB drawings. He thought those would do the job. I wonder about the propriety of passing these on as such, since they were produced solely for official purposes. Mr Pickford may have views. One way round would be to offer him whatever charts are already in the public domain, eg in the Budget in Brief.

4. Please could you take this forward?

*APH*

A P HUDSON

LORD YOUNG'S VISIT TO NEW YORK: 22 - 25 JANUARY 1988

BRITISH ECONOMY: US MEDIA THEMES

Since early 1987, US media treatment of the British economy has been increasingly bullish. The US business press is now fully aware of the UK's economic recovery, the record fall in unemployment, and the improvements in manufacturing productivity and exports. There is still some concern about the level of unemployment and, predictably, the Wall Street Journal continues to criticise the Prime Minister for not being sufficiently radical in implementing supply side economic policies. Overall, however, the perception here is that Britain is "on a roll".

The US media gave a warm but not uncritical welcome to the Prime Minister's third consecutive victory. Their relief and reassurance was, however, coupled with concern lest the price of victory be a divided Britain. Although the media attributed the Prime Minister's victory very largely to her successful regeneration of the British economy, there was concern that the price of the Thatcher revolution was a growing North-South polarisation which could easily provoke more social unrest. Many editorial writers took the view that the results of the election exemplified the paradox of modern Britain where increased individual wealth coexisted with declining state-funded health and educational services. Thus, the pundits here felt that Mrs Thatcher had to meet the challenge of the inner cities and "quickly bind Britain's social and economic wounds".

Nearly all of the articles we have seen since then highlight the success of the Prime Minister's economic strategy, and nearly all mention faster growth, improved labour relations, and privatisation as key areas. Jaguar, Range Rover and Courtaulds are among the examples of dramatic success stories arising from greatly improved industrial management and from painful rationalisation. The Stock Market crash and the US budget compromise brought forward some flattering comparisons of British and US economic policies: America, unlike Britain, did not have the ability to take the tough decisions. The main themes have been that the Thatcher revolution has brought about real change in company management practices; encouraged rapidly growing productivity, and made significant progress towards creating an enterprise culture. Coverage of privatisation has been especially positive with key business journals highlighting the success of the newly privatised British companies and HMG's leading role in spearheading denationalisation throughout Western Europe. This positive coverage has only been tempered by concern about the impact of the Stock Market crash on the privatisation programme.

/Most ...

Most recently, comment has focused on Mrs Thatcher's achievement as the longest serving British Prime Minister this century; that she has unshackled the British economy from years of regulation, and "rolled up economic successes other industrialised nations envy".

The following topics are likely to be uppermost in the minds of the editors attending the breakfast:

- The Government's general macro economic strategy, and the impact of the Stock Market crash on the British economy;
- The competitiveness of the British economy in world markets and the British view of the dangers of US protectionism;
- Britain's job creation record and the recent record fall in unemployment;
- The effectiveness of the City's regulatory structure;
- The BA-BCAL merger;
- Progress with deregulation and privatisation; likelihood of tax cuts in the March budget.

The White Paper on DTI reorganisation and the new approach to enterprise has not elicited any media comment.

British Information Services  
21 January 1988

# Britain's Woman of the Century

Clubs flock around Margaret Thatcher as thick as sparrows in London's East End. She is indeed forceful, divisive, gritty, a quick study, thinks fast on her feet. So are other politicians, yet none in modern Britain have equaled Mrs. Thatcher's longevity. She has served longer than any previous Prime Minister in this century — 3,167 days as of last weekend — and has a fair chance of winning a fourth straight election. She may still be Prime Minister in the year 2000, when she will be 74.

What's the secret, and the message for other democracies? By example and precept, she offers a liberating feeling to millions of Britons shackled by a class system, bullying trade unions and an over-protective welfare state. For ordinary people she offers hope of home ownership, the chance to pocket more money and, now, to have greater choice of schools.

Much of her appeal is specifically British. But her success belies the view that in democracies, entitlements are a one-way street, that all government agencies are immortal, that politics is the art of discovering the safely consensual. And her version of conservatism does not incur staggering, Reagan-size deficits.

In foreign affairs, Mrs. Thatcher was willing to

send a fleet to the South Atlantic to invade the Falklands and redeem national honor. She also has managed to uphold honor through negotiations — in Zimbabwe's independence settlement, in giving the Irish Republic a role in British-ruled Ulster and in securing decent terms for Hong Kong's reversion to China. Further, Mrs. Thatcher was the first Western leader to size up Mikhail Gorbachev as someone the West could deal with.

Still, it doesn't diminish Britain's woman of the century to take note of her good luck, and failures. Her opposition has been divided, its leadership unimposing — and Britain's winner-take-all electoral system gives her a commanding Parliamentary majority with only 43 percent of the vote. And if southern England has prospered, the rest of Britain has not; her Conservatives hold not a single seat in Scotland.

Nor is her case against welfarism made stronger by equating getting rich with civic virtue. The not-so-well-born Mrs. Thatcher should need no reminder that it's those on the bottom who need her encouragement most. And victory in the Falklands is tainted by her refusal to negotiate with a democratic Argentina. Even so, her record is reassuring evidence that democracies can strike a new balance between opportunity and responsibility.

# Britain's indomitable Iron Lady: Insomnia plus masochism?

By Timothy Harper

CHICAGO TRIBUNE  
11 JAN 88

LONDON—The beginning of 1988 saw Margaret Thatcher become Britain's longest-serving prime minister of the 20th Century. Aside from a brief party at No. 10 Downing Street, however, it was business—and criticism—as usual.

A BBC documentary blasted Thatcher for being authoritarian and ruthless. Britain's doctors warned that she was killing the National Health Service. Leading newspapers went to court against her government's gag orders on reports about Britain's intelligence services.

Local government officials complained about her proposed "poll tax" that would impose flat annual fees to replace property taxes. Teachers claimed she was ruining British education. Scientists said her budget cuts had triggered a "brain drain" to the United States.

Thatcher couldn't even escape the criticism by getting out of the country. She went to Africa and was scathed by black leaders over her opposition to anti-apartheid economic sanctions against South Africa.

The accumulated weight of this sort of criticism might wear down some leaders, but not Britain's Iron Lady. After all, it's been that way through virtually all her eight years and eight months as prime minister, surpassing the tenure of Herbert Asquith before World War I.

"The nation has never loved her, nor ever will," Hugo Young, a political columnist for the Guardian, wrote in marking the latest Thatcher anniversary.

At the same time, he and other observers agree that Thatcher, who at age 62 shows no signs of quitting, remains more secure in her job than ever. She has vowed to run for a fourth term of up to five years in the early 1990s.

Last year she predicted the demise of socialism—the long-time political philosophy of the opposition Labor Party—as a force in Britain by the year 2000. Her supporters, encouraged by recent Thatcher comments that she intends to "go on and on," have pointed out that in the year 2000 she will still be younger than Golda Meir when she was Israel's prime minister.

The Labor Party is still trying to reassemble itself after last June's national ballot defeat, when Thatcher sailed to a landslide 104-seat victory in the parliamentary elections.

Most political observers give Labor little chance unless and until it changes two key platform planks: one to scrap all Britain's nuclear weapons and the

Timothy Harper is an American free-lance writer based in London.



Margaret Thatcher

other to end the Thatcher "privatization" program that has provided windfall income for millions of Britons buying stocks in previously state-run companies.

Perhaps even more significantly, Thatcher is not threatened from within her own Conservative Party. No heir has become apparent, and she shows little interest in grooming one. Instead, ministers who begin carving out their own niches in the electorate's mind often find themselves out of the Cabinet or politics altogether.

Sir John Nott, Thatcher's defense secretary during

the 1982 Falklands War victory that did so much to revive British patriotism and national morale, said she insists that her Cabinet be no more than a rubber stamp for her policies.

Indeed, Thatcher's style of summarily dismissing dissenting Cabinet ministers was a major gripe of the series of former Cabinet ministers in the BBC documentary criticizing her for being authoritarian. Of the 21 in the first Thatcher Cabinet in 1979, only four remain in the government. Eight other Cabinet members have come and gone in that time.

Thatcher is generally agreed to preside over the most streamlined, personalized government since Winston Churchill's during the emergency conditions of World War II. Compared with past prime ministers, the Cabinet meets about half as often under Thatcher, and there are only a fraction of the Cabinet committees and white-paper reports that for decades formed the backbone of British policymaking.

Her style of government, fueled by her attention to detail and mastery of issues, has been described as a mixture of "insomnia and masochism" due to her austere lifestyle. She works from 6 a.m. to past midnight seven days a week, has no hobbies and few friends, reduces issues to black and white and then refuses to compromise.

Pundits on this side of the Atlantic like to compare her to President Reagan, both in work habits and style of government. While Reagan has spent more than a year of his seven-year presidency on vacation in California, for example, Thatcher takes only one beach holiday each summer.

And while much of Europe sees Reagan as a leader who makes decisions largely on the basis of what will help maintain his personal popularity, Thatcher cares little for personal popularity—partly because she's never had it.

"Whatever our opinions, she is the statesman who commands the greatest respect around the world," said British historian A.L. Rowse. "I really believe that she thinks always in terms of what is best for the country. She thinks of the long-term interests of Britain, not just party advantage."

For that reason, the thinking goes, Thatcher has all but assured her place in history, while Reagan is relying on nuclear arms reductions to overcome past missteps such as the Iran-contra scandal.

"You may disagree with her about this or that, but we cannot deny that she is a world figure, already a figure in history," Rowse said.

More than 40 books have been written about Thatcher already, and several more are planned for this year. In addition, at least two Hollywood screenplays are in the works.

THE CURIOUS MILK

# Thatcher passes milestone and has clear sailing ahead

By Ray Moseley

**L**ONDON—Prime Minister Margaret Thatcher is to gather with family members and a few close aides Sunday for a quiet celebration to mark a milestone in British politics.

This is the day she becomes the longest-serving British prime minister of the 20th Century, topping the tenure of 8 years and 244 days served by Liberal Herbert Asquith from 1908 to 1916. She postponed an African tour by one day, until Monday, so she could be here to mark her achievement.

Thatcher, 62, the longest-serving current government leader in the Western world, also becomes the fifth longest-serving prime minister in British history. With her current term due to run until June, 1992, she may move further up the scale before she eventually retires or is defeated.

*Ray Moseley is The Tribune's chief European correspondent.*

Some political pundits think she may even have set her sights on supplanting Sir Robert Walpole, who served 21 continuous years beginning in 1721, as the longest-serving leader of all time. That would take her up to March 15, 2000, when she will be 74.

"I want to go on and on," she said last June, to the delight of her supporters and the alarm of her foes.

She talks about how she looks forward to the completion of a single European market in 1992 and to the scheduled opening of the rail tunnel under the English Channel in 1993.

She even has mused aloud on how Britain should celebrate the year 2000, implying that she still expects to be in charge.

Although politics is an uncertain business, it is difficult at the moment to see what could prevent Thatcher from going "on and on" if she so desires. She won her third consecutive term last June in an election that reduced the opposition to despair and left her without a serious

challenger in her own Conservative Party.

Neil Kinnock presides today over a Labor Party that is torn by factionalism and is publicly floundering in its search for new policies that can make it a credible political force again.

The Social Democratic Party, which once hoped to "break the mold" of British politics, has split into two wings, one bent on uniting with the small Liberal Party and the other determined to remain independent. David Owen, its former leader and one of the most talented men in British politics, finds himself relegated to the political wilderness.

All of this can fairly be ascribed to Thatcher's phenomenal success, which has come about through a combination of luck and forceful if sometimes abrasive leadership.

On a broader level, she has transformed Britain as no leader has done in the past 40 years. When she came to office in 1979, it was a country in steep decline, one in which weak and timid

governments danced to the tune of powerful trade unions. Today it enjoys one of the highest growth rates in the developed world, and the unions have been tamed.

Thatcher has not won the battle against unemployment, which stands at about 11 percent and has proved her most intractable problem. But she has curbed inflation, which has dropped from double-digit figures to just over 4 percent, and has restored Britain's standing on the world stage.

Two years before coming to power, she outlined her philosophy of government when she said, "Our approach was put very simply by a Chinese philosopher centuries ago: 'Govern a great nation as you would cook a small fish. Don't overdo it.'"

A frank admirer of the American entrepreneurial spirit, she has sought with mixed success to instill that in Britons while at the same time reducing the role

See Thatcher, pg. 7



Illustration by Kerry Wagorn

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BRITISH CONSULATE CHICAGO

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## Thatcher

continued from page 1

the state and returning businesses to private hands.

Peter Jenkins, the astute political columnist of the Independent newspaper and a frequent Thatcher critic, also argues in a new book that she has achieved her goal of de-industrializing Britain.

"If socialism is taken to be at least a doctrine concerning produc-

tion and ownership, it would seem to be pretty effectively dead in Mrs. Thatcher's Britain," he wrote.

After eight years, the essential elements of the Thatcher revolution are in place: financial restraint, trade union reform, free-market policies and "popular capitalism" in spreading both home ownership and stock market share ownership.

Some of her advisers urged her to consolidate her gains in her third term rather than embarking on new ventures. But she has scorned that approach, saying that the priorities

of her third term will be reforms in local government, housing and education, revival of the blighted inner cities and restoration of law and order.

Some of her reform proposals are highly controversial, even within her own party, and may yet spell serious political trouble for Thatcher. But with a 101-seat majority in the House of Commons, she seems confident of getting her way.

Her critics have perceived an increasing tendency toward authoritarianism, particularly in the as-

saults on press freedom that have resulted from her long campaign to suppress publication in Britain of former intelligence agent Peter Wright's book "Spycatcher."

On the international scene, she has hitched her foreign policies closely to those of the United States, sometimes at the expense of a leadership role within the European Community.

In his book, Jenkins said Thatcher often has used "every wile she could command" to bring President Reagan around to her point

of view, including going out of her way to flatter him in public. But privately, Jenkins said, she would not have tolerated Reagan in her Cabinet. He quoted her as telling one of her officials, "Poor dear, there's nothing between his ears."

Her close relationship with Reagan has not prevented her from establishing an unusual rapport with Soviet leader Mikhail Gorbachev, who stopped off in Britain for talks with her en route to the recent Washington summit meeting. Her public comments suggest she has a

fascination with Gorbachev both as a personality and as a man trying to reform an unworkable system. This has proved rather dismaying to her conservative admirers in the U.S.

London's Financial Times, which on Thursday gave her its Woman of the Year award, said the choice for man or woman of the year had come down to Thatcher and Gorbachev. It predicted that, in two years, both would be leading contenders when it selects the outstanding personality of the decade.

# THATCHER'S CAPITALIST REVOLUTION

# O

By Howell Raines

ON THE DAY AFTER PRIME MINISTER Margaret Thatcher called a general election for June 11, she appeared in the House of Commons wearing a black dress and the icy expression of contempt she reserves for gazing upon Socialists. The "right honorable gentlemen" of the Labor opposition were howling like a football mob. "Frit, Fri Frit," they chanted at one point, taunting the 6-year-old Prime Minister with a colloquialism for "afraid."

Mrs. Thatcher did not look "frit." If anyone seemed edgy, it was the man sitting across from her on the opposition front bench. Neil Kinnock, a balding man with a freckled scalp and a nose like a knife blade, leaned forward, twining his fingers together. In the United States, his political style would be likened to that of a bantam rooster. A cocky son of the Welsh working class, he is a fighter, a bit of a strutter, and a great talker.

In the 15 minutes set aside for questioning the Prime Minister, Mr. Kinnock sprang to his feet and addressed Mrs. Thatcher across the low table separating the Labor and Conservative benches: "In the general election, will the Prime Minister debate with me face to face on television?"

Mrs. Thatcher rose slowly. "I fear," she said, "such a debate would generate more hot air than light."

The words hit Mr. Kinnock squarely in his reputation.

Howell Raines is The Times's London bureau chief.



Margaret and Denis Thatcher, at 10 Downing Street



A garbage collector at work in a posh London suburb, home to many of today's "haves."

KATALIN ARKEL/NETWORK-J.B. PICTURES

BARRY LEWIS/NETWORK-J.B. PICTURES

tion for verbosity. His colleagues tried to save him by picking up their chant of "Frit, Frit," but it was no good. Like a boxer sent reeling across the ring and into the ropes, he was finished for the day. He made another pawing swing at the debate issue, and Mrs. Thatcher haughtily brushed it away: "The right honorable gentleman will find his own platform. I shall not give him one."

