Luke Stacey

PO-CH/NL/0561
PART C

Part. C.

SECRET

(Circulate under cover and notify REGISTRY of movement)

Begins : 2/6/89.
Ends : 23/6/89.

MANAGEMENT IN CONFIDENCE

(Circulate under cover and notify REGISTRY of movement).

THIS FOLDER HAS BEEN REGISTERED ON THE REGISTRY SYSTEM

PO - CH | NL | 0561.
PT. ~~B~~ C.

Chancellors (Lawson) Papers:
Treasury Parliamentary Business 1989.

DD'S: 25 Years

1/5/96.

PO - CH | NL | 0561.
PT. ~~B~~ C

UNCLASSIFIED

FROM : MISS J C SIMPSON (EB)
DATE : 2 JUNE 1989
Ext 5211

1. MR PICKFORD - seen in draft

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Gieve
Miss Wallace
Mr Dyer
Mr Deane
Mr Lind
Mr Hutson (+ 5 copies)
Mrs Chaplin
Mr Tyrie
Mr Call

Mr N Forman MP
Mr T Favell MP
Mr J Maples MP
Mr M Stern MP
Mr A Howarth MP

TREASURY FIRST ORDER QUESTIONS : THURSDAY, 8 JUNE
EB DRAFT CENTRAL BRIEF

1. I attach EB's draft central brief.

2. The brief contains:

(i) Bull points

(ii) Checklist of main indicators published recently and to be published by 8 June

(iii) General briefing on topical issues.

3. There are twelve questions in the first twenty from Conservative MPs and eight from Labour. They cover an extremely wide range of subjects : seventeen distinct topics. Within that, there are seven which deal with aspects of the tax system (Messrs Steinberg, Hunter, Butler, Riddick, Martlew, Hughes and Thompson); one on public sector debt repayment (Mr Stewart); and three on manufacturing (two identical and grouped from Messrs Arbuthnot and Howarth and one from Mr Ward). There are also a number which taken together could give rise to questions about the

distribution of income and wealth (Messrs Cohen, Bennett and Hunter). The other seven deal with PEPs, unemployment, international debt, interest rates, the balance of payments, inflation and economic growth.

4. Among the questions from Conservative members, the most helpful seem to be those from Messrs Baldry (PEPs), Brazier (unemployment) and Stewart (cumulative public sector debt repayments). The questions from Messrs Bennett (RPDI) and Hunter (higher rate tax payments) ought to produce a good story for the Government, although they are vulnerable to counterclaims from the Opposition. Among the remaining seven, those from Messrs Arbuthnot and Howarth (manufacturing investment), Hughes (tax reform) Ward (manufacturing output) and Oppenheim (economic growth) are also positive. Whether Mr Riddick's question on company car taxation is helpful would seem rather to depend on the line of approach he has in mind for supplementary questioning. The same is true of Mr Butler's on the possible abolition of income tax.

5. Both these latter fall into the potential 'stopping zone'. Strong notes to end on would be provided by either Mr Stewart's question on the PSDR (at present, taking account of grouping, the eleventh), which would avoid Mr Duffy's question on inflation, or Messrs Arbuthnot and Howarth's grouped pair on manufacturing investment (the 14th and 15th). On recent experience, the prospects of reaching Mr Ward's question on manufacturing output do not look good.

6. At the moment, subject briefs have been prepared on

- inflation (EA1)
- manufacturing and industry (EA1)
- interest and exchange rates (MG1)

They will be attached to relevant questions in the usual way.

7. There are figures on Monday for retail sales (April final) and credit business (April). The CBI/FT survey of distributive trades is published on Thursday morning.

JS

MISS J C SIMPSON

BULL POINTS

Investment

Business investment in 1988 is highest proportion of GDP since records began. Total investment now higher proportion of GDP than in any year under last Labour Government.

Over past 7 years total investment grown more than twice as fast as total consumption a performance matched only by Japan of the other major countries. Under Labour, consumption grew by only 2 per cent a year, while investment hardly grew at all [¼ per cent a year on average].

In 1980s total investment grown faster than in any other EC country.

Industrial investment (manufacturing & construction, distribution, financial) reached all-time high, both absolutely and as share of GDP, in 1988. Further rise in 1989Q1.

Manufacturing investment grew by 14½ per cent in 1988 to reach highest ever level.

2. **Prices**

Retail price inflation has averaged 5¼ per cent since June 1983.

3. **Output**

GDP up 4½ per cent in 1988 following similar growth in 1987.

UK grown faster than all other major EC countries since 1980. Bottom of league in 1960s and 1970s.

Manufacturing output in 3 months to February at highest ever level. Fell between 1974H1 and 1979H1.

Profitability in 1988 at level not seen since 1960s.

4. **Productivity and Jobs**

Output per hour worked in UK 50 per cent higher than in Japan; only 5 per cent lower than in Germany (figures for 1986).

Manufacturing productivity grown faster than in any other major country in the 1980s. Bottom of league in the 1960s and 1970s.

Adult unemployment (seasonally adjusted) below 2 million. Lowest level since December 1980. Continuous fall for 33 months in a row, by over 1¼ million in total. Fall in unemployment longest and largest since War.

Unemployment has fallen in all regions over the last year. Long term unemployment has fallen faster than unemployment as a whole and fallen also in all regions.

Employment risen by nearly 3 million since 1983; performance over last five years best since War. Now at highest ever level.

5. **Public finances**

PSDR in 1988-89 (i.e. budget surplus) for second successive year, something which has not happened for 40 years. PSDR in 1988-89 £14.4 billion; 3 per cent of GDP.

eb.rl/docs/central

MAIN ECONOMIC INDICATORS PUBLISHED SINCE 8 MAY AND TO BE PUBLISHED BY 8 JUNE

8 May

Retail sales (March - final)

Producer prices (April - provisional)

- Annual rate of **output** prices 5.0 per cent.
- Annual rate of **input** prices 7.8 per cent.

11 May

Bank of England Quarterly Bulletin

15 May

CBI/FT Survey of distributive trades (April)

17 May

Public Sector Borrowing Requirement (April)

- Provisionally estimated to have been minus £0.8 billion in April. **Cumulative** total of minus £14.4 billion in whole of 1988-89.
- **Excl. privatisation proceeds,** £1.0 billion in April. Cumulative minus £7.3 billion in 1988-89.

Index of output of production industries (March)

- **Industrial production** in 1989Q1 down 1.4 per cent on previous quarter, but up 1.2 per cent on a year earlier.
- **Manufacturing output** in 1989Q1 up 0.7 per cent on previous quarter and up 6.6 per cent on a year earlier.

18 May **Labour market statistics**

- **Unemployment** (s.a., claimants aged 18 and over only) (April) down 60,000 to 1,856,000. 'Headline' total down 77,000 to 1,884,000.

- **Workforce in employment** in 1988Q4 up 143,000 on 1988Q3 to level 640,000 higher than a year earlier.

- **Manufacturing employees** (March) down 8,000 from February to 5,147,000.

- **Vacancies** (April) down 1,000 from March to 222,000.

- **Average earnings** (March) underlying increase of 9¼ per cent for whole economy.

- **Whole economy productivity** in 1988Q4 up 0.5 per cent on a year earlier.

- **Whole economy unit wage costs** in 1988Q4 up 8.4 per cent on a year earlier.

- **Manufacturing productivity** in 1989Q1 up 6 per cent on year earlier.

- **Manufacturing unit wage costs** in 1989Q1 up 3.1 per cent on year earlier.

19 May **Tax and price index (April)**

- Annual rate 8.3 per cent.

Retail prices index (April)

- Annual rate 8.0 per cent, **excl. mortgage interest payments** (MIPs) annual rate 5.9 per cent.

Provisional estimates of monetary aggregates (April)

- **M0** annual growth rate 5.7 per cent (s.a.).

- **M3** annual growth rate 20.7 per cent.

- **M4** annual growth rate 17.9 per cent.

- **M5** annual growth rate 17.3 per cent.

- Bank and building society **lending** +£7.0 billion (s.a.).

23 May

Capital expenditure (Q1 - provisional)

- **Manufacturing investment** in 1989Q1 up 8.7 per cent on a year earlier. In 1988 as a whole up 14½ per cent on 1987.

24 May

Construction - new orders (March)

- In 1989Q1, down 6 per cent on previous quarter, and 5 per cent lower than a year earlier.

Retail sales (April - provisional)

- In 3 months to April up 1.1 per cent on previous quarter; up 4.0 per cent on a year earlier.

25 May	<u>Balance of payments current account and overseas trade figures (April)</u>
	- April **current account** deficit of £1,655 million.
	- In 3 months to April, **export volumes** (excl. oil and erratics) up 1½ per cent on previous 3 months and up 8½ per cent on a year earlier.
	- In 3 months to April, **import volumes** (excl. oil and erratics) up 1 per cent on previous 3 months and up 15 per cent on a year earlier.
26 May	<u>Gross Domestic Product (Output-based) (Q1 - preliminary)</u>
	- **GDP(O)** in 1989Q1 down 0.2 per cent on previous quarter but up 1.9 per cent on a year earlier.
30 May	<u>CBI Monthly Trends Enquiry (April)</u>
2 June	<u>UK official reserves (May)</u>
5 June	<u>Retail sales (April - final)</u>
8 June	<u>CBI/FT Survey of distributive trades (May)</u>

GENERAL BRIEFING : TOPICAL ISSUES

1. Interest rate rises not working ; economy on 'tightrope'

   - No. Only 1 per cent of 3 percentage point rise in RPI since July due to underlying inflation. Rest due to impact of mortgage interest payments

   - as I/my RHF has made clear, always lag between effect of higher interest rates on consumer spending and effect on inflation

   - some effects of interest rate rises clearly showing through: sharp slowdown in M0 growth since Autumn 1988; no underlying growth in retail sales in recent months; definite signs of reduced activity in housing market

   - although inflation at 8 per cent much too high, it will certainly fall later this year

   - I/my RHF has made clear that prepared to maintain interest rates at whatever level necessary to maintain downward pressure on inflation

   - recognise that increased interest rates unwelcome to borrowers, especially small businessmen and home owners, but battle against inflation must be paramount

2. If policy already working, why raise interest rates again last month?

   - Progress in getting inflation down is going to plan. Rates increased to prevent this being jeopardised

   - dollar strength led to fall in exchange rate which threatened to ease monetary conditions. Interest rates were accordingly raised to support sterling and maintain appropriately tight conditions.

3. Increase in interest rates for exchange rate reasons when domestic situation under control shows folly of relying on interest rates as sole instrument of policy

   - Interest rates by no means only economic instrument - also fiscal policy and supply-side policies. But these two appropriate for medium/longer term

   - fiscal policy not suitable for fine-tuning economy because lags in system mean tax changes take longer to have effect on activity than interest rates do. Was tried often enough in 1960s and 1970s and lesson to be drawn from failures of that period is clear. Also destroys supply-side benefits of tax cuts

- and fiscal policy remains tight. PSDR for 1988-89 likely to be £14 billion; same figure forecast for 1989-90

- credit controls would be unworkable, as well as creating inefficiencies and distortions in market. Would act as disincentive to savers as well as borrowers

- would also be unfair, because less well-placed borrowers would have to pay more and be driven to loan-sharks, while respectable lenders directed cheaper credit to 'safest' borrowers

- re-introduction of import controls would be enormously retrograde step. As my RHF the Prime Minister made clear, would be move against the EC, against GATT, against the pound and against common sense.

4. International monetary co-operation in tatters?

   - Nonsense. G7 always keeps in touch. I/my RHF have stressed importance of international co-operation within G7

   - period of international inflationary resurgence coming to end, so no need for further general increases in interest rates

   - time to allow monetary tightening that has already taken place to have its effect

   - [in response to claim that concerted market intervention no use at holding down dollar] Concerted intervention has helped to maintain greater exchange rate stability which has been feature of past two years.

5. Why fail to revalorise excise duties because of inflationary pressures while forcing up RPI through interest rate and NI price rises?

   - Very different considerations apply. Interest rates essential weapon in defeat of inflation by curbing domestic demand, especially that financed by borrowing. Effect on RPI is perverse - as I/my RHF have always made clear. But will have intended effect on underlying rate of inflation

   - RHG Leeds East recognised importance of not adding to inflationary pressures by unneeded increases in excise duties - said in 1978 Budget speech "I cannot believe it would make sense for the Government themselves deliberately to raise the inflation rate and increase the cost of living. I will therefore leave the indirect taxes generally unchanged on this occasion."

- tobacco duty fell in real terms under Labour; has risen over 40 per cent under this Government

- duty on cigarettes second highest in EC (after Denmark). Duty on alcoholic products higher than all except Denmark and Ireland

- nationalised industries need to increase prices to achieve satisfactory rate of return and finance new investment

- objective is to make industries profitable and competitive. Going back to bureaucratic interference in NIs' pricing policies would be retrograde step and undo good work already achieved

- over last five years NI component of RPI risen more slowly than total RPI.

6. Nationalised industry price increases damaging industry; unnecessary to fund investment; Government adding £2 billion/ £1,000 per employee to industry's costs (John Banham)

- Figures appear exaggerated and misleading eg £1,000 figure includes effect of corporation tax payments arising from increased profits and increased NICs attributable to buoyancy of earnings and employment

- fuel and power costs only tiny proportion of industry's total costs. April 1988 electricity price increases represented increase in costs of only one-sixth of one per cent. April 1989 increases even less. And industrial consumers' prices had fallen over past five years by 10 per cent in real terms

- not true that price rises not justified by need to fund investment. Present low rate of return from nationalised industries insufficient to justify investment on scale needed for future. Right therefore that required rate of return should be increased as my RHF SoS/Energy made clear when announced new targets in November 1987. And right that tax-payer should also get return on investment

- my H & LF Minister for Water made clear that price rises for Water Authorities represent appropriate balance between charges and borrowing next year, taking account of Authorities' long-term financial requirements

- once industries privatised, will be free to raise finance in markets like other industries

- over past five years (1983-88), nationalised industry prices as whole rose less than RPI (22 per cent compared to 26 per cent for RPI). This year, have increased by roughly same amount

- major item of industry's costs in its own hands; needs to keep control of pay costs. But these going up faster than prices generally

- [on business rates] recognise burden business rates can impose in areas of high local authority spending. That is why introduced NNDR. My RHF SoS/Environment announced in March transitional arrangements for those badly affected by rating revaluation. New system will be much fairer.