In Britain, political encounters tend to be fast and rough. After my years of covering American campaigns at every level from courthouse to White House, this struck me immediately as a defining difference between the two political cultures. No matter how much of a "gentlemen's club" Parliament may have been in the past, in the Age of Thatcher there is no sliding by on personal charm, good bloodlines or a firm grasp of the obvious. And the exchanges require detailed knowledge as well as a mean wit.

Exposed to the factual grilling on policy questions that Margaret Thatcher faces every Tuesday and Thursday in the House of Commons, the average American President would be fried into a curlicue. Imagine, for example, how Ronald Reagan would fare if twice a week he went before Congress to field questions on contra aid, arms control and other issues.

Since she became leader of the Conservative Party in 1975, Margaret Thatcher has helped give modern British politics a one-beat rhythm of attack, attack, attack, and she thrives on it. She has a firm campaign platform: an eight-year tenure at No. 10 Downing Street during which she says Britain has been "transformed" from a nation taking a kind of masochistic pleasure in its own decline into what she calls a "property-owning democracy" that "commands respect abroad." And she has a message as smoothly compact as the business end of a ball-peen hammer. "My long-term goal," Mrs. Thatcher said as the 24-day campaign commenced, "is to see an England free of socialism."

Her opponents say this actually understates what Mrs. Thatcher is aiming for with her self-described "radical manifesto" for a third consecutive term, unprecedented in this century. She is proposing to extend the free-market principles of her first two terms into fields such as education, rental housing, inner-city redevelopment and the National Health Service.

**T**HROUGH MEASURES SUCH AS financing schools according to their ability to attract students, Mrs. Thatcher says, she simply wants to assure better social services for the "consumers," or taxpayers. But, in effect, she is also asking for a mandate to extend Thatcherism from economic issues into the field of social policy. And if a fourth or fifth term is needed, Mrs. Thatcher says grandly, "I hope to go on and on."

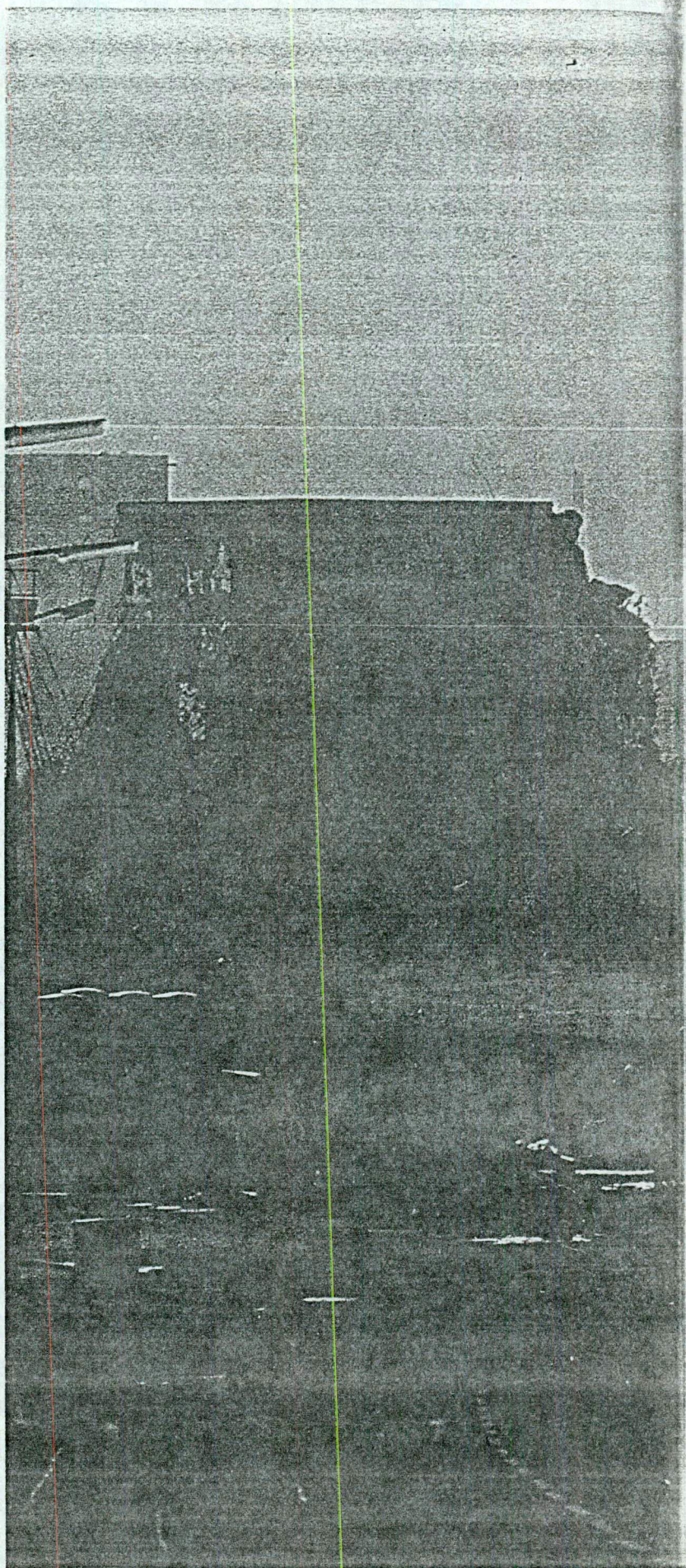
Labor on the left and the centrist Alliance — Social Democrats, led by Dr. David Owen, and Liberals, under David Steel — are warning that this amounts to an attempt to turn back the clock on the welfare state and put in its place an "American-style enterprise culture" with a more tight-fisted approach to payments for the poor, elderly and unemployed. "The system that Margaret Thatcher wants to return to was wrong,"

(Continued on Page 42)

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*Her 'radical  
manifesto' for a  
3d term is to  
extend free-  
market principles  
to social services.*

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Idle factories, like this one in Salford, help create the woes of today's "have-nots."



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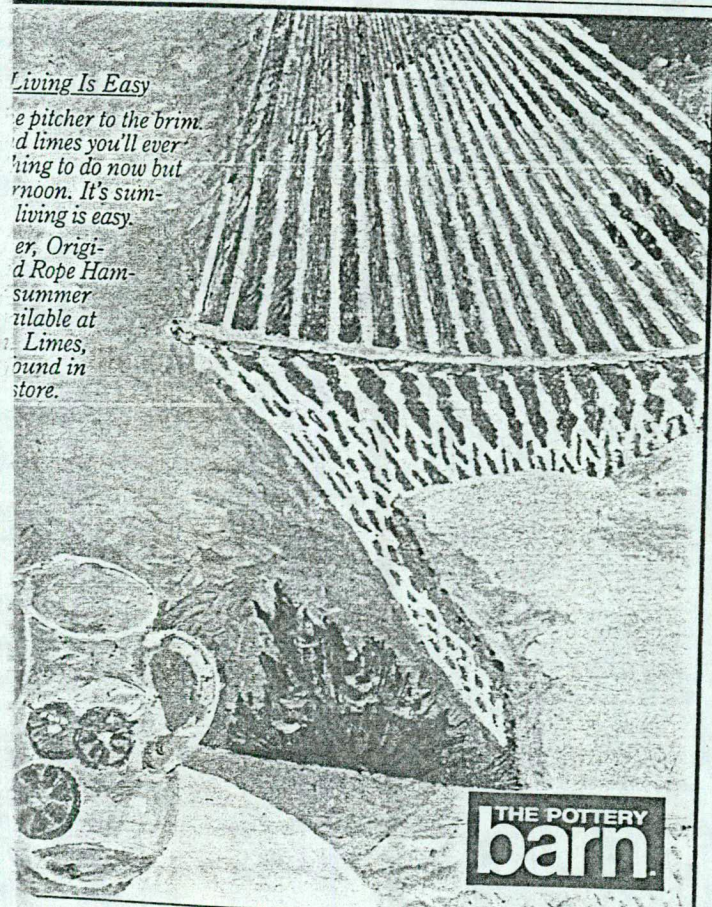
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# THATCHER

Continued from Page 18

wretched and brutal," warns Mr. Kinnock. Her re-election, he adds, will recreate a Britain "where everybody can either stand on their own feet or live on their knees."

MRS. THATCHER INSPIRES such apocalyptic visions because she is a polarizing figure with unbending resolution as her trademark. This quality, according to Norman Tebbit, the Conservative Party chairman, reversed the "ratchet of British politics in which the convention was that everyone agreed that it was always going to move to the left."

The resolve that seems admirable to Mr. Tebbit seems autocratic and uncaring to Mrs. Thatcher's opponents. Her regimen of tight-money supply and privatization, for example, bankrupted many overmanned, state-subsidized industries and swept away 1.7 million jobs. Unemployment, 1.1 million when she was elected in 1979, now hovers at 3 million, or 11 percent. Yet at no point has Mrs. Thatcher's belief in her economic policy been shaken by cries of pain and outrage from the declining industrial regions.

"She possesses a quality which Proust called the certainty of the second rate," says Roy Hattersley, Labor's deputy leader. "It means that you do, in fact, go on when every rational person and sensitive person around you might say 'This is wrong.'"

By going ahead as unemployment crippled northern England, however, Mrs. Thatcher laid the foundation for what the Tories call their "economic miracle" in London and the "home counties" of southern England and in a few hotspots of growth such as Silicon Glen, near Glasgow. In these places, declining inflation, lower taxes and deregulation of the financial markets ignited booms in the service and consumer economies.

And in these places, Mrs. Thatcher also laid the foundations of a political approach that depends on separating the "haves" from the "have-nots" as voting blocs.

It is the beneficiaries of this unevenly distributed prosperity upon whom she is counting for re-election. With the national vote split among three parties, they make up a plurality of the "haves" who ought to be able to give the Conservative Party the mini-

mum 40 percent of the national vote needed to control Parliament. Under Britain's "first-past-the-post" electoral system, that national vote would probably convert into enough first-place finishes in the 650 constituencies for a majority in Commons.

With her standing in the polls at 40 to 44 percent when the election was called, Mrs. Thatcher cannot count this contest "home and dry," as the British say. But she seems likely to lose only if she commits some huge — and uncharacteristic — political error, through some calamity beyond her control or through a sudden inflammation of the "throw-them-out" attitude that last surfaced in British politics when Harold Wilson was defeated in 1970, after blowing a lead as high as 12 points in some polls.

As the campaign began, Labor gained in the polls by stressing the unemployment issue, but a number of factors are, in fact, still working in Mrs. Thatcher's favor. The Labor Party is beset by open warfare between its radical and moderate socialists. The Alliance, potentially a threat to Mrs. Thatcher's hold on "soft" Tories and suburban moderates, remains ideologically blurred because of disputes between the Liberals and the more conservative Social Democrats.

Moreover, Britain's working class is gradually being replaced by an expanded middle class, and union membership has declined from 30 to 22 percent of the electorate. Voters are abandoning Labor and becoming increasingly receptive to Conservative policies, in much the way traditional Democrats migrated to the Republicans in the 1970's and 80's in the United States.

"What we're looking at is structural social change, which brings attitudinal change, which brings political change," says Robert M. Worcester, an American who has become one of Britain's best-known poll takers. "Couple that with the divided Labor Party and the two-headed Alliance and that pretty well assures the re-election of Margaret Thatcher."

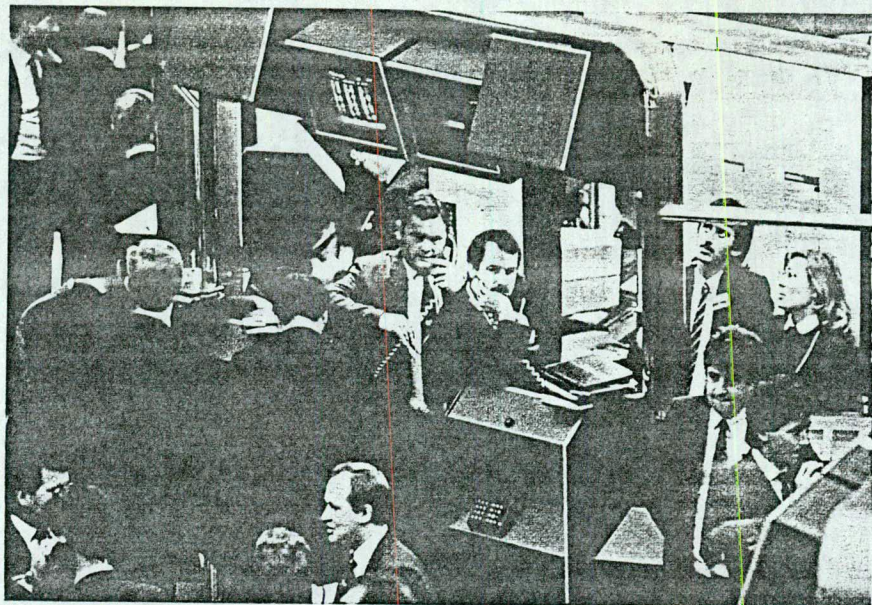
THE GREAT QUESTION that hovers over Margaret Thatcher's career is why a woman so widely regarded as a successful Prime Minister should be so widely disliked. The great

paradox is that her lack of popularity may not matter politically. Her associates say that as a matter of personal preference and political tactics she likes to seek respect rather than affection.

Mrs. Thatcher said as much herself in a recent television interview: "What is the good of having a leader who cannot make up his or her mind, never knows what to do, hems and haws, cannot make decisions at the right time, is not respected by other people? He might be a very nice person, but not a leader."

Still, some of her associates complain about the snobbery that undercuts Mrs. Thatcher's standing among what one Tory politician called "the Volvo-driving, wine-society, middle classes of Dulwich and Hampstead." These educated, middle-class professionals, along with the old High Tory aristocrats from the country estates, regard Mrs. Thatcher as uncultivated and needlessly callous toward the less fortunate. Indeed, the belief that Mrs. Thatcher has coarsened British society is almost an organizing principle of Alliance strongholds in the affluent suburbs and university towns.

"Winning the argument and



GEORGE DE KEERLE/GAMMA-LIAISON

A scene at the London Stock Exchange. Rolls-Royce is the latest major company to go private.

being right isn't always enough, and we've had to do some very tough, difficult things on the way," says Cecil Parkinson, the former Conservative Party chairman. Mrs. Thatcher, he adds, "arouses admiration, and she creates respect, even amongst our opponents, but she also creates a very active

dislike, which I don't think Reagan does. She does because she's actually tried to impose her view on society."

But this does not fully account for the public ambivalence toward her. Britons somehow sense what her friends and associates know and accept: Margaret Thatcher has a deep streak of

aggression within her personality, a ferocity that makes her prefer argument over friendly discussion. "Her idea of chairing a meeting is to announce at the beginning what the outcome ought to be and then to fight without quarter for her position," says one associate. "She's quite unscrupulous about that."

Alan Walters, an ideological soulmate and an economic adviser in the first term, remembers the "shouting matches" at staff meetings. "But there is no personal animosity, no personal residue at all," he says. "She'll smile at the end and say, 'Now, we've got the next piece of business.'"

By other accounts, few people shout back these days. In fact, Mrs. Thatcher's bullying of male Cabinet members is so notorious that it has become part of the sexist stock humor of British politics. "I think," says Denis Healey, Labor's shadow foreign minister, "from the word 'go,' people saw her as the best man in her Cabinet, and still do."

Mrs. Thatcher runs her Cabinet as a cauldron of conflict.