7. High interest rates penalising industry, inhibiting investment

   - Industry doing very well: output up, profitability up, investment intentions remain strong. In 1989Q1, industrial investment up 16 per cent on same period a year ago

   - manufacturing investment grew by 14½ per cent in 1988, biggest annual increase for nearly 20 years

   - latest CBI Survey shows that investment intentions remain strong by historical standards

   - renewed inflation would damage industry's confidence and willingness to invest

   - 1 per cent increase in interest rates, even if sustained for full year, would cost industry much less than 1 per cent increase in wage settlements.

8. Investment languishing while consumption booms

   - No. Total investment has grown faster than total consumption over past seven years - on average more than twice as fast. Experiencing longest lived investment-led expansion British economy has experienced for decades

   - FSBR forecast showed business investment up by 14½ per cent in 1988 and likely to rise by further 8 per cent in 1989. CBI industrial trends enquiries continue to show confidence - April quarterly survey showed balance of firms expecting to increase capital expenditure over next 12 months remains high by historical standards

   - business investment highest proportion of GDP since records began

   - overall level of investment at record levels. Rose between 1979 and 1988 by over 30 per cent in real terms. Over period 1974-79 it grew by less than 4 per cent

   - not just quantity but quality of investment that is important. Quality improved since 1979 as evidenced by improvement in productivity and profitability.

9. Manufacturing trade deficit

- Manufacturing export volumes up [] per cent in three months to April 1989Q1, compared to same period year earlier, and forecast to rise by 7½ per cent in 1989

- and on almost all other objective indicators, manufacturing performance has been transformed: productivity, profitability investment etc

- manufacturing output has risen under this Government (in 1989Q1, up 11 per cent on 1979H1) and at all-time high. It fell under Labour.

10. Recent monthly current account deficits mean balance of payments crisis imminent

- FSBR forecast current account deficit this year at £14½ billion or less than 3 per cent of GDP, but no balance of payments crisis

- deficit reflects rapid rise in investment unmatched by comparable increase in savings, so UK has been importing capital from abroad. Since balance of payments as whole must balance, inevitable counterpart has been current account deficit

- with world economy becoming increasingly integrated, inevitable that will be differences in pattern of savings and of investment opportunities in different countries, and hence balance of payments surpluses and deficits

- also, demand in UK economy, from both companies and consumers, has been growing faster than industry's capacity to meet it, and excess has to be met from imports. Strong growth in investment will in time produce additional capacity and enable British industry to meet more of demands on it

- Government has taken appropriate action and deficit will correct itself in time. No cause for concern provided firm financial framework in place, as it is. Meanwhile, general strength of economy and high level of overseas assets mean no problems in financing temporary deficit.

11. FSBR forecast for 1989 current account deficit unrealistic (TCSC Report on 1989 Budget)

- Forecast represents Government's best assessment of position. No new forecast until Autumn Statement

- Government envisaging quite marked slowdown in growth of domestic demand at time when world trade still rising very rapidly

- first quarter's figures not accurate indication of likely total for year; expect slowdown in growth of demand to be accompanied by lower import growth and effect to be concentrated in second half of year

- outside forecasters also predicting deficit in very much same range (independent average £15½ billion).

12. Current account deficit unsustainable/ cannot be turned round without either depreciation or rising unemployment (TCSC Report on 1989 Budget)

- Many examples around world of sizeable deficits or surpluses persisting for considerable period. Reflects worldwide move to deregulation of capital markets, development of wide range of financial instruments, and massive growth of mobile capital

- UK deficit being financed comfortably because of strength of economy and high level of overseas assets

- also number of examples where countries have improved their current account without depreciation of the exchange rate, including UK. Japan had swing of 2.8 per cent of GDP between 1979 and 1983 with appreciating exchange rate

- made no secret of fact that UK domestic demand expected to grow more slowly than world average. Forecast for current account and unemployment expectations consistent with that.

13. Budget shows accept last year's strategy mistaken

- No. Fiscal policy very tight last year with unprecedented PSDR; that further tax reductions were possible this year with similar PSDR shows last year's reforms are sustainable

- cuts in tax rates in last year's Budget were supply side measures aimed at improving incentives

- growth of consumption last year financed largely by borrowing, especially on mortgages - not from tax cuts. Have taken steps to curb excessive borrowing

- cautious approach correct. Looser fiscal stance would be inconsistent with gradualist strategy of MTFS. Further year of debt repayment will lower burden of debt interest in future years.

14. Budget does nothing for poor; should have reversed 1988 'Budget for rich'

- 1988 not Budget for rich. All taxpayers benefited from its measures

- 70 per cent of cost of reform of NICs this year will go to those on less than average (male full-time) earnings

- also number of measures to help elderly eg extending extra age allowance to over 75s, abolition of earnings' rule. Further 15,000 elderly taken out of tax compared to indexation and 400,000 gain some benefit

- real take home pay for those on half average earnings likely to go up over 24 per cent 1978-79 to 1989-90. Went up 4 per cent 1973-74 to 1978-79.

15. <u>Government policies consistently favour rich at expense of poor</u>

- What matters to those on low incomes is their real standard of living, not their relative position. Real disposable incomes up throughout the income distribution

- living standards have never been higher. Real take-home pay of average married man with two children rose less than 1 per cent under Labour. In 1988-89 it is likely to have risen over 29 per cent - or £45 a week at today's prices - under this Government. Likely to rise further in 1989-90

- on DSS figures, post tax incomes of people at all levels rose in real terms between 1981-1985. Since 1985 real incomes have continued to rise, unemployment has fallen sharply and taxes have been further reduced. Real personal disposable income rose on average 3 per cent a year 1983-88. Marked contrast to slow growth between 1974 and 1979

- real value of supplementary benefit has increased between 1979 and 1987. Shows nonsense of suggesting that poverty should be defined as any particular proportion of supplementary benefit level - increasing level increases number of 'poor'

- between 1979 and 1986 average net income of pensioners rose by 23 per cent in real terms

- total expenditure on benefits up 33 per cent in real terms since 1979. Spending on sick and disabled has almost doubled in real terms

- in real terms, income tax paid by top 5 per cent up by 35 per cent in 1989-90 compared with 1978-79 while total for rest up by only 5 per cent.

16. <u>Tax relief for private medical insurance for over-60s unjustified</u>

- Strange that RHG and HG should be so obsessed with comparatively minor measure that had already been announced two months before Budget

- no reason why people should not opt out of burdening the NHS with costs of their health care. Very real benefits to NHS; average cost of tax relief £100 pa, while average cost of NHS care to over-65s is about £1,000 pa

- but particular reason for helping over-60s, many of whom will have been covered by employers or job-related schemes up to retirement, but find then that cost of health care rises just as ability to pay falls. Measure will give stimulus to market in provision of health care for elderly

- relief given at marginal rate and without 'targetting' because this is standard practice when giving tax relief as opposed to benefit payment. Relief at source also ensures that non-taxpayers will get benefit

- Government also putting massive additional resources into NHS. 1989 PEWP shows largest increase in resources ever made available to NHS : £2.5 billion in both 1989-90 and 1990-91.

17. Tax cutting strategy has not produced falling tax burden

- Tax burden grew until 1981-82, reflecting need to reduce PSBR and so inflation, but now reduced from peak levels

- other countries have had growing tax burdens. UK has average burden. Latest CSO figures for 1986 show that it is greater than US, Japan and Italy, but lower than France and most Scandinavian countries, and similar to West Germany

- Government will reduce tax burden as and when feasible and prudent to do so. Judged that this year a prudent and cautious approach meant sensible to have no reduction in tax burden.

Miss J C Simpson
EB Division
Ext 5211

108g/mg1.pa O'MARA(801)

HMT Ref: 3-0703 FOR ORDINARY WRITTEN ANSWER ON 3 JULY 1989

Ch
OK? (EST will answer)

TREASURY

OK as ... AA

La - Nottingham North

25 **Mr Graham Allen**

To ask Mr Chancellor of the Exchequer, if he will list the publicly available sources of information on the exchange equalisation account.

DRAFT REPLY:

? is this really necessary (see background note)

~~It has been the policy of successive governments that details of the Exchange Equalisation Account should not be published. Figures on the UK official reserves~~ are published in Table 17.1 of the Bank of England's Quarterly Bulletin and in Table 10.3 of Financial Statistics. Information on reserves changes is also published each month by the Treasury as part of the reserves press notice. Historical material relating to the Exchange Equalisation Account is released in accordance with the Public Records Acts of 1958 and 1967.

The Exchange Equalisation Account holds the UK's official reserves, figures for which

MOM

MISS M O'MARA
MG1 DIVISION
EXT. 4699

MR GRAHAM ALLEN

BACKGROUND

Mr Allen is a member of the PAC. The Committee took evidence from the Treasury and Bank on the operation of the Exchange Equalisation Account (EEA) on 28 June and Mr Allen pressed then for publication of more detail about the Account. The session closed before he had the opportunity to pose all his questions and he is now clearly seeking further information by another route.

At the hearing, the Treasury were asked whether the EEA's accounts were released under the 30 year rule and undertook to write to the Committee. Mr Allen may well have this point in mind, as well as the recent calls from the TCSC that the Government should publish "at appropriate intervals" the amount of intervention undertaken and the gains and losses to the UK Exchequer (Report on International Monetary Co-ordination, May 1989).

The Treasury do, of course, publish details of the total and underlying changes in reserves levels in the monthly reserves press notice and a more detailed breakdown is given in Table 17.1 of the Bank of England's Quarterly Bulletin and Table 10.3 of Financial Statistics (attached). The answer deliberately distinguishes between information about the EEA and information on the official reserves.

As far as historical material is concerned, it has already been agreed in principle that the EEA's accounts should be released after 30 years but as a result of a reviewing backlog, not all the files which contain information about the accounts for the years between 1932-33 and 1957-58 have yet been sent to the PRO. Mr Wicks is therefore intending to write to the PAC very shortly, informing them of the position and undertaking to release files with information about the accounts up to and including those for 1957-58 as a matter of urgency. We shall, however, continue to resist any calls for publication <u>within</u> 30 years.

The draft answer acknowledges that historical material is released in accordance with the Public Records Acts but does not refer to the hiccough which has occurred in practice: Mr Allen will see a copy of Mr Wicks' letter in due course.

Bank of England Quarterly Bulletin

17.1 United Kingdom official reserves

$ millions

At end of period	Total	Gold	Special drawing rights	Reserve position in the IMF	Convertible currencies
1979	22,538	3,259	1,245	—	18,034
1980	27,476	6,987	560	1,308	18,621
1981	23,347	7,334	1,043	1,513	13,457
1982	16,997	4,562	1,233	1,568	9,634
1983	17,817	5,914	695	2,168	9,040
1984	15,694	5,476	531	2,110	7,577
1985	15,543	4,310	996	1,751	8,486
1986	21,923	4,897	1,425	1,820	13,781
1987 Aug.	34,365	5,792	1,606	1,778	25,189
Sept.	34,808	5,792	1,555	1,697	25,764
Oct.	41,399	5,792	1,468	1,698	32,441
Nov.	41,281	5,792	1,342	1,628	32,519
Dec.	44,326	5,792	1,229	1,579	35,726
1988 Jan.	43,093	5,792	1,128	1,584	34,589
Feb.	42,927	5,793	1,113	1,588	34,433
Mar.	{44,640	5,793	1,209	1,604	36,034
	{47,519	6,469	1,311	1,741	37,998
Apr.	47,857	6,468	1,389	1,752	38,248
May	48,533	6,468	1,396	1,765	38,904
June	48,519	6,468	1,525	1,763	38,763
July	49,826	6,468	1,375	1,768	40,215
Aug.	50,639	6,468	1,441	1,764	40,966
Sept.	50,482	6,468	1,482	1,722	40,810
Oct.	50,048	6,467	1,421	1,722	40,438
Nov.	51,040	6,467	1,217	1,690	41,666
Dec.	51,685	6,466	1,341	1,694	42,184
1989 Jan.	51,705	6,466	1,231	1,703	42,305
Feb.	51,683				
Mar.	{50,456				
	{46,931				
Apr.	47,256				

17.2 UK government and other public sector foreign currency debt[(a)]

$ millions

	Official debt							Other public sector commercial borrowing	Total public sector official and commercial foreign currency borrowing
	IMF	HMG short and medium-term debt		HMG long-term debt	Other public sector borrowing		Total official debt		
At end of period		Securities (notes bonds and bills)	Other		Under exchange cover scheme	Uncovered borrowing			
1979	1,071	1,185	4,000	3,430	9,332	1,730	20,748	290	21,038
1980	717	1,152	2,500	3,282	8,445	1,294	17,390	501	17,891
1981	364	1,119	—	3,147	7,525	1,144	13,299	696	13,995
1982	57	879	—	2,985	7,486	739	12,146	698	12,844
1983	—	848	—	2,840	7,673	597	11,958	681	12,639
1984	—	368	360	2,688	7,561	306	11,283	618	11,901
1985	—	2,686	493	2,540	8,700	218	14,637	489	15,126
1986	—	6,653	424	2,419	9,647	182	19,325	375	19,700
1987 July	—	6,602	368	2,434	10,016	154	19,574	32	19,606
Aug.	—	6,602	366	2,436	10,009	156	19,569	32	19,601
Sept.	—	6,602	352	2,439	10,038	152	19,583	32	19,615
Oct.		6,602	340	2,407	10,007	154	19,549	32	19,581
Nov.	—	6,602	287	2,440	10,106	149	19,584	32	19,616
Dec.	—	6,602	198	2,315	9,806	148	19,069	32	19,101
1988 Jan.	—	6,567	67	2,322	9,128	122	18,206	32	18,238
Feb.	—	6,567	49	2,327	8,982	122	18,047	26	18,073
Mar.	—	6,567	—	2,336	8,587	117	17,607	26	17,633
Apr.	—	6,567	—	2,338	8,321	115	17,341	26	17,367
May	—	6,533	—	2,336	8,122	105	17,096	26	17,122
June	—	6,533	—	2,344	7,834	99	16,810	26	16,836
July	—	6,533	—	2,344	7,708	98	16,683	26	16,709
Aug.	—	6,533	—	2,334	7,675	98	16,640	26	16,666
Sept.	—	6,533	—	2,343	7,664	94	16,634	26	16,660
Oct.	—	5,064	—	2,341	7,605	95	15,105	26	15,131
Nov.	—	5,731	—	2,353	7,585	88	15,757	26	15,783
Dec.	—	6,094	—	2,220	7,418	19	15,751	26	15,777
1989 Jan.	—	6,103	—	2,223	7,115	19	15,460	26	15,486

(a) The valuation of these public sector liabilities differs from that used for the official reserves. Total official debt outstanding at end-Jan. 1989 valued on the same basis as the official reserves was $15,983 million.