As one survivor recalls, it is not a pretty process: "At the Cabinet table, her technique was to directly undermine everyone's position by remarks like, before the chap even started presenting his case, 'I can see your civil servants have got at you,' or, 'This is a very weak paper. How have you let people pull the wool over your eyes?' ... From then on, the whole thing

(Continued on Page 76)

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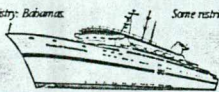
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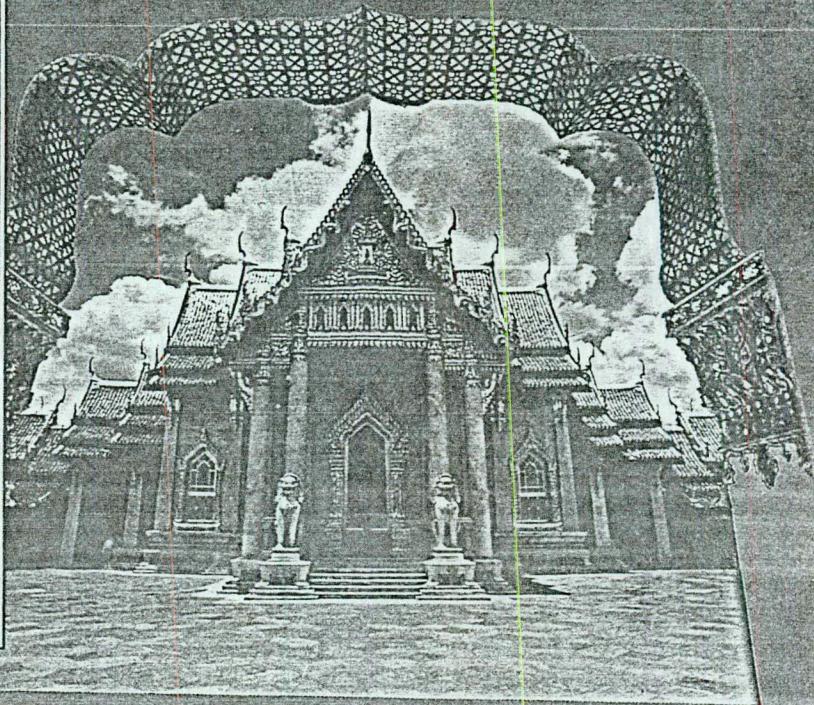
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# THATCHER

Continued from Page 43



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The 1982 Falklands War stirred nationalism that helped Mrs. Thatcher politically.

is sort of sliding away from you and you're trying to get back and say, 'That's not fair, Prime Minister.' One really often heard it, very often, because it wasn't fair."

This technique has brought Mrs. Thatcher unquestioned dominance of the Conservative Party. It has also produced what seems an unenviably austere personal life. She and her husband, Denis, a retired oil executive, though not exactly reclusive, do not cut important figures in London social life. Their private existence in the living quarters at No. 10 is simple, almost spartan. Mrs. Thatcher does much of the cooking, basic British, and they employ only one housekeeper, paid out of the Prime Minister's pocket.

With her two adult children, twins, living elsewhere — Carol, a freelance journalist, has her own flat in London, and Mark, an auto executive, resides in Dallas — Mrs. Thatcher's office staff has become, in a sense, a second family. But it is a very formal kind of family, united and driven by her passion for work. In fact, Mrs. Thatcher glories in comparisons between her grinding existence now, with its regimen of five hours of sleep a night, and her girlhood in Grantham, in a stark apartment above her father's grocery. In such accounts, the word "work" recurs like a drumbeat.

"The only way we could get on was working," she recently told interviewers on Soviet television.

"We live 'over the shop,' as it were," she continued. "We have a flat over No. 10 Downing Street, which is the office of the Prime Minister. . . . And . . . [after] working all day, . . . I start about 10 o'clock at night to work on my papers. I think it is the most fascinating thing I have ever done . . . and I do not wish to do anything else."

Poring over her papers into the small hours of the morning, Mrs. Thatcher packs her memory with the facts that she uses to pummel her Cabinet and dominate the opposition in her twice-weekly appearances before Parlia-

ment for what are called Prime Minister's Questions. The House of Commons is a noisy pit that makes a Congressional debate or a Presidential news conference seem very tame. David Howell, a former Cabinet member, sees these sessions as a core secret of Mrs. Thatcher's success.

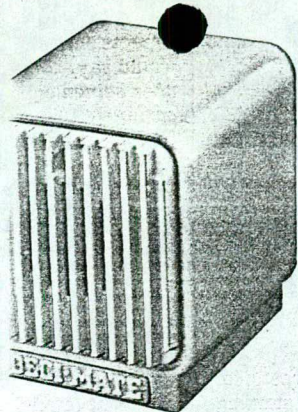
"Because of her aptitude for always attacking when attacked, because she can carry all the facts in her head, because she can be completely cool in her emotions, she can, on the whole, dominate Prime Minister's Questions," Mr. Howell says. "Some of those outside might think, 'What the hell's that got to do with it?' — and the answer is that it would only need a run of six or seven sessions in four or five weeks, with the Prime Minister coming out wounded, for the whole party to start saying, 'We must get somebody else.'"

No one doubts that Mrs. Thatcher has had to perform better, to be tougher, to argue more forcefully because she is a woman. But her friends say this necessity fits her preference; she actually likes argument better than polite discussion. Opponents respect her, but they also like to make fun of the self-consciously stately figure that Mrs. Thatcher presents to Parliament. She does, indeed, seem more queenly than Elizabeth II. So they jibe at her as Queen Boadicea, the warrior queen of British prehistory.

Unlike predecessors such as Winston Churchill, Harold Wilson and James Callaghan, Margaret Thatcher has not had the benefit of a supportive relationship with Queen Elizabeth. In his book "The Changing Anatomy of Britain," Anthony Sampson said their weekly meetings "are dreaded by at least one of them."

But even if they are not close, the Queen and the Prime Minister are part of a unique political symbiosis that works to Mrs. Thatcher's advantage. Her failure to curry public favor and to win affection is simply not the

(Continued on Page 80)



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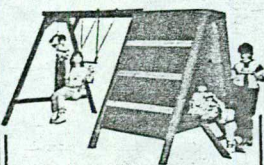


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# THATCHER

Continued from Page 76



MIKE ABRAHAMS/NETWORK J.B. PICTURES

A giant Thatcher image seen at the Conservative Party Congress in Bournemouth last fall.

liability that it would be in the United States, and the institution of the Royal Family is part of the reason. "The British don't need to love their Prime Minister," says a Western diplomat. "They love their Queen."

**I T IS AN IRONY OF MARGARET Thatcher's career,** given her anti-Soviet credentials, that a key moment for understanding her political makeup should have occurred in Moscow. According to a reconstruction from several sources, when Mikhail S. Gorbachev spoke with feeling about his hopes for revitalizing the Soviet Union, Mrs. Thatcher felt an immediate empathy with him.

"I'm sympathetic with the problems of changing a society because I've faced these problems myself," she is quoted as saying. Exhorting Mr. Gorbachev not to give in to the pressure now mounting on him within the Soviet Union, Mrs. Thatcher concluded: "You have to have the courage to stick with it. It won't go right in the early years. It's taken me eight years to start to achieve the kind of change in our society I wanted to see."

She had first to change her own party before she could change the policies installed in the four decades since the Clement Attlee government of 1945 nationalized the industrial economy and completed the establishment of the cradle-to-grave welfare system.

Until Mrs. Thatcher took over, the Conservatives had been content to serve as the accountants of the welfare state, policing the Socialist economy around the edges but not disturbing the governing consensus that had continued through Labor and Conservative governments alike. Over time, according to Sir John Egan, the chief executive of Jaguar, that consensus degenerated into an "unconscious conspiracy." Neither the "barons" of the trade unions nor the "grandees" of the Tory Party wanted to disturb this policy gridlock that prevailed while the "British disease" of decline took hold in the 1960's and 70's.

Then, in 1975, Margaret Thatcher, a little-known former Secretary of State for Education and Science in the Heath Cabinet, led the "peasants' revolt" within the Tory party. Her election as party leader marked an end to the dominance of "the older-type, traditional Tory, mainly coming from public school, the landed gentry," recalled Labor's Denis Healey. It became more oriented toward small businessmen, middle-class professionals and strivers who, like Margaret Thatcher, had worked their way up from humble origins.

Within a few years of her election as Prime Minister in 1979, Mrs. Thatcher purged the "wets," or old-style, liberal Tories, from the Cabinet and replaced them with tax-cutting, capitalistic true-be-

lievers, or "dries," as her ideological claque is known. Then she proceeded to wring out the economy as well, driving inflation down and letting unemployment soar. Almost magically, the Falklands War of 1982 bailed her out politically. She rode a tide of nationalism to victory in 1983 and over the course of two terms nailed down the economic reforms that are the foundation of Thatcherism.

She broke the power of the labor unions, her final victory coming in a titanic struggle with striking miners in 1985. She privatized the best state-owned industries — such as British Telecom, British Airways and, most recently, Rolls-Royce — by selling shares to workers and the general public.

She began selling off Britain's "council houses," or publicly owned rental apartments, to the people occupying them and encouraged home ownership for others through mortgage-tax deductions. One million council houses switched from state ownership to private owner and the percentage of adults living in their own homes increased from 52 to 66 percent.

Mrs. Thatcher called her programs of property and stock ownership "popular capitalism." Under her, the number of Britons owning stock increased fourfold, to 8.5 million, almost 20 percent of the electorate. Invest-



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Union Members Are Leaving Their 'Natural' Party

# The Rank and File Buy Shares in Thatcherism

By STEVE LOHR

LONDON

ONE of last year's keynote speakers was notably absent from the rostrum when Britain's once-powerful trade unions met last week at Blackpool for their annual conference. Neil Kinnock, the Labor Party leader, attended the conference, but kept a relatively low profile, which seemed to underline how much the traditional bonds between the British union movement and the party it created in the turn of the century are loosening in the face of the economic and political changes wrought by Thatcherism.

The sweeping impact of Prime Minister Margaret Thatcher's free-market remedies on Britain is reflected in the plight of the trade unions: their membership is dwindling and their political clout has been sharply reduced. With the policy of state paternalism abandoned, the British economy has undergone a difficult restructuring involving long-term unemployment, which has shrunk the heavily unionized manufacturing industries. Since 1979, union membership has fallen by 3 million to roughly 9 million and the unionized share of the workforce has dropped from 51 percent to 37 percent, compared with approximately 77 percent in the United States. Moreover, the unions are having great trouble recruiting workers in growing new industries, such as financial services and electronics.

Just as significant politically are the changing circumstances and sympathies of the union members. Studies show that many union members like Mrs. Thatcher's vision of a homeowning, shareholding Britain, and that this approval has drastically altered traditional voting patterns.

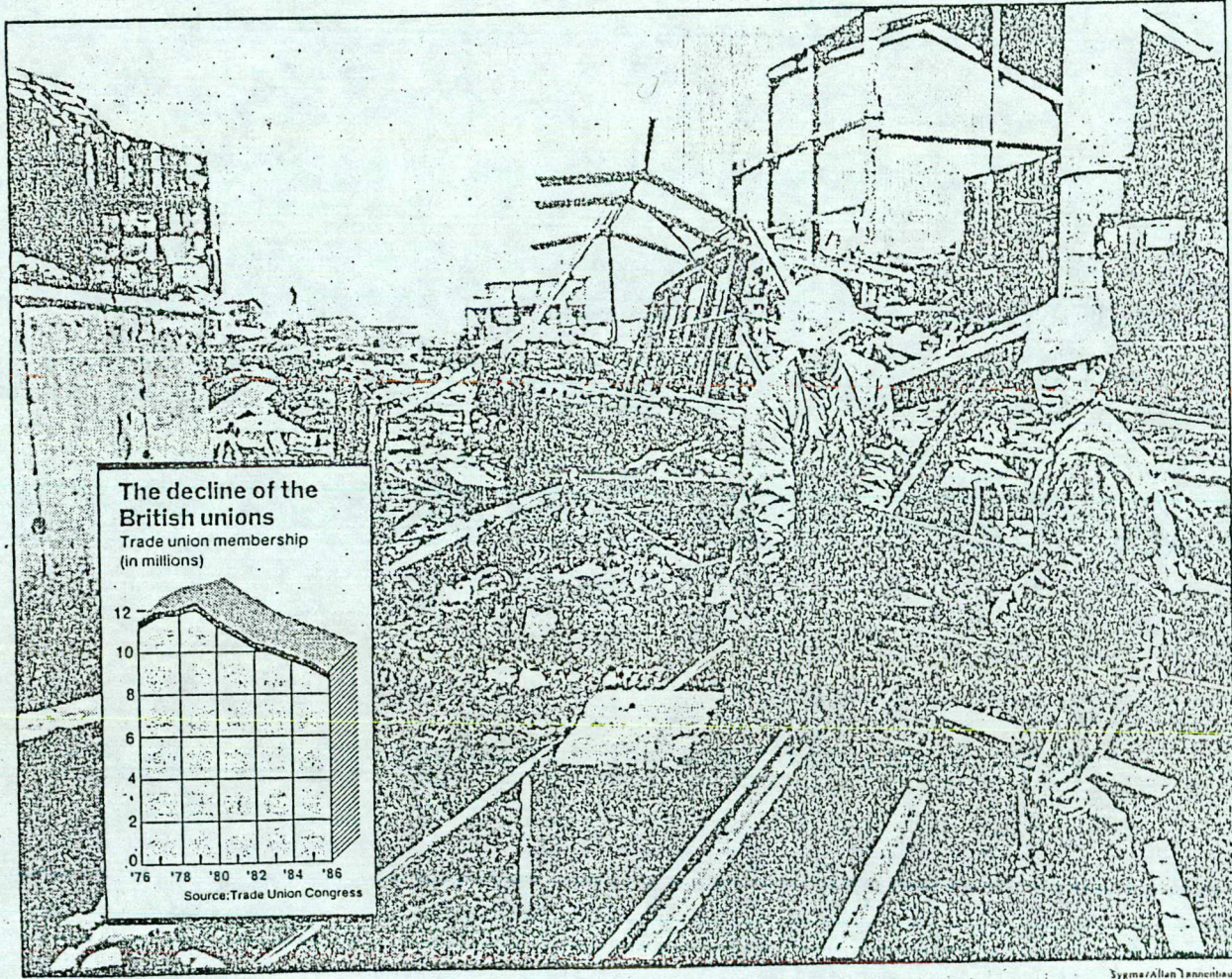
For example, a survey last week by Market & Opinion Research International, a polling organization, found that among white-collar union members who head households 80 percent now own their own homes, 9 percent more than the population generally, while only 16 percent live in public housing versus 24 percent for the overall population. Meanwhile, the number of individual shareholders has tripled since 1979 to nearly 9 million, many of them union workers who bought shares in the Thatcher Government's string of privatization sales. The image of the cloth-trapped unionist mired in class-consciousness is badly outdated.

Today's union members are independent-minded voters. The Labor Party is still 80 percent financed by union contributions, but the rank-and-file no longer feels obliged to vote for its "natural" party. In last June's election, 42 percent of union members voted Labor, 30 percent Conservative and 26 percent for the two Alliance parties. By contrast, 55 percent of union members voted for Labor in 1974, the last time a Labor government was elected.

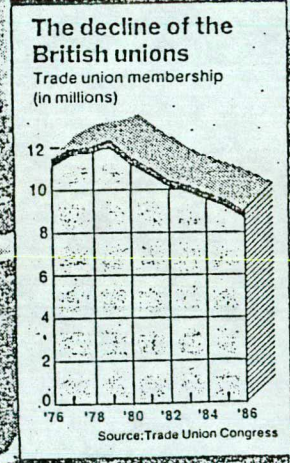
And union members who head households are now overwhelmingly in the Conservative camp. If an election were held today, according to the recent Market and Opinion Research International poll, 48 percent of the union household heads would vote Conservative, 36 percent Labor and 16 percent Alliance.

"The Labor Party clearly cannot rely on the support of the trade unions to get elected anymore," noted Robert Worcester, chairman of Market and Opinion and the pollster for the Labor Party.

Accordingly, the challenge for both the Labor Party and the union movement is to broaden their appeal. For Mr. Kinnock, his party's ties with the trade unions have been a severe political liability. At Blackpool, rather than taking the limelight, he was busy working on strategies for the Labor Party conference later in the month. The British public, including almost half of all union members, view the unions as controlled by left-wing extremists. The anti-union sentiment, especially during the strike-bound "winter of discontent" just before the



Dismantling a colliery this summer in the depressed North of England, where unemployment has grown among union workers.



1979 election, was largely responsible for putting Mrs. Thatcher in office. Moreover, many of the Conservative Government's measures that curb union power, such as mandatory membership ballots before strikes can be authorized, have proved popular with union members. Even if a Labor government were elected, these strike ballots would remain, analysts say.

### A New Breed of Leaders

For their part, the unions are finally showing signs of trying to come to terms with Thatcherism instead of wishing it would go away. "The unions must develop policies which do not depend clearly and solely on the return of a Labor Government," said

John Edmonds, general secretary of the General Municipal and Boller-makers and Allied Trades Union.

Most trade union leaders have nothing but scorn for the Prime Minister, but their tactics for survival have a Thatcherite look. They suggest a vast increase in the level and type of services that unions provide its members, including credit cards, personal loans, legal advice and recreational facilities. The message is being marketed with slick advertising and direct-mail techniques. It amounts to supplying consumers with needed services, not ideology, and it has been aptly called "market unionism." Most of the services the British unions are beginning to experiment with are already offered in the United States, and unions have been trying for years to adopt to the challenges

of a postindustrial economy.

To maintain membership, British unions must move into the fast-growing service businesses. The shrunken manufacturing sector is 70 percent unionized and the public sector 80 percent, but unions represent only 15 percent of the service workforce. A few unions have been successful in organizing hotel and fast-food outlet workers.

"The big gains for unions are to be made in the service industries," said John E. Kelly, a lecturer on industrial relations at the London School of Economics. "And they've only recently started to gear up to recruit new members. I think it would be a mistake to assume that British trade unions must continue to weaken steadily in the future."

# Insight

The Washington Times

December 14, 1987 / \$2.00

but Does it Sell? / Page 48

*Economic  
Conditions  
Policy*

## THE IRON LADY'S ENGLAND



# Thatcher Leads a Transformation

**SUMMARY: Margaret Thatcher is changing the way Great Britain views its economic and social systems. Since 1979 the prime minister has moved from state ownership to popular capitalism, selling off public companies and housing projects on the way. The cost has been high. Unemployment soared at first and remains a problem for some. But the economy is better: It is growing, productivity is up, inflation is down.**

**D**uring the course of a children's party held in Parliament, so the story goes, Margaret Thatcher did her best to see to the comfort of her young guests. Nonetheless, a tearful 4-year-old objected to the quivering dessert on his plate: "Miss, Miss. They have given me blancmange and I don't like blancmange."

"That," the British prime minister firmly admonished him, "is what parties are all about: eating food you don't like."

If the episode has the ring of folklore, it is only fitting. For Margaret Thatcher has become something of a mythic figure. With a 101-seat majority in Parliament and a string of three election victories, she has touched a record set by Lord Liverpool in the early 19th century. Indeed, early next year, she will become the longest-reigning British prime minister of the 20th century.

In an era when the two-term U.S. presidency is the exception rather than the norm, when the current occupant of that office has seen his power wane precipitously and when other West European leaders seem only to be muddling through, Thatcher has gone from victory to victory and has become the senior Western statesman. As she put it in June, after her most recent victory: "I think I have become a bit of an institution — you know, the sort of thing people expect to see around the place." In conversation, a civil servant recently referred to the prime minister as "her majesty," which somehow seems an understandable slip.

Like the hostess hectoring her young guest, the prime minister often has had occasion since assuming power in 1979 to ask the British to do things they decidedly didn't like. That they should nevertheless

elect her for a third time, and this despite a poorly fought election campaign, is seen by political commentator Brian Walden as a sign of political maturity.

David Butler, a leading elections expert and coauthor of a series of books on the subject, notes that while Thatcher has benefited to some degree from being attuned to a general disillusionment with the ability of a centralized state to solve all problems, she for the most part has been the author of her own success. Says Butler, "I think many people would argue that she has made more difference than any postwar prime minister by sheer effort of will."

Most observers in Britain agree that she

has shown herself to be a different kind of leader. Her postwar predecessors, Tory and Labor alike, basically saw themselves as managers of Britain's unavoidable decline, whose worst effects were to be cushioned by the welfare state. This meant adapting to "the winds of change," as the late Harold Macmillan, a Conservative, used to put it.

Thatcher, in contrast, saw herself as someone who could turn this decline around. "She has changed the parameters of British politics," says Tony Baldry, Conservative member of Parliament for Banbury. He describes how, as a young election aide in 1974, he found himself alone in Macmillan's library on the former prime minister's 80th birthday. Reflecting on the way Prime Minister Edward Heath handled the 1974 miners strike, which forced the Conservatives to call an election they subsequently lost, Macmillan stated half-seriously, "There are three organizations the British government ought never to take on:





the Vatican, the treasury and the National Union of Mineworkers."

Margaret Thatcher has shown herself unbound by such conventional wisdom. Says Baldry, "In the [1984-85] miners strike, the prime minister made it quite clear that there were no established groups that she was afraid to take on." Fortunately, he jokes, "I don't think there has ever been any cause to take on the Vatican."

Norman Tebbit, who recently stepped down as Conservative Party chairman, describes the changes wrought by the leader in even stronger terms. "There has been," he says, "a constitutional, gradualist revolution going on for the past eight years, social and economic change combined."

The depth of these changes, according to Butler, is suggested by the fact that Thatcher is the first leader since 19th century Prime Minister William Ewart Gladstone to give her name to a doctrine. "Churchillian," for example, applied more to a style of government than to its substance. "Thatcherism" has content: a reassertion of individualism combined with toughness from the central government.

In a recently published interview, the prime minister defined the key tenets of the creed: "You live within your means; you have honest money, so therefore you don't make reckless promises. You recognize human nature is such that it needs incentives to work harder, so you cut your tax. It is

about being worthwhile and honorable. And about the family. And about that something which is really rather unique and enterprising in the British character — it's about how we built an empire, and how we gave sound administration and sound law to large areas of the world. All those things are still there in the British people."

The appeal of Thatcherism is partly that it can be reduced to such simple everyday ideas, that it makes an easy connection between economic values and moral values. Says Walden, "The fact that she is a woman of course leads to household analogies of good housekeeping. A lot of people think that is what Thatcherism is. That this woman counts up the bills and the money, giving money to those members of the family who deserve it and withholding money from those who don't."

Of course, there is much more to it than that. Describing the way the prime minister has managed to change popular perceptions and expectations, Walden draws a comparison to the United States during the New Deal. "If you had put it to the American people that voting for Roosevelt meant they had changed their views of capitalism, they would not have understood it. They were just voting for Franklin Roosevelt and the New Deal." Similarly with Britain today, he believes. While the average Briton would not think his views have changed, they have been modified considerably by eight years of Thatcher government.

Since World War II, Britain has had one of the highest degrees of state ownership in Europe — outside the East Bloc — and one of the most comprehensive welfare systems. Redistribution was emphasized rather than production. It is in this area, in perceptions of the state and the workability of British socialism, that there has been the greatest change in popular attitudes.

Looking back over the last two decades B.T. (before Thatcher), Norman Stone, professor of modern history at Oxford, recalls the broken promises of the 1960s, when Labor Prime Minister Harold Wilson's vision of a new "white-hot" technological revolution that would get the country moving again failed to materialize. The '70s, he says, were even more bleak: "It was terribly depressing to see how this country simply functioned less well than France and Germany." The nationalized industries went creaking on, while endless excuses were found on both sides for a cozy arrangement between monopoly unions

**Committed to change: Thatcher and husband, Denis, campaigning in May**



PETER MARLOW / SYGMA

**Callaghan's low point was 1979 strikes.**

and monopoly employers and the taxpayers footed the bill. "You had the dismal Iron Curtain spectacle of tiny salaries being hugely overtaxed," says Stone. Spiraling inflation reached a peak of 24.2 percent in 1975 under Wilson.

The nadir was reached in 1978-79 under Wilson's successor, James Callaghan, in the so-called winter of discontent, when strikes by public service workers, including even the gravediggers, paralyzed the country for months. Union leaders, who often were compared to medieval barons, saw themselves as the national power brokers, able to make or break governments.

Eight years into Margaret Thatcher's reign, Britain presents a rather different picture. The 80 percent of the British work force solidly employed has become 15 to 20 percent better-off in real terms since 1981-82. Official figures show the economy has been growing by some 3 percent yearly since the early '80s, outperforming such major partners in the European Community as France, West Germany and Italy. Overall labor productivity increased 14 percent from 1980 to 1985.

The transformation from an economy based largely on state-owned heavy industries to a more modern, diversified service economy has not been painless. And in some regions, particularly the industrial north of England, Scotland and Wales, the pain is still acutely felt.

One of the Conservative government's first targets on taking power in 1979 was the inflation rate, which during the 1970s had been higher than those of most of Britain's EEC partners. When the Con-



PETER JORDAN / GAMMA-LIAISON



The prime minister gets a close-up look at earthmoving equipment manufactured at a plant in the Midlands of England.

servatives came into power, the rate was around 10 percent, but it soared during their first year to 21.9 percent in May 1980. The 1980-81 budget, however, proved to be a watershed. Imposing strict monetary policies, adhering to the principle of sound money, the government reduced the rate dramatically, to 3.9 percent, by May 1983.

This accomplishment came at a heavy price: 20 percent of Britain's manufacturers went out of business, and the number of unemployed persons leapt from 1.25 million, or 5 percent to 6 percent of the work force, when the Conservatives gained power in 1979, to around 3.25 million, or 13 percent, in 1985. But halfway through Thatcher's second term, things began to turn around. The government eased its monetary policies, the slimmed-down industrial sector became more competitive, and productivity began a steady rise. Moreover, the number of unemployed persons has fallen by about a half-million over the past year, to a present 2.7 million.

Before the world stock market plunge in October, a growth rate of 3 percent had been projected for next year. A forecast by the London Business School, based on pessimistic assumptions about the U.S. economy, now suggests a growth rate of 1.5 percent may be more realistic. Christopher Smallwood, business editor of *The (London) Sunday Times*, argues that Britain remains in a stronger position than its trading partners because the impressive gains in productivity will continue to be felt.

An important part of the explanation for Britain's comeback lies in improved industrial relations — demographic, social and political factors have all conspired to reduce the power of the trade unions. For one thing, the shift from unionized heavy industries to largely nonunionized service and high-tech industries has caused the

trade union movement substantial losses in membership. Since 1979, union membership has fallen by 3 million, to about 9 million total, and the percentage of unionized workers in the labor force has dropped from 51 to 37. Moreover, the Thatcher government has mounted a concerted effort to shift power in industrial relations from the trade unions back to the employers.

**R**oger Why, the director of group employee relations at Land Rover Ltd. and a veteran negotiator who has 15 years in the motor vehicle industry at the sharp end of industrial relations, recalls the old days: "I can remember as a relatively junior industrial relations officer having to handle six different stoppages of work on one track in the course of one morning."

According to Why, British Leyland routinely lost about 10 percent of its volume through disputes. Employers became so used to the restrictions imposed on them by the trade unions that, like a man grown accustomed to walking with a limp, in the end they found the constraints felt natural.

The Thatcher government, with significant pieces of legislation in 1980, 1982 and 1984, managed to curb the national power of the trade unions to a great degree. The key change was legislation requiring the trade unions to ballot their members first before strike action.

As Norman Tebbit, who reshaped trade union law as secretary of state for trade and industry from 1983 to 1985, said at the time, "I use the word 'neuter' when talking about what I am doing to the unions, because I've been told I must not use the vernacular." Or as Conservatives like to point out more politely, they are making the

unions more democratic, taking them out of the hands of power-hungry bosses and giving them back to the members.

The results for the British economy have been encouraging. Says Why of Land Rover, "We have had three very tiny stoppages in this factory this year." Productivity in manufacturing industries went up 27 percent from 1979 to 1985, compared with 6 percent from 1973 to 1979. Within the newspaper industry, for instance, the effect has been dramatic, allowing for the introduction of computerized typesetting and the launching of three national newspapers.

The curbing of union power is reflected in a statement by John Edmonds, general secretary of the General, Municipal, Boilermakers and Allied Trades Union. "The unions," he said, "must develop policies which do not depend clearly and solely on the return of a Labor government." Furthermore, some unions, such as the Amalgamated Engineering Union, are signing no-strike deals with employers. It is also noteworthy that during the last election, a great many trade union members voted Conservative. While 42 percent voted Labor, 30 percent went Conservative and 26 percent voted for the Alliance parties. As recently as 1974, 55 percent voted Labor.

Britain has become attractive to foreign investors again, partly because the economy is sound and partly because of the past years' good labor relations record. Says one Conservative, "If someone had suggested that was going to be a reason for investment in Britain 10 years ago, they would have clapped him away for being insane."

Equally important social changes have taken place during the Thatcher years, perhaps none of greater significance than the prime minister's decision to promote, in one of her favorite phrases, popular capitalism. One of the major social engineering

projects of the Conservatives has been the sale of council houses (public housing units) to their occupants. Under eight years of her government, Britain has moved from a nation in which 54 percent of the population owned homes in 1977, to one in which 67 percent did in 1986. Says Walden, "Thatcher thinks that private ownership is a virtue and that people ought to accumulate property and wealth, that it is good for their families and for society."

According to Butler, extending home ownership is an idea that goes back to the 1870s and Disraeli, who realized that by giving people a tangible stake in the country and its government he was increasing the number of Conservatives over the long run. The specific idea of selling public housing first was raised in the late 1960s, but the Conservatives were rather slow to seize upon it, thinking it too much of a hot potato. Under Thatcher, they have found it to be hugely popular. In electoral terms, the result has been to produce more Tories.

"If I were to describe the typical Labor voter," says Tebbit, "I'd say that he worked for a local authority, or for the state in some way, perhaps for a nationalized corporation, a member of a big trade union, living in a council house." But, he continues, "if you look at a man who owns his own house, who is a member of a properly funded pension scheme, over which he has increasing control himself, and who is working in the private sector — you have a strong assumption that that man is going to

vote Conservative or Alliance perhaps, not Labor. The first group of people is falling in numbers, the second group is growing."

Another component in the Conservative search for permanent change has been the policy of privatization of nationalized industries, the selling of shares in such companies as British Aerospace, British Gas Corp., British Telecom and British Airways. The basic idea behind this policy is summed up by Renaissance philosopher Francis Bacon's dictum: "Money is like muck, not good unless it be spread." Since the inception in 1981 of the privatization program, Britain's number of shareholders has risen from 3 million to 9 million. In the selling of shares, preference has been given to employees and small shareholders, with the aim of making it more difficult for a future Labor government to renationalize what has been sold off.

This aspect of popular capitalism already may have experienced a setback, due to the effect of plunging stock markets on public confidence, particularly among first-time investors, the so-called foot soldiers of the Thatcher revolution. Many may have been scared off by the experience. Says Smallwood, "The privatization program will go on, but most of the shares will be sold to large institutions, which takes away a lot of the political point, which was wider public ownership."

How lasting will be these changes wrought under Margaret Thatcher? Could they survive the test of another Labor gov-



DANY KRIST / UNIPHOTO

### Selling off public housing units

ernment? A measure of how much Britain has changed is the change that has been forced upon the prime minister's political opponents. The September Labor Party conference in Brighton illustrated the difficulty facing that party after three successive election defeats in adapting itself to the new political scene in Britain.

Party leader Neil Kinnock told the conference, to dutiful if unenthusiastic applause, that all Labor policies would be up for review. Quoting union leader Ron Todd, he said: "What do you say to a docker who earns 400 pounds a week, owns his house, a new car, microwave and video, as well as a small place near Marbella in Spain, 'Let me take you out of your misery, brother?'"

Labor's attempts to catch up were discussed with relish at the Tory conference the following week. Elaborating on the theme that the other parties would try to imitate the Tories, Tebbit exulted, "The prospect of Mr. Kinnock trying to put on your clothes, Prime Minister, is hilarious." There is still some doubt, however, whether Kinnock's heart is really in such a change of hat. And there remains much resistance both in Labor's parliamentary group and in its rank and file to such changes, which have been described mockingly by its opponents as designer socialism.

What these Labor traditionalists may not have reckoned with is the difficulty of defeating a "conservative" government that is firmly forward-looking and committed to change. Some see an ironic role reversal in the two parties. "Just as the condition of the Conservatives getting back to power in 1951 was that they should accept the welfare state," says elections expert Butler, "in the same way the condition of Labor getting back to power would be that they should not turn the clock back."

— Henrik Bering-Jensen in London



GEORGE DE KEERLE / GAMMA - LIAISON

### Election night revelry: Supporters gave Tories a 101-seat majority in Parliament.

# Scotland Shows the Tories They're Not Local Heroes

**SUMMARY: Conservatives won only 10 of Scotland's 72 Parliament seats in June. Many Tories blame their unpopularity on unemployment and industrial decline. But others downplay this, citing successful efforts to attract businesses and renovate cities. They say Scotland's fierce independence and Margaret Thatcher are obstacles. The party sees investment as the key to Scotland's future and to its own success.**



Workers show their disdain for Margaret Thatcher during a Glasgow protest.

The Scots have a well-known fondness for anecdotes. A popular one at the moment tells of Margaret Thatcher in the hereafter having been dispatched by St. Peter to the hotter regions below. After a few weeks, St. Peter receives a desperate message from Lucifer: "You must get this woman out of here. Her policies are ruining my operation. She has already closed down three of my furnaces."

The Tories are not exactly popular in Scotland. If their showing in the June election was not quite the doomsday scenario some had predicted, it came close enough. Out of a possible 72 seats, the Conservatives won only 10, down from 21 in the previous Parliament.