Financial Statistics

10.3 Official reserves

	£ million								US $ million				
				End of period[1]					End of period[1]				
	Drawings on(+) or additions to(-) official reserves	Revaluations and other changes	Changes in levels (incr. -)	Total	Gold	IMF Special Drawing Rights	Reserve position in the IMF	Convertible currencies	Total	Gold	IMF Special Drawing Rights	Reserve position in the IMF	Convertible currencies
	AIPA	AIPB	AIPC	AIPD	AIPE	AIPF	AIPG	AIPH	AIPI	AIPJ	AIPK	AIPL	AIPM
1982	1 421	288	1 709	10 508	2 821	762	969	5 956	16 997	4 562	1 233	1 568	9 634
1983	607	-2 370	-1 763	12 271	4 073	479	1 493	6 226	17 817	5 914	695	2 168	9 040
1984	908	-2 190	-1 282	13 553	4 729	459	1 822	6 543	15 694	5 476	531	2 110	7 577
1985	-1 758	4 558	2 800	10 753	2 982	689	1 211	5 871	15 543	4 310	996	1 751	8 486
1986	-2 691	-1 132	-4 023	14 776	3 301	960	1 227	9 288	21 923	4 897	1 425	1 820	13 781
1987	-12 012	3 298	-8 714	23 490	3 069	651	837	18 933	44 326	5 792	1 229	1 579	35 726
1988	-2 761	-2 338	-5 099	28 587	3 576	742	937	23 332	51 685	6 466	1 341	1 694	42 184
1982 Q1	11	1 569	1 580	10 637	2 549	584	803	6 701	18 969	4 546	1 042	1 432	11 949
Q2	699	-219	480	10 157	2 623	517	854	6 163	17 703	4 571	902	1 489	10 741
Q3	-288	-353	-641	10 798	2 691	578	887	6 642	18 299	4 561	979	1 502	11 257
Q4	999	-709	290	10 508	2 821	762	969	5 956	16 997	4 562	1 233	1 568	9 634
1983 Q1	652	-1 846	-1 194	11 702	3 992	746	1 186	5 778	17 337	5 914	1 106	1 757	8 560
Q2	-142	303	161	11 541	3 854	719	1 128	5 840	17 711	5 914	1 104	1 731	8 962
Q3	-33	-401	-434	11 975	3 956	803	1 144	6 072	17 902	5 914	1 201	1 710	9 077
Q4	130	-426	-296	12 271	4 073	479	1 493	6 226	17 817	5 914	695	2 168	9 040
1984 Q1	77	575	652	11 619	3 797	483	1 467	5 872	16 749	5 473	696	2 115	8 465
Q2	857	-670	187	11 432	4 038	617	1 569	5 208	15 505	5 477	837	2 128	7 063
Q3	279	-1 166	-887	12 319	4 420	515	1 707	5 677	15 260	5 475	638	2 115	7 032
Q4	-305	-929	-1 234	13 553	4 729	459	1 822	6 543	15 694	5 476	531	2 110	7 577
1985 Q1	90	2 465	2 555	10 998	3 504	429	1 522	5 543	13 528	4 310	528	1 872	6 818
Q2	-607	692	85	10 913	3 285	461	1 405	5 762	14 318	4 310	605	1 843	7 560
Q3	-49	887	838	10 075	3 063	522	1 266	5 224	14 176	4 309	735	1 781	7 351
Q4	-1 192	514	-678	10 753	2 982	689	1 211	5 871	15 543	4 310	996	1 751	8 486
1986 Q1	-580	-1 353	-1 933	12 686	3 317	832	1 332	7 205	18 750	4 902	1 230	1 968	10 650
Q2	-296	469	173	12 513	3 197	852	1 237	7 227	19 188	4 902	1 307	1 897	11 082
Q3	-2 321	-657	-2 978	15 491	3 382	861	1 277	9 971	22 426	4 896	1 247	1 848	14 435
Q4	306	409	715	14 776	3 301	960	1 227	9 288	21 923	4 897	1 425	1 820	13 781
1987 Q1	-1 523	-556	-2 079	16 855	3 611	962	1 179	11 103	27 039	5 792	1 544	1 891	17 812
Q2	-4 469	13	-4 456	21 311	3 592	918	1 114	15 687	34 364	5 792	1 480	1 796	25 296
Q3	-269	212	-57	21 368	3 555	955	1 042	15 816	34 808	5 792	1 555	1 697	25 764
Q4	-5 751	3 629	-2 122	23 490	3 069	651	837	18 933	44 326	5 792	1 229	1 579	35 726
1988 Q1	-653	-1 073	-1 726	25 216	3 433	696	924	20 163	47 519	6 469	1 311	1 741	37 998
Q2	-631	-2 602	-3 233	28 449	3 793	894	1 034	22 728	48 519	6 468	1 525	1 763	38 763
Q3	-995	-498	-1 493	29 942	3 836	879	1 022	24 205	50 482	6 468	1 482	1 722	40 810
Q4	-482	1 835	1 353	28 587	3 576	742	937	23 332	51 685	6 466	1 341	1 694	42 184
1989 Q1	502†	..	..	27 844	..	..	..	..	46 931	..	..	..	..
1989 Feb				29 652					51 683				
Mar				27 844					46 931				
Apr				27 995					47 256				

1 Amounts outstanding are revalued at end-March each year.

Source: Bank of England

J. Smith
B. Gould

Moira ←
Please draft Govt motion -
Alex

5th June 1989

OPPOSITION DAY MOTION FOR WEDNESDAY 7TH JUNE 1989

THE DISARRAY AND FAILURE OF GOVERNMENT ECONOMIC POLICY

'This House deplores the confusion and disarray of Government Economic Policy, the record balance of payments deficit, the rising rate of inflation and the damaging level of interest rates; notes with concern the continuing neglect of the real economy and the failures to invest adequately in education and training, research and development, and the regions, which undermine Britain's prospects of success in the single market of the European Community after 1992; and calls upon the Government to give urgent priority to such supply side investment in order to reduce the balance of payments deficit and begin to create a strong, balanced and competitive economy for the 1990's.'

MR NEIL KINNOCK
MR ROY HATTERSLEY
MR JOHN SMITH
MR BRYAN GOULD
MR GORDON BROWN
MR DEREK FOSTER

J. Smith
B. Gould

Moira
Please draft Govt motion -
Alex

5th June 1989

OPPOSITION DAY MOTION FOR WEDNESDAY 7TH JUNE 1989

THE DISARRAY AND FAILURE OF GOVERNMENT ECONOMIC POLICY

'This House deplores the confusion and disarray of Government Economic Policy, the record balance of payments deficit, the rising rate of inflation and the damaging level of interest rates; notes with concern the continuing neglect of the real economy and the failures to invest adequately in education and training, research and development, and the regions, which undermine Britain's prospects of success in the single market of the European Community after 1992; and calls upon the Government to give urgent priority to such supply side investment in order to reduce the balance of payments deficit and begin to create a strong, balanced and competitive economy for the 1990's.'