Asked to explain the Conservatives' unpopularity in Scotland, Secretary of State for Scotland Malcolm Rifkind refers to the general downturn of the world economy in the 1970s, whose aftereffects were felt in the United Kingdom until about a year ago. "Obviously those parts of the kingdom that had the highest concentration of the old traditional heavy industries suffered the worst of the recession." He notes these old heavy industries — the shipyards, the steelworks, the ironworks, the coal industry — are concentrated in the north of England, the west of Scotland and South Wales, which happen to be the areas where the Conservatives have done least well.

According to official figures, Scotland has lost around 30 percent of its jobs in manufacturing since 1979. Scottish unemployment rates consistently have been around 2 percentage points higher than those in the rest of Great Britain. Unemployment rose from 207,900 in 1980 to 353,000 in 1985, or almost 15 percent of the Scottish work force. "Seventy-five percent of Scotland's coal mining jobs, half its jobs in the steel industry and most of its shipbuilding jobs have been lost since 1979," says Gordon Brown, a Scottish Labor MP for Dunfermline East. Unemployment figures are falling, however, and are at 315,400.

But industrial decline and the resulting unemployment account for only a part of Tory unpopularity. Gerald Malone, who lost his seat as Conservative member of Parliament for Aberdeen South in June, points out that there are areas in northern

RICHARD KOZAK / INSIGHT

England that are much worse off economically and where the Conservatives still hold on to seats, even in Labor-dominated areas such as Yorkshire and Lancashire.

"If you look at a constituency like mine, for instance," says Malone, "which is predominantly middle-class and has a social background very similar to seats in England held by the Conservatives with a very large majority, there was the lowest unemployment in Scotland. So you cannot say that this is the explanation."

In fact, Scotland as a region is doing rather better than the industrial northern part of England, and efforts have been made in recent years to diversify its economy away from the declining heavy industries. Yet the Conservatives have not reaped the political benefit from these changes.

A variety of other reasons are given for this. For one thing, the traditional-minded Scots tend to regard the person of Margaret Thatcher as a strange southern phenomenon. As one Scottish businessman diplomatically puts it, "Let's say Mrs. Thatcher is not one of our local heroes." Adds Malone, "The Scots don't warm very much to English middle-class leaders. They will swallow the aristocracy with absurd facility; we have aristocrats in Scotland who speak like Englishmen, but we are used to them. What we are not used to is suburban housewives who are successful and pushy, where we are seen to be slightly failing. That's difficult to live with."

The fact that the prime minister is considered somewhat of a liability by the Conservatives in Scotland was reflected nowhere better than in the party's latest election literature. She suffered the indignity of having her name removed from the list of 10 reasons people should vote Conservative. Substituted for it was a proposal for a nice new motorway.

A more fundamental reason for Tory failure in the north may have been the wish to register a protest against centralization, against what is seen as dictation from London. Many Scots have a sense of being treated patronizingly. The notion that they are separate and different from their southern neighbors, the English, is one that few Scots pass up the chance to elaborate on.

Scottish national feeling rests on solid historical foundations. Until it united with England in 1707, Scotland was an independent state. It has a different legal system from the English, a different church, a different educational system. And, no less important in terms of popular national feeling, its own soccer team.

A referendum on Scottish devolution, or



RICHARD KOZAK / INSIGHT

Day's end at Yarrow yards in Glasgow; the shipbuilding industry has declined.

internal self-government, was held in 1979 but failed to obtain a sufficient majority. As far as many Scots are concerned, however, the subject is not closed. During the last election many saw a vote for the Labor Party as a vote for Scottish devolution, a change of the status quo without going to the extreme of independence, as advocated by the Scottish National Party. Accordingly, the Labor Party in Scotland sent no fewer than 50 MPs to Westminster. (The "feeble 50" they are called, since their victory was made somewhat irrelevant by Labor's overall loss to the Conservatives, who won 375 of Parliament's 650 seats. Labor won only 229 seats.)

The nonconformist element in the Scottish character is another reason given for why much of the Scottish middle class, the very people who have benefited from Thatcherism, do not vote for the Tories.



HELLE BERING-JENSEN FOR INSIGHT

Conservative Malone lost his seat.

"There was a very strong expectation that the Conservatives would win anyway," says John C. Shaw, executive director of Scottish Financial Enterprise, a private organization that promotes Scotland as a place for investment and business. "Therefore you could indulge in making a point."

Another factor in the Conservative weakness has been the nature of the opposition in Scotland. The Scottish branch of the Labor Party is generally perceived as the establishment and hence less extreme than the party in the south, particularly the members in London, whom former Labor Defense Minister Denis Healey once taunted for being "out of their tiny Chinese minds." Says Rifkind, "It is a different party than the party in London. Our guys are pretty left-wing, but they have not gone totally overboard and they have been prepared to work with private business. Therefore, cities like Glasgow have experienced substantial regeneration in a way the Liverpools of this world have not."

"The idea of someone like Donald Dewar [the chief Labor spokesman on Scotland] even dreaming about putting together a gay-lesbian minority rights coalition is just ludicrous," says Grant Baird, an economist with the Royal Bank of Scotland. "He is a typical Presbyterian Scottish lawyer. They are quite different animals. One gets the impression they are quite appalled by what went on in the Labor Party in Greater London."

Whatever the reasons for defeat, it is clear that the Conservatives cannot afford simply to give up a whole region such as Scotland; as they themselves point out, the Conservative Party is also the unionist party. The prime minister's visit to Glasgow in September, for example, was meant to emphasize the party's long-standing commitment to Scotland, notwithstanding its recent electoral weakness there.

## The Conservatives want Scotland to recognize that it is participating in Britain's general economic recovery, that it is not being left out.

The Conservatives' battle plan for Scotland is two-pronged. For starters, an organizational shake-up of the party has been undertaken. Scottish Conservatives freely acknowledge that their party organization in recent years has been amateurish and their resources inadequate. Second, at a time when closer ties with Europe through the projected tunnel link with France seem to be tilting the balance further toward the prosperous southeast region, they want Scotland to recognize that it is participating in Britain's general economic recovery, that it is not being left out.

With this in mind, Conservatives point to the revival of Glasgow as one of the more successful instances of urban renewal in Britain. Its massively confident Victorian buildings stand as monuments to the time when the city was known as "the workshop of the empire." Economic decline in the 20th century, aggravated by an inauspicious geographical location in relation to Britain's European markets, led to urban decay and industrial dereliction. Over the past 10 years, however, Glasgow has seen an im-

pressive degree of urban regeneration.

One instrument has been the Glasgow Eastern Area Renewal Project, which since 1976 has invested some 380 million pounds (about \$660 million), 200 million pounds of which has come from private investment, in upgrading housing, preparing vacant and derelict building sites and providing accommodation for new businesses.

**A**s a result, Glasgow has been named the European City of Culture for 1990, something that no doubt would have surprised the old Clydeside dockworkers. It is the home of the Scottish National Orchestra, the Scottish Ballet and the Scottish Opera. Next year, the city will host the Glasgow Garden Festival '88, and preparations are under way for six months of events that are expected to attract 4 million people. The idea of garden festivals, held in different cities each year, originated in Germany after World War II, when bombed-out areas stood in need of regeneration.

Says Rifkind, "Essentially, one sees a city which is painfully but successfully changing its style and its content from the industries which were behind its expansion in the 18th and 19th centuries to a more relevant structure for the 20th."

Conservatives also point to Scotland's success in attracting foreign capital and industry. Some U.S. companies have been there a long time: International Business Machines Corp., Hughes Microelectronics Ltd. and Motorola Inc., for instance. The fast-growing Compaq Computer Corp., after a major battle among various countries competing for its operations, settled on Scotland recently. There has also been Ford Motor Co.'s announcement of a major new production facility in Dundee, which is to supply electrical components for the cars and trucks Ford manufactures throughout Europe. Health care is another expanding sector; Healthcare International Inc. has announced its intention to build a major private hospital in Clydebank just northwest of Glasgow.

In a recent study, 400 U.S. electric companies identified Scotland as the most desirable location in Europe for investment. Much of the credit for attracting foreign investment goes to the Scottish Development Agency. Created in 1975, it is an example of the kind of cooperation between government and business designed to regenerate depressed areas of Britain. Since 1981 the agency has attracted 2 bil-

lion pounds in capital investment and has created and safeguarded more than 40,000 jobs, says Ian McGhee, deputy director of the agency's Locate in Scotland program.

In fact, so well has the agency worked that both Labor and Conservative politicians like to take credit for its success. Says Labor MP Brown, "When Mrs. Thatcher was here, she praised the East End project as a great idea, a triumph for the Conservative government. It was started by the Labor Party." Counters Malone, "It was totally turned 'round in its objective and what it was designed to do. Under us since 1979, it has had to work very much more in partnership with private industry. Previously it was used simply to bail out very large companies that were in deep trouble. Now it is, I think, fulfilling the correct role of being the seed corn of new industry. They are there to encourage and press on, but they are not there to simply take over and run as a client of the state."

Some people express doubt, however, whether the new industries can fill the gap left by traditional industries such as shipbuilding and steel. Brown says, "The jobs created have been insufficient to make up for the jobs that have been lost in the heavy industries." Furthermore, he believes in a much larger degree of state intervention and scorns the notion of "the small inventor setting up his small private company in his own garage to employ thousands of people after a few months in operation."

One of Scotland's problems is that while there are major employment gains in the new industries, they do not necessarily coincide with the areas depressed by the closing of the old. Shipbuilding, steel and coal developed large communities in the areas where raw materials were to be found. As Ian Lang, minister of state, the Scottish Office, points out, "Where there is a dominant industry in an area, the reliance on that industry tends to vitiate the enterprising spirit, and when that industry goes, it takes time for people to look around for new sources of employment."

The Tories are hoping that time is on their side. And if they are to have a future in the north, it will be because Scotland starts looking more like the rest of the country. As Rifkind puts it: "Essentially what we see as our main political task over the next few years is creating within Scotland the same interest in enterprise and entrepreneurship and in the development of the private sector that is taken for granted in the south of England."

— *Henrik Bering-Jensen*  
in *Glasgow and Edinburgh*

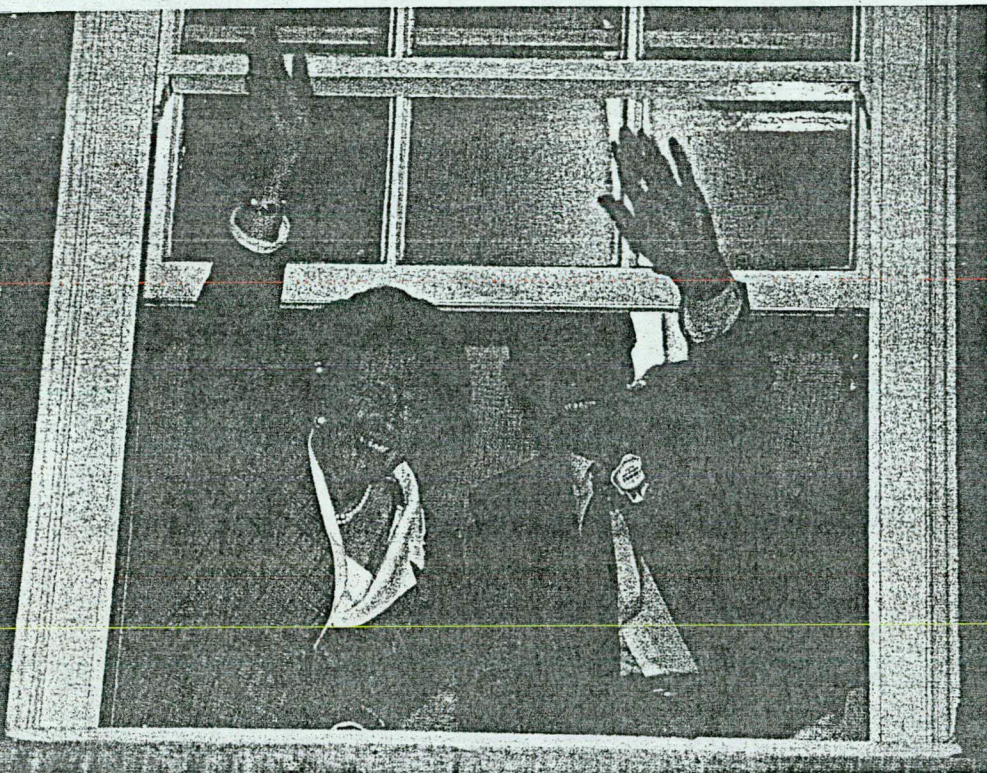


Getting a face-lift for garden festival

HELLE BERING-JENSEN FOR INSIGHT

# An Agenda Based on Selling the Concept of Self-Destiny

**SUMMARY:** Margaret Thatcher's Conservatives face a challenging third-term agenda. They want to make people take more responsibility for their futures by weaning them from the welfare state. They hope to help inner cities with capital investments, not social projects, and to improve public education by offering schools more autonomy. Another of their goals is to trim government spending on health care.



Thatcher and Norman Tebbit, then Conservative Party chairman, after June win

**A**round 3 o'clock in the morning following the June 11 election, Margaret Thatcher arrived at Conservative Party headquarters in London's Smith Square. On the doorstep, she was received by Norman Tebbit, then the party chairman, with a bouquet of 100 red roses, symbolic of the size of the Tory victory. Relief and exhaustion prevailed at the gathering within, but as the prime minister stopped halfway up the stairs inside, she reminded them that this was no time to relax. To general laughter and some groans she told them, "There's plenty for us to do now. There'll be no slacking!"

For those in the party who favor a period

of consolidation and a slower pace of reform, the prime minister had only scorn at the Conservative Party conference in Blackpool in October. "Would 'consolidate' be the word that we stitched on our banners?" she inquired witheringly. "Whose blood would run faster at the prospect of five years of consolidation?"

Clearly not Margaret Thatcher's. The tasks set for themselves in the Conservatives' third term include the extension of existing policies: Trade union legislation will be introduced that would protect union members who break strikes from retaliation. Studies on the possible privatization of electricity and water will continue.

This time, however, the government is going further. For the first two Parliaments, the Conservatives had the advantage of car-

rying out policies that could be seen to have an immediately beneficial effect for a large number of people, such as selling public housing at favorable prices. The third presents more difficult challenges.

According to Tony Baldry, Conservative member of Parliament for Banbury, "The third Parliament is going to call upon individuals to take greater responsibility for their own lives and for the communities in which they find themselves." It has therefore been dubbed "the social affairs Parliament." Two of the priorities will be inner cities and education, both of them areas where, in the nature of things, results have to be long-term and no immediate political benefit can be expected. Much of the new legislation in these areas will concentrate on doing away with the last bastions of the left, the municipal power centers in places such as London and Liverpool.

The precepts behind much of the new legislation proposed by the Conservatives are the increase of competition and the extension of individual choice in matters of local services, most significantly in education and housing.

Much of the discussion in the field of education centers on how to restore standards and quality in the schools. Some critics of the present system look back longingly to the grammar school system, which was determinedly meritocratic, separating by tests at age 11 those who eventually would go to college and those who would not. This system was abolished by law in 1976 by Labor. The grammar schools, it was said, were too geared to middle-class values. To fail the exam was to fail a class test. Mention of Shirley Williams, the controversial minister of education charged with implementing the law, still brings horror to some Tory faces.

In its place, Labor established the comprehensive school, which everybody attends after age 11. The result, critics claim, was to make state education equally poor for all students, the clever being bored, the thick still unable to cope and the wealthy going off to private schools instead.

Though the Thatcher government has no intention of restoring the old system, and indeed does not even talk of it, its proposals are clearly premised on the notion that there is widespread dissatisfaction with things as they are. Instead, Conservatives propose to raise standards throughout the country by

JASON FRASER / SIPA PRESS

## Inner Cities Seek Own Answers

The Black People's Information Center in the North Kensington area of London illustrates some of the ideas that the Thatcher government wants to promote in addressing the problems of the inner cities. North Kensington is a depressed area, mainly black, described by one official as "a pimple on the bottom" of otherwise

ions on the question of welfare are being heard. Says Roydon Gordon, leader of the center, "Just handling the casework is not going to be any long-term solution to our problems. I think it is very important that we address ourselves now to setting up our own businesses." According to a community worker in the area, "One of the things that the right has stumbled upon is that in the welfare state system you had in previous years, under Labor, minorities were always done unto." Now the black community here wants to do things for itself.

The task forces, which have an overall budget of 16 million pounds (nearly \$28 million), have been criticized for being underfunded. However, money is not necessarily the solution, says the community worker. "The good thing about this Conservative task force initiative is quite accidentally that by the mere fact of saying, 'Hold on, money is not going to cure your problems, you need skills, you got to get off your [tail] and get those skills for yourself,' this has been quite a good kick up our backsides. From now on we can't sit down and watch the race run in front of us. We got to get on the horses and start riding. We have to start realizing that we either do it now, or we don't do it again, because full employment will never come back."

Still, Gordon notes, self-help can work only up to a certain point, beyond which one needs professional skills, help and capital. "There is no point saying just 'business, business, business,' when people are not trained to take advantage of it." One of the problems, according to him, is that the business community does not trust black people to handle big money.

Concludes Gordon, "We are getting our act together, trying to get our infrastructure together so that we can get a piece of the action. That in a funny way is putting us into some of our left-wing old allies, who used to be on the barricades with us. We were the cannon fodder, while they stayed in the background. But they had the expertise and training to go through the legal structure to get the money. Now we are getting our act together, so we are competing with them now. And that breeds tension." ■

introducing a national core curriculum, emphasizing traditional subjects such as English, math and science, with frequent achievement testing along the way.

They propose to allow parents and school governors to take their schools out of the control of local education authorities and instead receive funding directly from the central government. When the state system of education was set up in 1944, extensive powers were given to these local education authorities at the expense of parents and headmasters. By allowing parents the possibility of removing schools from the local authorities' oversight, the Conservatives would give parents considerably more say over their children's education. And by giving each school its own budget, parents and headmasters would have greater say over how money is being spent.

In this way, the Conservatives hope to stop what they see as left-wing local authorities squandering resources on a political agenda, under the guise of teaching such topics as gay studies and peace studies.

Giving parents these options, the Conservatives believe, is not just a policy for "the leafy suburbs," as Secretary of State for Education and Science Kenneth Baker puts it. It is particularly important in inner cities, where educational standards have been most eroded. Says Baker, "At the moment, choice is available to those who can afford it, who can make the sacrifices for it. What we're doing is extending choice to everybody; choice shouldn't just be something for the rich."

Another top priority for the third term is inner-city reform. The decay of Britain's inner cities became dramatically evident during the riots in the early 1980s in places such as the Toxteth area of Liverpool, Notting Hill and Brixton in London and the St. Paul's district of Bristol. More riots broke out in 1985 in some of the same places. The present misery of the slums has been compared to the London rookeries of Dickens's day.

Margaret Thatcher in her speech to the party conference said of the inner cities: "They are people trapped inside public housing estates governed by local authorities who are hostile to enterprise, who intend to milk industry and commerce for every penny." She further blasted postwar town planning as "social vandalism," referring to the huge concrete housing projects built in the 1960s, many of them now with windows boarded up, rubbish and graffiti everywhere, ferocious dogs, and stairwells stinking of urine. Underscoring the prime minister's determination is the creation of



HELLE BERING-JENSEN FOR INSIGHT

### Kensington agency's goal: self-help

wealthy Kensington. Through it runs the once famous Portobello Road, where junk shops and displays of tatty Indian cotton garments serve as faded reminders of the 1960s.

The information center is a black self-help organization that is devoted to dealing with such problems as housing and unemployment. It is funded by the North Kensington Task Force, which was set up in 1986 as one of 16 such inner-city groups.

In North Kensington, new opin-



“Self-help has a limited meaning in an inner-city community where 40 percent of the kids may be without work.”

who help themselves. What we are really doing is helping people to help themselves.”

Under the Conservatives the emphasis has been shifted away from social projects toward capital investment and economic regeneration. Conservatives favor a larger role for private enterprise as a force for social improvement. The idea is not only to draw businesses from the outside, but also to get the long-term unemployed involved in creating their own.

The state's role in this is to provide facilities, training and advice. To further this end, a variety of urban development corporations, local enterprise agencies, city action teams and task forces have been created in places such as Liverpool, Glasgow, Manchester, Birmingham and inner London (see box, Page 16). It is their job to establish cooperation directly between business and central government, investing in infrastructure and providing incentives for private firms in deprived areas.

The question remains whether such public sector investment will succeed in attracting sufficient private business to effect any real regeneration of such areas. Opponents complain that as yet the Conservative program has not been backed up by sufficient cash. While the resources of the total urban program grew in real terms from 186.3 million pounds (about \$324 million) in 1981-82 to 236.8 million pounds in 1984-85, they then dropped to 219.5 million pounds in 1985-86 and are expected to fall again this year.

Furthermore, as Conservative Parliament backbencher Michael Heseltine has noted in a thinly veiled criticism of Thatcher's ideas on social self-sufficiency, “We have to be very careful before we assume strengths and values in those deprived societies that are characteristic of a more vibrant and richer community elsewhere. Self-help has a limited meaning in an inner-city community where 40 percent of the kids may be without work and, if they are black, the figure may be 60 percent.”

Counters Lord Young, “I do not believe the state can cure those problems. If it could, it would have cured them a long time ago. Areas of great dereliction such as Liverpool, for example, have had an enormous amount of state money spent on them. Indeed, Mr. Heseltine was responsible for spending a great deal of money on Liverpool in the early '80s, and it does not look any better today.”

According to Lord Young, money is not the answer: “One of the great faults of the critics is that they tend to value a government by its input, by how much money they spend and not on the quality of the output, of what they actually get for it.” Rather, he believes, fundamental attitudes have to change. “What we have to do is be able to create a society living in the inner city who believe that working life is the normal way and not the aberration. We have a large



CARY WOLINSKY / UNIPHOTO

### Tory plans would affect schoolchildren.

a special Cabinet task force on inner cities chaired by her.

The Conservative approach to the inner city differs fundamentally from past approaches. Lord Young, secretary for trade and industry, says Labor governments — and indeed past Tory governments before Thatcher — were profoundly statist, believing the state had an obligation to do everything. “What we believe now very strongly is to go back to one part of the Tory values, the part that says God helps those



TOM STODDART / GAMMA - LIAISON

Riots in the early '80s were a dramatic reminder of the inner cities' decay; here, the aftermath in London's Brixton area.

## DEPARTMENT OF HEALTH AND SOCIAL SECURITY

RICHARD KOZAK / INSIGHT

**Tories want to cut public spending on social services by helping only the very needy and emphasizing private health care.**

number of people living close together in local authority housing who got used to a way of life that does not include work." In the United Kingdom, people can receive unemployment benefits forever; there is no time limit.

An important part of the Conservatives' inner-city initiative centers on housing. As with the other new plans, self-determination and competition are emphasized. In the case of public housing, tenants will be allowed to opt out of the local housing authority and choose their own landlords. The aim is to break up the huge municipal tenements, which are often run by Labor-

controlled local authorities and which Conservatives claim have been allowed to run down due to a mixture of mismanagement and ideological bias.

The second aim of the Conservative housing policy is the abolition of rent controls, which have all but suffocated the private rental sector in Britain. This, together with yearlong waiting lists for public housing, has had the effect of freezing the labor market, preventing those unable to purchase property from moving to where the jobs are, particularly in the southeast.

"There is a hidden surplus of accommodation," notes Tebbit, "which would come on the market if this was economically sensible for people." The plan is not, however, to remove rent controls at a stroke. Instead, future rents will be the object of decontrol.

Potentially the most controversial part of the Conservative battle against the power of municipal authorities is the proposal to replace local rates, or property taxes, with a community charge, as the Conservatives refer to it, or, as its opponents at once dubbed it, a poll tax. Whatever the designation, this involves imposing a flat rate tax on every adult over 18.

Proponents claim that the community charge is a simpler system than the present property tax and is designed dramatically to reforge the link between the local authorities, who set the rates, and the electorate, which pays them. At present, a large number of people do not pay property tax at all and have no reason to be concerned about the level of local authority spending.

Opponents of the community charge argue that, like any flat rate tax, it will hit the poor hardest. The propaganda potential of such an issue is obvious: the industrial baron in his huge mansion, paying the same percentage in community charge as the little old lady huddled at her electric fire. The critics also argue that the community charge may be difficult to administer, people being somewhat harder to track down and tax than houses.

Conservatives point out that the central

government will continue to meet almost half the total bill of local authority spending and, as for the injustice of the flat rate, poor people will be required to provide at most about 20 percent of the community charge, or about 80 pence a week (about \$1.40).

The squandering of political capital on what many see as a potential vote loser has been compared by one commentator to the Charge of the Light Brigade. Conservative backbenchers in the Parliament, who are called upon to do the riding, have voiced some concern over this, though at the October party conference the protest was very muted.

Finally, one issue that has dogged Thatcher from the start will continue on the Conservative agenda: how to reduce public spending. Says political columnist Geoffrey Smith of *The (London) Sunday Times*, "If you measure Thatcher performance against Thatcher intentions, that's one place where there's a gap."

**S**he has succeeded in reducing the growth of public spending but has not actually been able to cut it back. When the Conservatives came into power, public spending as a proportion of the gross domestic product was 43.25 percent; today it is 44.25 percent. (In the United States, the comparable percentage for federal outlays was 23.7 in 1985.) While personal taxes have gone down, sales taxes have gone up.

Social security accounts for 26 percent of total public spending (compared with 17.1 percent in the United States last year). The second-largest portion, 15.1 percent, goes to health and so-called personal social services. In 1979 the figure was 13.9 percent.

The British cradle-to-grave welfare system, which was started by Labor after World War II, provides free medical care for everybody, and costs are soaring. Just before the party conference, Social Services Secretary John Moore had spoken publicly about the need to reassess the uni-



STUART FRANKLIN / SYGMA

**Heseltine faults Thatcher's social views.**

versality of the welfare state, reserving state help for those who really need it, a theme he repeated at the conference. At the moment, all Britons regardless of income are eligible for benefits such as child allowances, state pensions and hospital care.

What Moore called for to bring down the cost of the health service was a "mixed economy in care" with more emphasis on private health care. Currently, about 10 percent of the population uses private care, which enables people to choose their own doctors and to decide when they want to be treated. The speech was interpreted by many as a trial balloon.

There are limits to how far this trimming can be pursued. Though the Conservatives might succeed in making people contribute a little more themselves, says elections analyst David Butler, it is unlikely that Thatcher would or could actually abolish the National Health Service or even alter it substantially. Agreeing, columnist Smith says, "The middle classes and the professional classes like the idea of cutting public expenditure, until they feel it themselves."

Says one commentator, "Health care is very popular. Neil Kinnock rightly stuck to it as his strong point during the election. Health service was one of the things the Labor Party did for the country in the 1940s and by doing that they changed the psychology of the country. In that sense Mrs. Thatcher has not changed the psychology. That will stay the same."

—Henrik Bering-Jensen



JOHN MOSS / MEDICRONE

Britons can receive free health care.

## Who Is Next, After Thatcher?

Discussing the succession to the Conservative Party leadership is considered to be in slightly bad taste, which makes it irresistible to many British observers. On Oct. 13, Margaret Thatcher turned 62, and with three victories behind her the question is how long she will last.

One scenario has the prime minister staying for a couple of years and then stepping aside for a new leader, in time for that person to prepare for the next election. According to *The* (London) *Sunday Times* parliamentary commentator Edward Pearce, several names are floated as material for succession.

One of these is Kenneth Baker, the highly visible secretary for education and science. He won fame for himself among Conservatives in 1986, after emerging victorious from verbal battle with Ken Livingstone, the extremely vocal leader of the defunct Greater London Council and now a radical Labor MP.

Another, John Moore, the secretary for social services, has seen his prospects rise following a speech on welfare reform in which he advocated that social services be made available only to those who truly need them. This made him front-page news. He is known for his managerial talent.

Malcolm Rifkind, the secretary of state for Scotland, is a more long-term possibility. Known for brilliant speeches that are delivered without notes, Rifkind is a liberal Tory whose analytical intelligence is respected by friend and foe alike.

Such predictions are risky; critics of Thatcher have compared her to the poisonous upas tree, once believed to kill all growth around it. While this may overstate the case, it is true that the back benches of Parliament are full of victims of prime ministerial displeasure.

One such is Michael Heseltine, the former secretary of state for defense who is now a favorite of the disaffected Tories. Heseltine is ambitious, but his chances are diminished by his temper and his stormy resignation from the government, which caused the prime minister acute embarrassment. "He who wields the dagger never wears the crown" is one of the maxims of Conservative politics. Be-

sides, as one of the older Tories wistfully has remarked, Heseltine is "the kind of man who combs his hair in public."

Currently considered out of the running is Norman Tebbit, who has resigned from the Cabinet and has stepped down as chairman of the Conservative Party to return to Parliament's back benches and private business. According to Pearce, Tebbit is the primary political talent of his generation and the one ideologically closest to Thatcher. One of the sharpest wits in Parliament, the tall and gaunt Tebbit is frequently depicted as Dracula, refreshing himself from a small decanter of blood. (During the 1983 election, one commentator gibed that he had picked up a child who subsequently became "quite unnaturally quiet.")

Tebbit was severely injured and his wife paralyzed during the Brighton bombing of the Conservative Party conference in 1984 by the Irish Republican Army, which understandably took its toll on him. There were reports of Tebbit falling out with Thatcher over the running of the campaign.

But what of the prime minister herself? Obviously anything can happen to people in their 60s, notes British elections expert David Butler, and Thatcher's husband, Denis, could influence her attitudes about the future. At the party conference in October, though, she gave every indication of looking forward to a long career, invoking the example of Lord Liverpool, who governed Britain for 15 years, as "rather encouraging." Then, too, there is her much quoted campaign remark that she would like to go "on and on and on," and many Conservatives want her to do just that.

Most important, says Pearce, is the prime minister's enormous drive and vitality. "She actually enjoys power. She lacks the constitutional ability to relax. Her holidays are apparently fraught and fretful occasions where she walks up and down on the edge of the Swiss mountains, drumming her fingers. How she would be running over the mansion in Dulwich [her planned retirement house] with a feather duster, I don't like to think. She would terrorize the neighborhood."

by I have news

BRITAIN

# All Revved Up

*Thatcher rides again, winning a chance to finish her "revolution"*

**S**tylishly dressed, hair perfectly coiffed and wearing the inevitable pearl earrings, Margaret Thatcher had dropped by for yet another of British election organizers' much loved photo opportunities. This time it was a famous motorcycle manufacturer in Newton Abbot, Devonshire. The Prime Minister, ever the lady, would not be pushed into providing a spectacle for the press. "I think that would be a bit gimmicky, don't you?" she declared, politely declining re-

quests to sit on a motorcycle or even grip the handlebars. But Thatcher is not one to miss such an opportunity entirely, and almost coyly she allowed her fingers to trace the name on the machine as photographers snapped away. It read TRIUMPH.

The prophecy proved accurate. Last week Thatcher's Tory Party was resoundingly returned to office, although with a reduced majority. She thus became the first Prime Minister in modern British political history to win three successive general

elections. The country's 43.7 million voters, who regard her iron-willed leadership with a mixture of admiration and anxiety, gave the Conservatives a 101-seat majority in the 650-member House of Commons, 43 fewer than the party had won in the 1983 elections. But that was more than sufficient for Thatcher to pursue her "unfinished revolution" in reshaping the political, economic and social fabric of Britain. When she was first elected in 1979, the country was in such economic peril that only 2½



years' earlier it had sought a bailout loan from the International Monetary Fund. Today Britain is a leading industrial nation with a vibrant economy, a rising currency and a booming stock market that soared anew in response to the Tory victory. Thatcher, says London's *Sunday Times*, has brought about Britain's "biggest transformation since the Industrial Revolution."

Under Neil Kinnock, 45, a balding, red-haired Welshman, the ever squabbling Labor Party managed to increase its seats in the House to 229 from the 209 it won in 1983, though last week's showing was still the party's second worst in more than a half-century. The most disappointed loser was the Liberal-Social Democratic Alliance, which had become a third force in British politics in its six years of existence. Led by the Liberals' David Steel and the Social Democrats' David Owen, the Alliance had aimed to eclipse Labor as the main opposition party. Instead, its representation in the House was reduced to 22 seats from the 23 it won in the previous election. The vote was a landmark in one respect: three



ALAN DENBY

million Britons are without jobs today, although the figures have been declining for the past nine months. The health service and the educational system are in chaos. Said the *Sunday Observer*: "We are fast moving—in crucial areas like health and education—toward private affluence and public squalor."