MR NEIL KINNOCK
MR ROY HATTERSLEY
MR JOHN SMITH
MR BRYAN GOULD
MR GORDON BROWN
MR DEREK FOSTER

chex.ps/mw2/14

MP

FROM: MISS M P WALLACE
DATE: 5 June 1989

CHANCELLOR

OK, as amended. Better clear with No. 10.

OPPOSITION DAY DEBATE: GOVERNMENT AMENDMENT

How about the following:

["leave out .... " etc]

"This House ... congratulates Her Majesty's Government on its economic policies which have led to output, investment, and productivity growing faster than in any other major EC country in the 1980s; ~~and which have brought manufacturing output and investment to an all-time high; [commends the Government on its achievement in repaying public debt, while at the same time continuing the process of tax reform and increasing public spending on priority programmes];~~ applauds the Government's firm anti-inflationary stance, and the action it has taken to exert further downward pressure on inflation; and commends the Government's supply side policies which have brought industry's profitability to a 20 year high, ~~and which have~~ led to record rates of new business growth, and seen the creation of nearly 3 million new jobs since 1983."

MPW

MOIRA WALLACE

Their motion, and our amendment in the October opposition debate, attached fp.ac.jfg/300/pq

FROM: J F GILHOOLY (FP)
DATE: 6 June 1989

EXTN: 4550

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Paymaster General
Sir Peter Middleton
Mr Scholar
Mr Culpin
Mr R I G Allen
Mr Michie
Mr Macpherson
Mr Dyer
Mrs Chaplin
Mr Tyrie

Ch/ Content?

@IS

PQ FROM MR AUSTIN MITCHELL

Cabinet Office has just rung me to say that Austin Mitchell has tabled a written question to the Prime Minister as follows:

> " To ask whether Her Majesty's Government will bring forward proposals to amend Section 2 of the European Communities Act (1972) to enable Parliament to decide the level of taxation. "

2. The draft answer has to be with the Prime Minister by 2pm. The Cabinet Office propose that the Prime Minister simply answer "No".

Suggest:
"HMG have no proposals to amend s.2 of the EC Act (1972)."

SECRET

Reference ....

MR TAYLOR

You have the Graham Allen PQ.

The awkwardness about referring to reserves figures rather than EEA transactions is

(i) the EEA holds some assets which are not scored in the reserves (FRNs we have bought in etc.) The existence of this discrepancy is known only to a very small circle in the Bank and Treasury

(ii) the EEA, of course, holds currency forward. Again, we do not acknowledge this.

MOM 5/7

CODE 18-78

3. The two obvious reason for the question are:

- to fuel debate in the run up to the European Parliament elections, about UK sovereignty in the EC;

- to latch onto the fuss about the ECJ VAT judgement as it affects banks.

4. The question is based on the false premise that Parliament does not determine the level of taxation. This is untrue, not just because the EC has no locus for the majority of taxes, but because where it does have a locus (notably under the 6th VAT Directive), the EC does not determine VAT rates, beyond banning zero-rating on most VATable items, and prescribing VAT exemptions, eg for financial services. In particular, the EC does not prescribe the precise level of VAT rates - and Madame Scrivener's latest proposals would not change that.

5. But I can see why the Cabinet Office are cautious about an answer such as

" Parliament does decide the level of taxation, "

because that opens up scope for mischief, as might a longer answer covering the ground in paragraph 4 above. A simple "No" avoids addressing the issue of Parliament's power to determine the level of taxation.

6. Are you content? If so, perhaps your office might let the Cabinet Office know (Kate Jenkins 270 - 2304).

J F GILHOOLY

FROM: D I SPARKES
DATE: 6 June 1989

MR GILHOOLY (FP)

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr R I G Allen
Mr Michie
Mr Macpherson
Mr Dyer
Mrs Chaplin
Mr Tyrie

PMP

PQ FROM MR AUSTIN MITCHELL

The Chancellor was grateful for your minute of 6 June concerning the Austin Mitchell PQ asking "whether Her Majesty's Government will bring forward proposals to amend Section 2 of the European Communities Act (1972) to enable Parliament to decide the level of taxation.". Rather than simply saying in reply "No" the Chancellor would prefer to say "Her Majesty's Government have no proposals to amend Section 2 of the European Communities Act (1972)". This distances the reply even further from the specific issue of taxation. I have passed this amendment to Cabinet Office.

D.S.

DUNCAN SPARKES

FROM: A C S ALLAN
DATE: 6 June 1989

parp

MISS O'MARA

cc PS/Economic Secretary
Sir P Middleton
Mr Wicks
Mr Peretz

PQ BY GRAHAM ALLEN ON THE EEA

The Chancellor would prefer the beginning of the draft reply to read:

> "The Exchange Equalisation Account holds the United Kingdom's official reserves, figures for which are published in Table 17.1 of ..."

ACSA

A C S ALLAN

1. Alex (I've passed on to C.H.)

2. pnp.

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

PS/Chancellor

Due to the Steinberg and Hunter questions being unstarred the question from Jack Thompson has moved into the first twenty at number eighteen.

The Chancellor may wish to group questions 14 + 18 (Martlew + Thompson) on workplace nurseries.

Colin Hudson

LEAVE IT UP FRST; [illegible] need to do so.

M.

psec.lb/bd.1 cab

CONFIDENTIAL

FROM: B O DYER (Parly Clerk)
DATE: 6 June 1989
EXTN: 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve - IDT
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 8 JUNE 1989
PARLIAMENTARY AFFAIRS

Following is the business currently proposed for the Commons next week:

Monday 12 June

2.30pm: Transport Questions

3.30pm: **Private Members' Motions**

1. Ms Joyce Quin: Consumer Protection
2. Mr Harry Barnes: Implications of the Poll Tax
3. Mr John McFall: Political Situation in Scotland

7.00pm: **Opposed Private Business**

Tuesday 13 June (4.30pm: Fin. Bill St. Cttee 8th Sitting)

2.30pm: Defence Questions

3.15pm: PMs Questions

3.30pm: Ten Minute Rule Bill - Frank Doran: Employers' Liability

3.40pm: **Local Government & Housing Bill** - Remaining stages (1st day)

10.00pm: **EC Directive on Broadcasting**

Wednesday 14 June

2.30pm: Foreign & Commonwealth Questions

3.15pm: Ten Minute Rule Bill - Edward Leigh: Creation of Unitary Local Authorities

3.40pm: **Local Government & Housing Bill** - Conclusion of remaining stages

P.T.O

<u>Thursday</u> <u>15 June</u> (4.30pm: Fin. Bill St. Cttee 9th Sitting)

2.30pm: Home Office Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: **Police Officers (Central Service) Bill:** Remaining stages [Road Traffic (Driver Licensing and Information Systems) Bill: Remaining stages] or, possibly, at 7.00pm a debate on the Arts and the Heritage.

<u>Friday</u> <u>16 June</u>

9.30am: **Private Members' Motions**

1. Alan Meale: subject to be announced
2. Dick Douglas: Poll Tax in Scotland
3. Michael Stern: subject to be announced

B O DYER

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor
House of Lords
LONDON
SW1A OAA

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

CH/EXCHEQUER
REC. 06 JUN1989
ACTION MRS BROWN /716
COPIES TO CST, FST
PMG, EST
MR WICKS, MR LANKESTER
MR MONCK, MR PHILLIPS
MR RIG ALLEN, MR Z WILSON
MRS CASE, MR MORTIMER
MR BURR, MR KNIGHT
MS SYMES, MR RUSSELL
MRS CHAPLIN, MR TYRIE
MR CALL.