Thatcher had the good fortune to face as her main opposition a Labor Party still scarred by dissension. A majority of voters rejected its policies of increased public spending and unilateral nuclear disarmament. The party was committed to abandoning the British nuclear deterrent and

seeking the removal of all U.S. cruise missiles and other nuclear weapons from British soil. Many Britons, including some Labor supporters, believe that policy would leave the country at the mercy of the Soviets. Kinnock seemed to admit as much when he told Television Interviewer David Frost that a nonnuclear Britain's best defense against the Soviets would be to use "all the resources you have got to make any [Soviet] occupation totally untenable." Within hours, Thatcher was accusing Kinnock of hoisting "the white flag of surrender." Later she told a rally, "I'm a mum, and I like to think that those who believe in keeping Britain strong, free and properly defended belong in mum's army."

After the election, the Alliance's Owen joined in the criticism of Labor's policies. "They were unelectable and are unelectable," he declared. "The reason Labor has not delivered is that their policies stink." Owen, however, was having his own problems. The Alliance had counted on this election to gain a surge of new support from middle-of-the-road voters, but its share of the popular vote actually declined nearly 3 percentage points from 1983, putting its survival in doubt. Analysts believe the Alliance suffered because there were fewer uncommitted voters in this election. The two Alliance parties may also have lost support through their public disagreements over Britain's nuclear policy.

For Margaret Hilda Thatcher, 61, the daughter of a grocer from the Lincolnshire town of Grantham, the hefty Tory majority could help her attain the prime goal for her third term, to "destroy socialism," which has been a decisive force in British life since the end of World War II. The election results will also enable her to continue with the economic policy that is now known as Thatcherism. Since she came to power in 1979, her policy of cutting back on inefficient industries and attacking inflation with tight money and reduced government spending has greatly expanded the middle class and transformed Britain from the sick man of Europe to the fastest-growing economic power in the European Community. "We have put the Great back into Britain," she repeatedly declared during the campaign. Last May, shortly after she called the elections 13 months before the end of her five-year term, she insisted, "Our country has changed for the better. We have discovered a new strength and a new pride."

Many Britons see a different country, where the gap between the well-off of the green, leafy south and the struggling workers of much of the gritty, industrial north has widened under Thatcher. Indeed, the election results confirmed this divide, with support for Labor up 7% in the north and the Tories' vote rising 25% in the south. That schism led in large measure to the Tories' reduced representation in Parliament. Unemployment has increased threefold over the past eight years. A record 3 mil-

lion Britons are without jobs today, although the figures have been declining for the past nine months. The health service and the educational system are in chaos. Said the *Sunday Observer*: "We are fast moving—in crucial areas like health and education—toward private affluence and public squalor."

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The campaign was an ill-tempered four-week ordeal, with Labor's main hatchet man, Shadow Foreign Secretary Denis Healey, variously comparing the Prime Minister to Catherine the Great and Genghis Khan. The electorate looked on in apparent bemusement at a campaign that rarely sent the national pulse racing and was, American-style, fought out largely on television. In another imitation of U.S. campaigning, both major parties relied on photo opportunities, carefully choreographed meetings with voters, and ticket-holders-only rallies of the faithful.

Election analysts agreed that Labor had ensured its survival as one of Britain's two major parties by mounting a superior campaign. Party strategists focused their effort on the personable Kinnock and his wife Glenys. Cannily avoiding the largely Tory, London-based press, the couple spent long periods campaigning in the

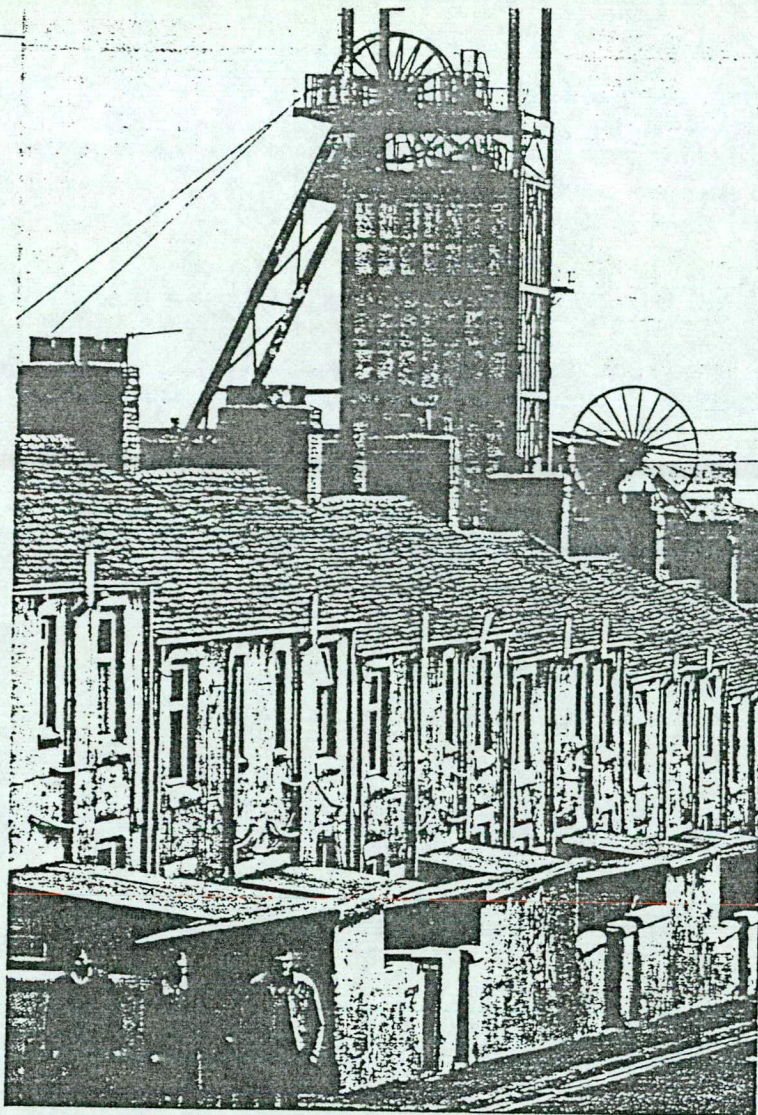
Resounding prophecy: the victor and Husband Denis at Triumph motorcycle factory; above, Labor's Neil Kinnock

provinces, far from London. "The style was vintage Jimmy Carter," noted a western ambassador in London. Thatcher, by contrast, made the usual one-day campaign forays from the capital. "The Kinnocks were packaged with professionalism and flair," conceded a Conservative politician, "while most of the time we seemed to lack both." Thatcher occasionally stumbled, as when she was asked why she had taken out private medical insurance rather than relying on the National Health Service. She replied, "To enable me to go into hospital on the day I want, at the time I want, with the doctor I want." That led Owen to castigate her for indifference toward those who cannot afford the luxury of choosing between private and state health care.

Less than 65 hours before the polls opened, Thatcher flew by private jet to the seven-nation Venice summit, where the televised image of her moving easily among major world leaders was not lost on voters. At his last campaign rally, Kinnock mocked the Venice trip before a crowd in the bleak northern city of Leeds. Said he: "And now the TV spectacular to end all TV spectaculars: Venice. Cinderella on canal. She went there because somebody told her she could walk down the middle of the street."

That final, cocky gesture was typical of Kinnock, who entered the campaign with a reputation as a political lightweight. In just over 3½ years as Labor's leader he had rarely bested Thatcher in their almost weekly jousts during the Prime Minister's question time in the House of Commons, and he had been ridiculed for his often rambling and emotional speeches. He was criticized by radical leftists in the Labor Party for moving it too far toward the center. But his eloquent campaign attacks against Tory parsimony won him respect as a warm, compassionate leader. In one crowd-pleasing piece of oratory last week, he evoked the meter of Welsh Poet Dylan Thomas when he declared there were just four more days left of "hope-destroying, unemploying, care-cutting, factory-shutting, nation-splitting, poor-hitting, truth-mangling, freedom-strangling Toryism."

Perhaps the major issue in the campaign was Thatcher's dream of a more prosperous, more assertive Britain in contrast to Labor's view of a country in crisis. It was Labor, however, that had presided over many of the country's frequent eco-



Coal miners return home in Easington, Durham, after a day in the colliery  
*Under Thatcherism, subsidies for declining industries have dwindled.*

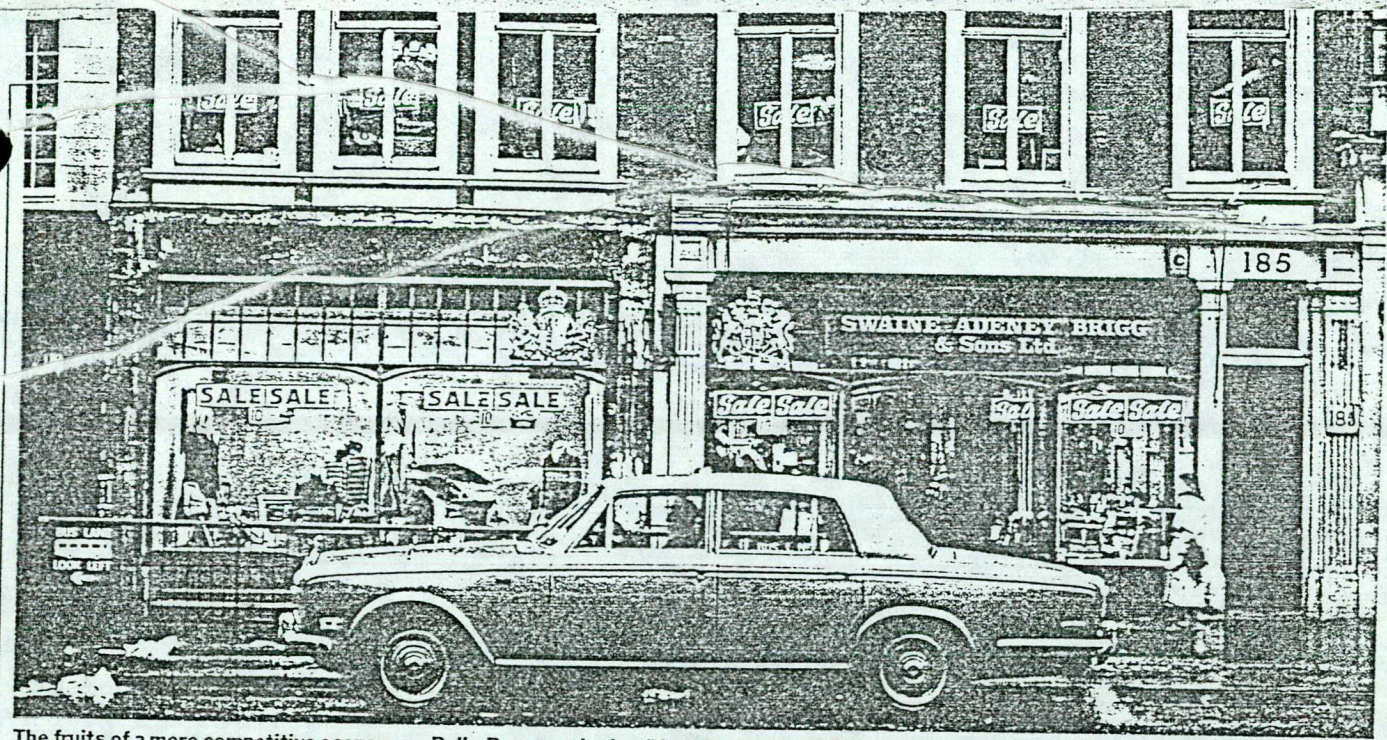
omic crises in the 1960s and '70s. By the time Thatcher arrived in 1979, Britain was saddled with a costly welfare state in which labor-management relations were mired in class conflict and industry was aging and inefficient. Since then, Thatcher has transformed Britain more dramatically than any Prime Minister since Clement Attlee, who presided over the creation of the welfare state in the late 1940s. Her third term is likely to be an extension of the Thatcher revolution. Since Britain began pulling out of the recession in 1981, the economy has grown at an annual rate of around 3%, and annual productivity is growing 3.5%, not far behind Japan's 4%. Inflation is down to 3.5% from a high of 24.2% in 1975. Many Britons have prospered under Thatcher. Partly because of government efforts to encourage the creation of new companies in the services area, 1 million people have jobs that did not exist before Thatcher came to office. In fact, in 1979 only 30% of the British were considered middle class; now nearly half the country fits that description. And through incentives to small business, Thatcher has opened doors to entrepreneurs. For all that, some of Thatcher's countrymen clearly prefer

the older Britain, slower paced, caring and imbued with a frayed gentility. Even some Conservatives have expressed concern that Thatcher has seemed callous toward the poor and the disadvantaged. For her part, the Prime Minister argues that she has turned a "lame-duck economy into a bulldog economy." Only vigorous growth, she insists, can support the level of social services Britons demand. The election, she said recently, was not a "choice between a caring party and an uncaring one. All decent people care about the sick, the unfortunate and the old. It is false and wicked to suggest otherwise."

Still, Thatcher's major challenge in her third term will be the problems of poverty and joblessness. While new employment is up, some 2 million jobs have disappeared, mostly in coal mining, shipbuilding and other declining industries that Britain, like other Western countries, has been weaning away from government subsidies in order to force greater efficiency. Inequality has persisted, with half the British population now holding 93% of the country's wealth, down only marginally from 95% in 1979. Says Peter Townsend, professor of social policy at the University of Bristol: "Eight years of Thatcherism have resulted in a widening gap between rich and poor."

To help narrow this gap, Thatcher has proposed a job-training scheme for all secondary-school dropouts and, within five years, job training for all those under 50 who have been unemployed for two years. Actually finding jobs for these trainees, however, may be difficult. In a March poll, a majority of voters questioned said they would forgo the tax cuts delivered this year by the government if the savings were used to improve unemployment, health and education. Yet Thatcher is opposed to large increases in public spending for social programs and job creation. Her fear is that inflation will break loose again. The Tories prefer restraint, with government spending rising only 1¼% a year through 1991, a figure that could increase as the economy improves.

One spread-the-wealth measure that Thatcher is expected to pursue vigorously is her program of "people's capitalism," under which state-owned companies are being sold to the public. Since 1979 more



The fruits of a more competitive economy: a Rolls-Royce parked on Piccadilly, location of some of London's most expensive stores  
 Though the middle class has grown, so has the gap between a gleaming, prosperous South and a gritty, impecunious North.

than one-third of Britain's nationalized industries have gone public—including British Telecom, British Gas, British Airways and Rolls-Royce—bringing in more than \$29 billion for the treasury. What Napoleon called a "nation of shopkeepers" has changed under Thatcher into a nation of shareholders. Nearly 20% of adult Britons own stock nowadays, triple the number in 1979. Next in line for sale: the British Airports Authority, regional water boards and the electricity industry.

The Prime Minister will also encourage the sale of subsidized, local council-owned houses and apartments to their tenants, a program she began in her first term. Since then, the number of owner-occupied homes has risen from 50% to 66%. Her goal for the third term is 75%.

Thatcher's concern for the emerging middle class contrasts with her distaste for organized labor. In the three decades before she took over, wildcat strikes had torn holes in the country's economy. Major trade unions were considered more powerful than the government, and labor unrest helped topple two Prime Ministers, Edward Heath in 1974

and James Callaghan in 1979. Thatcher changed all that. Starting in 1980 she pushed through legislation to limit picketing rights, ban secondary picketing and make national unions financially responsible for the actions of their members. She has taken on a number of the country's most powerful unions and crushed them: the steelworkers in 1980, the coal miners in 1985 after a bitter one-year strike, and the teachers last year. Partly as a result of

Thatcher's efforts, union membership has fallen by one-quarter, to 9 million, and strikes are at a 50-year low. The number of workdays lost to labor disputes has declined from 29.5 million in 1979 to a mere 1.9 million last year. In her third term Thatcher plans legislation to further curb the power of the unions.

The country's education system has slipped badly under Thatcher. Critics charge that spending has been cut 10% after inflation, and even her Minister for Information Technology, Geoffrey Pattie, complains that "schools are turning out dangerously high quotas of illiterate, delinquent unemployables." One Tory proposal is to take control of secondary and primary schools away from local councils, many of them Labor dominated, and give principals and school boards more power over their budgets.

STURROCK—NEWMAN & PICTURES



Two of the 3 million unemployed

Britain's National Health Service also has deteriorated. With a staff of 1 million, the NHS will spend \$33 billion this year, but its patient waiting lists are the longest in the European Community. As many as 700,000 people are waiting for surgery, some of them have been for years. Budget cuts have closed 20 hospitals in the London area alone. The government points out, however, that spending on the health service has actually increased 2½ times in the past eight years. The government has already set aside \$83 million for a two-year program to treat more than 100,000 patients waiting for operations.

Under Thatcher the country has asserted itself more on the world stage than at any other time since the 1956 loss of the Suez

Canal, an event widely regarded as the end of Britain's days as a major world power. She presided over the 1982 victory against Argentina in the Falklands war, and despite domestic opposition, pressed ahead with the modernization of Britain's aging Polaris nuclear submarine fleet, accepted U.S. cruise missiles on British soil and last year allowed U.S. F-111s to strike Libya from British air bases. Her visit to Moscow in April, during which she spent 13 hours in private with Mikhail Gorbachev, cemented her position as a world figure. British cartoonists have even taken to portraying her with a Churchillian cigar. She plans to visit Reagan in July, and it is likely that once again the discussion will center on negotiations for an intermediate-range nuclear forces agreement with the Soviets.

Over the past eight years the British have learned to take seriously something Thatcher says about herself: "If you want someone weak, you don't want me." Indeed, she is often compared to a hectoring nanny. Although some voters hope her newly won third term will be her last hurrah, she insists that "I have no wish to retire for a very long time. I am still bursting with energy."

The Prime Minister typically rises at 6, after only five hours' sleep, and breakfasts on black coffee and vitamin pills. She often fixes simple meals for herself and Husband Denis, 72, a retired businessman and avid golfer. Thatcher's own favorite recreation appears to be reading briefing papers. She has groomed no obvious successor among the Tories, and remarked early in the campaign that she might "go on and on," perhaps seeking a fourth term. "What would she do if she weren't Prime Minister?" asks Tory Chairman Tebbit. "One doesn't see her retiring to gardening or making marmalade." One does not.

—By David Brand. Reported by Frank Melville/Leeds and Christopher Ogden/London

# "We Are Building a Property-Owning Democracy"

Serene and assured, Prime Minister Thatcher defends her record and speaks of the future

After only four hours of sleep and a day spent thanking campaign workers and consulting with colleagues, Margaret Thatcher welcomed TIME London Bureau Chief Christopher Ogden and Reporter Frank Melville upstairs at No. 10 Downing Street to talk about her plans for a third term. Wearing a blue suit and her trademark double strand of pearls, she sat at a small table in an oak-paneled room. Behind her were congratulatory baskets of flowers. Excerpts from the interview:

**Q. How do you interpret the election?**

**A.** It means that the policies we were pursuing, which we put openly and frankly before the people, were thought to be right for Britain. They were policies which were a partnership between government and people—namely, we do the things which only governments can do, running the finances in a sound way, keeping inflation down, cutting controls and giving tax incentives. And we got the response in an increasing enterprise and competitiveness from the British people. And that produced a higher standard of living.

**Q. Why do people accuse you so bitterly of lacking compassion?**

**A.** Some people think that to be compassionate and caring you have to talk a lot about it. We've always taken the view that you should be judged by what you do and not by what you say, and we're prepared to be judged on that—any day of the week.

**Q. What are the most important accomplishments of your first eight years?**

**A.** First, we have reduced the fantastic number of controls that there were over the life of our society. The greatest driving force in life, which is individual energy and effort, was becoming really cocooned. Secondly, people do need incentives to encourage them to work harder, and if you take too much away in tax, then you will not get that driving incentive. Plus the trade union law. When we took over, it seemed as if the left-wing trade union leaders were more powerful than the government of the day. All of this has been replaced by different systems. We now know that the spirit of enterprise is there. The economy is doing well and catching up with our European competitors.

**Q. What are your plans for a third term?**

**A.** I will extend opportunities to people who never had them before. As you know, we are building a property-owning democracy. Far more people own their own homes now. We are nearly up to the United States—not yet quite—but now one in five of our people owns company shares. Far many more people have savings accounts. That's all extending opportunity ever more widely.



PETER JORDAN

every speech I give, I say this [Conservative] Party and these people are pro-American, and before I finish the sentence a round of applause breaks out. People are enormously appreciative of the generosity of the American people and of their fundamental love of liberty. I tend to regard the United States as Europe on the other side of the Atlantic, which of course is really very much what it is.

**Q. What's your sense of the Moscow-Washington relationship?**

**A.** I think we shall get the first agreement actually to reduce nuclear weapons. And we shall have gotten it by being very firm. As long as you are always firm in safeguarding your liberty and in defending it, then you do very tough negotiations, watching at each stage that everything you do is verifiable. You don't take anything on trust. The Soviet Union is a closed society and it's much bigger than the United States, so it would be much easier for them to conceal things.

**Q. Do you think Reagan and Gorbachev understand each other?**

**A.** I think it is easier for us to see a closed society than it is for those who live in a closed society to understand what an open society is all about. I don't think you always have to agree with the person you are negotiating with. What you need is a common interest. And it is a common interest between the free world and

the unfree world that the two shall never come into warlike conflict.

**Q. Would you consider a fourth term?**

**A.** I can't see what is going to happen in four or five years' time. We've just won this election. We'll implement the policies that we've put forward in this election. And let's just see exactly where we get to.

**Q. When it comes time to write the definitive analysis of Margaret Thatcher, what would you like it to say?**

**A.** That we had the courage to tackle the things which other governments had run away from, and therefore transformed Britain from a declining country to one which could again be proud of her spirit of enterprise and proud as a reliable ally and an influential nation. In other words, to have restored the British character to its vitality. ■

**Q. How far will you extend privatization?**

**A.** Some of our water has been supplied to people by private companies for years. The great amount of it is done under public authorities, and many of them tell us they would be able to run very much more efficiently if they were able to run their own operation. Also we shall then embark upon privatizing electricity, which you [in the U.S.] are used to. And then we'll have a look at other things and see how best we can bring them onto the market—always, I must say, giving the people who work in those enterprises the first chance to purchase shares at an advantageous price. Our policy is that every earner shall be an owner.

**Q. Is there increased anti-Americanism in this country at the moment?**

**A.** You will hear a good deal of it on the left wing of the Labor Party, but in almost



# Thatcher

FROM 17A

election until June 1992, and the two opposition parties remain divided and indecisive.

As it stands now, Margaret Thatcher can call the shots in British politics for some time to come. She is, says political columnist Robert Harris, "the political phenomenon of our age."

In her first 8½ years in office, Mrs. Thatcher has brought fundamental and permanent change to British society. So powerful has been her effect on the country that it is already clear she has established the political, economic and social agenda for the nation into the next century.

She is credited with turning the economy around from what many in the 1970s thought was in a state of irreversible decline. She has helped restore respect for Britain around the world.

"She, more powerfully than anyone else, has articulated the moral doubts and yearnings of her age," wrote political commentator Peter Jenkins in his new book, "Mrs. Thatcher's Revolution. The Ending of the Socialist Era."

"For what people wanted, surely, was an end to decline, release from the corrosive sense of failure, a government which governed, and a country to begin to be proud of once again," Jenkins wrote.

What she did was offer hope to a nation long burdened by a sclerotic class system and a stifling welfare state that had discouraged initiative.

In what may be her most lasting achievement, Mrs. Thatcher took on and crippled if not eliminated labor unions as a force in British politics. In so doing, she has called into question the postwar social contract long accepted by Conservative and labor governments alike, guaranteeing full employment and the welfare state.

Her goal, she said shortly after last June's election, is to create "a home-owning, share-owning, prop-

erty-owning, capital-owning democracy" in which "socialism with its class warfare has no relevance whatsoever."

## Most people have benefited

She is known to have a special fondness for the United States and its values of individual freedom and private enterprise. Mrs. Thatcher found an economic and ideological soul mate in President Reagan, and the two leaders have developed a close relationship.

In a British Broadcasting Corp. TV program on Mrs. Thatcher's first 3,167 days in office, Reagan expressed his admiration for her. "You can't help but notice the respect [she gets] when she addresses a subject," Reagan said.

The impact of Thatcherism on Britain is clear.

Trade union membership is down from 30 percent of the electorate when she took office to 22 percent today.

By privatizing state industries, she has tripled the number of corporate shareholders to more than 8.5 million people, 20 percent of the electorate.

By selling off publicly owned rental apartments to their occupants, she has increased the number of adult homeowners from 52 percent of the population in 1979 to 66 percent today.

Most people are better off. Average earnings have nearly doubled since 1980, and those with jobs are 22 percent wealthier in real terms.

That's for the haves. But for the have-nots, Thatcherism takes on a different glow.

As she imposed her regime of tight money and privatized bloated state-run industries, unemployment soared from 1.1 million at the time of her first election to nearly 3 million today.

While the rich have gotten richer under Mrs. Thatcher, the poor are getting poorer. Those in the top 10 percent income bracket now earn 10 times the amount of the lowest paid 10 percent.

The country is divided between rich and poor, between a prosperous and growing south and an im-

poverished and stagnating north. Many inner cities have become decayed ghettos of crime and festering resentment.

Ironically, Mrs. Thatcher has been successful politically even though she never has been popular personally. Only 45 percent of the respondents to a Gallup Poll released in December rated her likable, compared with a 60 percent personal approval rating for Neil Kinnock, the leader of the opposition Labor Party.

**'The nation has never loved her, nor ever will. All the same, no leader can last this long unless she speaks for some deep national sentiments.'**

— Hugo Young,  
Political columnist

## Not loved, but respected

"She would like to be Churchillian," wrote Hugo Young, a respected political columnist, but unlike Churchill, "the nation has never loved her, nor ever will."

"All the same," Young added, "no leader can last this long unless she speaks for some deep national sentiments."

"In Ronald Reagan terms, she has been very unimpressive," said King of the University of Essex. "People do not like her, whereas people like Ronald Reagan."

"On the other hand, in Margaret Thatcher terms she has been enormously successful where Reagan has not. She got her program through while Reagan has not. She runs a tight ship while Reagan's government is in disarray."

"Her huge achievement has been to take government by the scruff of its neck and to get it to produce policy that is really changing the face of Britain."

The underpinnings of Mrs. Thatcher's political philosophy can be found in her upbringing. She was born in 1925 in the town of Grantham, the daughter of a grocer

who instilled in her the values she still holds.

"My policies," she once said, "are not based on some economic theory but on things I and millions like me were brought up with: an honest day's work for an honest day's pay; live within your means; put a nest egg by for a rainy day; pay your bills on time; support the police."

Although Mrs. Thatcher escaped her lower-middle class upbringing — graduating from Oxford with a degree in chemistry, raising two children and working as a lawyer before turning to politics — she comes from outside the traditional Conservative Party voter base. That base has historically centered around the nation's paternalistic upper-class society.

"The prime minister is not a Tory in the traditional sense of the word," said a close adviser. "She is a radical conservative with a small 'c.'"

By many accounts, Mrs. Thatcher and Gorbachev have developed a healthy admiration and respect for each other in their three meetings, the most recent in England on Dec. 7 as Gorbachev was on his way to Washington. In many ways, they both are pursuing "radical" domestic programs, shaking the economic and social foundations of their societies.

She was the first Western leader to take the measure of Gorbachev, stating after their first meeting in late 1984 — a few months before Gorbachev took power — that he was a man with whom the West could "do business."

Mrs. Thatcher reportedly has offered encouragement to the Soviet leader, and compared notes on her experiences over the past eight years in attacking economic shibboleths in Britain.

Although much has been made of late of Mrs. Thatcher's "senior statesman" role — she is the West's longest-serving leader — her priority remains domestic policy.

Her third-term agenda is centered on an assault on some of the remaining temples of the welfare state — education, health and local government as it is now financed

through taxation.

## Targeting the tax system

The proposed changes in education would give parents greater choice in where their children go to school, allowing them to opt out of the control of local governments, which tend to be dominated by the Labor Party.

In health, she wants to increase privatization in the National Health Service, the country's socialized medicine system that has run into financial difficulties.

The most controversial proposal is to replace the progressive property tax system with a community fee, or flat-rate tax, in which everyone living in the same district would pay the same amount — regardless of income.

All three proposals have been met by stiff criticism in Parliament, by the media and among the public.

**'My policies are not based on some economic theory but on things I and millions like me were brought up with: an honest day's work for an honest day's pay; live within your means.'**

— Margaret Thatcher

A survey to be released today by Market & Opinion Research International, a leading British polling firm, indicates growing public opposition to Mrs. Thatcher's taxation and health plans.

But Robert Worcester, the American who founded the survey firm and polls regularly for the Labor Party, said that although Mrs. Thatcher for the first time is on the wrong side of the issues, her position is not threatened.

"People base their voting decisions by a trade-off between the leader's image, the party's image and the issues," Worcester said. "Clearly the prime minister does not have the issues image on her side at this time. But what she does have is a strong-leader image and a

party that is united and under control."

The primary reasons Mrs. Thatcher is in such a formidable position are the breakdown of the Labor Party as a viable opposition and the failure of the Alliance — the combined Liberal and Social Democratic parties — to pose a credible alternative.

"There's been an almost total collapse of traditional working-class solidarity that was the heart of Labor's vote," said Anthony Sampson, author of "The Changing Anatomy of Britain."

Sampson, a founding member of the Social Democrats, is among many of Mrs. Thatcher's political opponents who point to her good fortune in coming along at a time when the opposition parties were weak and divided.

They note that in June, the Tories received just 43 percent of the popular vote. Labor and the Alliance split the rest. She was re-elected in 1983 with just over 42 percent.

"The Tory Party is not overwhelmingly popular," said Professor King. "She owes her success to the weakness of the opposition."

But by most accounts, and barring unforeseen catastrophe — such as a severe economic downturn — the political constellations favoring the prime minister show no signs of changing. She already is the odds-on favorite to win re-election to a fourth term, should she choose to run again.

"There is still so much more to do," she told reporters outside her 10 Downing Street home Jan. 3, the day she passed Lord Asquith for longevity in office.

Many believe only the wishes of her husband, Denis, a retired businessman 10 years her senior, could lead her to step down should he opt for a quieter life.

Although she has not made up her mind about the future — and has four years in which to do so — the words she uttered during last year's campaign tend to reverberate forcefully around the halls of power in London.

She wants, she said at the time, "to go on and on."

# Thatcher remaking the face of Britain

As she sets record for time in office, she towers over her potential rivals

By Matthew C. Vita  
Journal-Constitution Correspondent

LONDON — Margaret Thatcher, Britain's first woman prime minister, stood on the Royal Air Force base tarmac last month with Soviet leader Mikhail Gorbachev.

Gorbachev, on his way to Washington for his summit with President Reagan, was bundled in gray overcoat, scarf and hat against a biting wind. His wife, Yelena, wore a fur.

But Mrs. Thatcher stood coatless in a navy-blue business suit, her pocketbook held in a gloveless left hand, as the two leaders said goodbye.

"I got very cold," she told reporters moments later in a rare admission of human fallibility.

She quickly stiffened and added, "I hope I didn't show it."

Anyone who knows or watches Mrs. Thatcher would have known she did not.

Mrs. Thatcher this month became the longest-serving British prime minister this century, over-riding Lord Herbert Henry Asquith, the Liberal who led Britain from 1908 to 1916. Her achievement was as much by her toughness and determination as by her considerable political skills.

Mrs. Thatcher, 62, passed the milestone seemingly at the height of her power. The Conservative

Party leader dominates British government and politics more than any prime minister since Winston Churchill during World War II.

"She is by a wide margin the most powerful prime minister this century, save for Churchill during the darkest hours of the war," said Anthony King, a professor of political science at the University of Essex.

So formidable is her power that her achievement was used by some former associates, members of her own party, as occasion to criticize her domineering style. A few even described her as ruthless and dictatorial.

Nevertheless, Mrs. Thatcher's third term — which began with a historic re-election in June — has gotten off to a shaky start. The reason: her attempt to expand the conservative, free-market principles — principles that sparked Britain's economic recovery — into the realm of social policy.

Last month, she was forced into a rare public reversal in the House of Commons when she authorized an emergency appropriation of \$183 million to the financially troubled National Health Service. The decision went against the grain of her drive to force the country's socialized medicine sector to cut costs.

That setback came soon after a



The Associated Press

**IN CONTROL:** Margaret Thatcher celebrates last Sunday, the day she became the longest-serving British prime minister of the 20th century. She does not have to call another election until 1992.

Conservative rebellion over her controversial plan to alter the system of collecting local taxes, which is widely perceived as regressive. It was the most serious break with Mrs. Thatcher's policies by fellow Tory lawmakers since she came to power in 1979.

Still, no one is suggesting Mrs. Thatcher is remotely near political trouble. Her 101-seat majority in Parliament is secure, she does not have to call another general