Direct line 215 5422
Our ref MM5APJ
Your ref
Date 6 June 1989

Dear James,

CONTRACTS (APPLICABLE LAW) BILL

Your letter of 15 May to Geoffrey Howe, seeking prior approval for a Bill to enable the United Kingdom to ratify the 1980 Rome Convention on the Law Applicable to Contractual Obligations, was copied to members of OD(E).

In general I can support your proposal. There are however two points of detail on which I should be grateful for reassurance.

The first is that there should be an adequate safeguard for our consumer protection law. I understand that officials in our respective Departments are looking at the details.

Our second concern is the possible extension of the application of the Convention to arbitration agreements and agreements on the choice of court. This is a matter which I think would be desirable to put before the Departmental Committee on Arbitration, chaired by Lord Justice Mustill, for their views. Your Department is represented on that Committee and I would be grateful if arrangements could be made with the Committee's Secretariat for the submission of a paper to the Committee at an early opportunity.

I am copying this to Sir Geoffrey Howe and other members of OD(E) to the Home Secretary, the Secretaries of State for Scotland and Northern Ireland and Sir Robin Butler.

Yours
David

THE LORD ADVOCATE

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL
Telephone: Direct Line 01-276 6810
Switchboard 01-276 3000
Fax 01-276 6834

pmp

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Downing Street
LONDON SW1

✓ 7/6

6 June 1989

Dear Geoffrey,

CONTRACTS (APPLICABLE LAW) BILL

In his letter of 15 May, James Mackay seeks policy approval for this Bill which will enable the UK to ratify the 1980 Rome Convention.

It is intended that the Bill should give the Convention the force of law in all three UK law districts. Recent Scottish consultations confirm that there is a general view that the Convention should be implemented in the manner which James Mackay proposes and in particular that the choice of law rules in the Convention should be applied to contracts with elements in more than one UK law district.

Accordingly, in respect of my responsibility for Scottish Private International Law matters, I join James Mackay in commending the Bill to Ministerial colleagues.

I am copying this letter to the other members of OD(E), to the Home Secretary, the Secretaries of State for Scotland and Northern Ireland and Sir Robin Butler.

Yours ever,

Peter.

FRASER OF CARMYLLIE

FROM : MISS J C SIMPSON (EB)
DATE : 7 JUNE 1989
Ext 5211

1. MR PICKFORD

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Gieve
Miss Wallace
Mr Dyer
Mr Deane
Mr Lind
Mr Hutson (+ 5 copies)
Mrs Chaplin
Mr Tyrie
Mr Call

Mr N Forman MP
Mr T Favell MP
Mr J Maples MP
Mr M Stern MP
Mr A Howarth MP

TREASURY FIRST ORDER QUESTIONS : THURSDAY, 8 JUNE
EB CENTRAL BRIEF

1. I attach EB's central brief.

2. The brief contains:

(i) Bull points

(ii) Checklist of main indicators published recently

(iii) General briefing on topical issues.

Changes from the draft brief have been sidelined.

3. You agreed that supplementaries should be encouraged on the questions from Messrs Baldry, Brazier, Stewart, Arbuthnot and Howarth, and, if necessary, Ward. You also thought Mr Butler's question on the possible abolition of income tax would make a good vehicle for material on the Opposition's tax proposals. (Mr Hunter's question, which you had also earmarked for this purpose,

has been withdrawn.) You also agreed that either Mr Arbuthnot's and Mr Howarth's grouped questions on manufacturing investment or Mr Ward's on manufacturing output would be strong notes to end on.

4. Subject briefs have been prepared on

- inflation (EA1)
- manufacturing and industry (EA1) and, as you requested, investment (EB)
- interest and exchange rates (MG1)

They have been attached to relevant questions in the usual way.

5. The CBI/FT survey of distributive trades is published on Thursday morning. The TCSC's report on international monetary co-ordination was published at noon today. Attendance at the press conference was apparently thin. There was no indication that it would provoke any stories that might be relevant to questions although, as CFRs had been made available, tomorrow's press may give it rather more attention than is at present apparent.

JS

MISS J C SIMPSON

eb.rl/docs/central

MAIN ECONOMIC INDICATORS PUBLISHED SINCE 8 MAY

8 May

Retail sales (March - final)

Producer prices (April - provisional)

- Annual rate of **output** prices 5.0 per cent.
- Annual rate of **input** prices 7.8 per cent.

11 May

Bank of England Quarterly Bulletin

15 May

CBI/FT Survey of distributive trades (April)

17 May

Public Sector Borrowing Requirement (April)

- Provisionally estimated to have been minus £0.8 billion in April. **Cumulative** total of minus £14.4 billion in whole of 1988-89.
- **Excl. privatisation proceeds,** £1.0 billion in April. Cumulative minus £7.3 billion in 1988-89.

Index of output of production industries (March)

- **Industrial production** in 1989Q1 down 1.4 per cent on previous quarter, but up 1.2 per cent on a year earlier.
- **Manufacturing output** in 1989Q1 up 0.7 per cent on previous quarter and up 6.6 per cent on a year earlier.

18 May

Labour market statistics

- **Unemployment** (s.a., claimants aged 18 and over only) (April) down 60,000 to 1,856,000. 'Headline' total down 77,000 to 1,884,000.

- **Workforce in employment** in 1988Q4 up 143,000 on 1988Q3 to level 640,000 higher than a year earlier.

- **Manufacturing employees** (March) down 8,000 from February to 5,147,000.

- **Vacancies** (April) down 1,000 from March to 222,000.

- **Average earnings** (March) underlying increase of 9¼ per cent for whole economy.

- **Whole economy productivity** in 1988Q4 up 0.5 per cent on a year earlier.

- **Whole economy unit wage costs** in 1988Q4 up 8.4 per cent on a year earlier.

- **Manufacturing productivity** in 1989Q1 up 6.0 per cent on year earlier.

- **Manufacturing unit wage costs** in 1989Q1 up 3.1 per cent on year earlier.

19 May

Tax and price index (April)

- Annual rate 8.3 per cent.

Retail prices index (April)

- Annual rate 8.0 per cent, **excl. mortgage interest payments** (MIPs) annual rate 5.9 per cent.

Provisional estimates of monetary aggregates (April)

- **M0** annual growth rate 5.7 per cent (s.a.).

- **M3** annual growth rate 20.7 per cent.

- **M4** annual growth rate 17.9 per cent.

- **M5** annual growth rate 17.3 per cent.

- Bank and building society **lending** +£7.0 billion (s.a.).

23 May

Capital expenditure (Q1 - provisional)

- **Manufacturing investment** in 1989Q1 up 8.7 per cent on a year earlier. In 1988 as a whole up 14½ per cent on 1987.

24 May

Construction - new orders (March)

- In 1989Q1, down 6 per cent on previous quarter, and 5 per cent lower than a year earlier.

Retail sales (April - provisional)

25 May — Balance of payments current account and overseas trade figures (April)

- April **current account** deficit of £1,655 million.

- In 3 months to April, **export volumes** (excl. oil and erratics) up 1½ per cent on previous 3 months and up 8½ per cent on a year earlier.

- In 3 months to April, **import volumes** (excl. oil and erratics) up 1 per cent on previous 3 months and up 15 per cent on a year earlier.

26 May — Gross Domestic Product (Output-based) (Q1 - preliminary)

- **GDP(O)** in 1989Q1 down 0.2 per cent on previous quarter but up 1.9 per cent on a year earlier.

30 May — CBI Monthly Trends Enquiry (April)

2 June — UK official reserves (May)

- Underlying fall of $739 million.

5 June — Retail sales (April - final)

- In 3 months to April up 1.2 per cent on previous 3 months, and up 3.9 per cent on a year earlier.

8 June — CBI/FT Survey of distributive trades (May)

GENERAL BRIEFING : TOPICAL ISSUES

1. Interest rate rises not working ; economy on 'tightrope'

   - No. Only 1 per cent of 3 percentage point rise in RPI since July due to underlying inflation. Rest due to impact of mortgage interest payments

   - as I/my RHF has made clear, always lag between effect of higher interest rates on consumer spending and effect on inflation

   - some effects of interest rate rises clearly showing through: sharp slowdown in M0 growth since Autumn 1988; no underlying growth in retail sales in recent months; definite signs of reduced activity in housing market

   - although inflation at 8 per cent much too high, it will certainly fall later this year

   - I/my RHF has made clear that prepared to maintain interest rates at whatever level necessary to maintain downward pressure on inflation

   - recognise that increased interest rates unwelcome to borrowers, especially small businessmen and home owners, but battle against inflation must be paramount

2. If policy already working, why raise interest rates again last month?

   - Progress in getting inflation down is going to plan. Rates increased to prevent this being jeopardised

   - dollar strength led to fall in exchange rate which threatened to ease monetary conditions. Interest rates were accordingly raised to support sterling and maintain appropriately tight conditions.

3. Increase in interest rates for exchange rate reasons when domestic situation under control shows folly of relying on interest rates as sole instrument of policy

   - Interest rates by no means only economic instrument - also fiscal policy and supply-side policies. But these two appropriate for medium/longer term

   - fiscal policy not suitable for fine-tuning economy because lags in system mean tax changes take longer to have effect on activity than interest rates do. Was tried often enough in 1960s and 1970s and lesson to be drawn from failures of that period is clear. Also destroys supply-side benefits of tax cuts

- and fiscal policy remains tight. PSDR for 1988-89 £14.4 billion; similar figure set for 1989-90

- credit controls would be unworkable, as well as creating inefficiencies and distortions in market. Would act as disincentive to savers as well as borrowers

- would also be unfair, because less well-placed borrowers would have to pay more and be driven to loan-sharks, while respectable lenders directed cheaper credit to 'safest' borrowers

- re-introduction of import controls would be enormously retrograde step. As my RHF the Prime Minister made clear, would be move against the EC, against GATT, against the pound and against common sense.

4. International monetary co-operation in tatters?

- Nonsense. G7 always keeps in touch. I/my RHF have stressed importance of international co-operation within G7

- period of international inflationary resurgence coming to end, so no need for further general increases in interest rates

- time to allow monetary tightening that has already taken place to have its effect

- [in response to claim that concerted market intervention no use at holding down dollar] Concerted intervention has helped to maintain greater exchange rate stability which has been feature of past two years.

5. Why fail to revalorise excise duties because of inflationary pressures while forcing up RPI through interest rate and NI price rises?

- Very different considerations apply. Interest rates essential weapon in defeat of inflation by curbing domestic demand, especially that financed by borrowing. Effect on RPI is perverse - as I/my RHF have always made clear. But will have intended effect on underlying rate of inflation

- RHG Leeds East recognised importance of not adding to inflationary pressures by unneeded increases in excise duties - said in 1978 Budget speech "I cannot believe it would make sense for the Government themselves deliberately to raise the inflation rate and increase the cost of living. I will therefore leave the indirect taxes generally unchanged on this occasion."

- tobacco duty fell in real terms under Labour; has risen over 40 per cent under this Government

- duty on cigarettes second highest in EC (after Denmark). Duty on alcoholic products higher than all except Denmark and Ireland

- nationalised industries need to increase prices to achieve satisfactory rate of return and finance new investment

- objective is to make industries profitable and competitive. Going back to bureaucratic interference in NIs' pricing policies would be retrograde step and undo good work already achieved

- over last five years NI component of RPI risen more slowly than total RPI.

6. <u>Nationalised industry price increases damaging industry; unnecessary to fund investment; Government adding £2 billion/ £1,000 per employee to industry's costs</u> (John Banham)

- Figures appear exaggerated and misleading eg £1,000 figure includes effect of corporation tax payments arising from increased profits and increased NICs attributable to buoyancy of earnings and employment

- fuel and power costs only tiny proportion of industry's total costs. April 1988 electricity price increases represented increase in costs of only one-sixth of one per cent. April 1989 increases even less. And industrial consumers' prices had fallen over past five years by 10 per cent in real terms

- not true that price rises not justified by need to fund investment. Present <u>low rate of return</u> from nationalised industries insufficient to justify investment on scale needed for future. Right therefore that required rate of return should be increased as my RHF SoS/Energy made clear when announced new targets in November 1987. And right that tax-payer should also get return on investment

- my H & LF Minister for Water made clear that price rises for Water Authorities represent appropriate balance between charges and borrowing next year, taking account of Authorities' long-term financial requirements

- once industries privatised, will be free to raise finance in markets like other industries

- over past five years (1983-88), nationalised industry prices as whole rose less than RPI (22 per cent compared to 26 per cent for RPI). This year, have increased by roughly same amount

- major item of industry's costs in its own hands; needs to keep control of pay costs. But these going up faster than prices generally

- [on business rates] recognise burden business rates can impose in areas of high local authority spending. That is why introduced NNDR. My RHF SoS/Environment announced in March transitional arrangements for those badly affected by rating revaluation. New system will be much fairer.

7. High interest rates penalising industry, inhibiting investment

- Industry doing very well: output up, profitability up, investment intentions remain strong. In 1989Q1, industrial investment up 16 per cent on same period a year ago

- latest CBI Survey shows that investment intentions remain strong by historical standards

- renewed inflation would damage industry's confidence and willingness to invest

- 1 per cent increase in interest rates, even if sustained for full year, would cost industry much less than 1 per cent increase in wage settlements.

8. Investment languishing while consumption booms

- No. Total investment has grown faster than total consumption over past seven years - on average more than twice as fast. Experiencing longest lived investment-led expansion British economy has experienced for decades

- FSBR forecast showed business investment up by 14½ per cent in 1988 and likely to rise by further 8 per cent in 1989. CBI industrial trends enquiries continue to show confidence - April quarterly survey showed balance of firms expecting to increase capital expenditure over next 12 months remains high by historical standards

- business investment highest proportion of GDP since records began

- overall level of investment at record levels. Rose between 1979 and 1988 by over 30 per cent in real terms. Over period 1974-79 it grew by less than 4 per cent

- not just quantity but quality of investment that is important. Quality improved since 1979 as evidenced by improvement in productivity and profitability.

9. Manufacturing trade deficit

- Manufacturing export volumes up 9 per cent in three months to April, compared to same period year earlier

- and on almost all other objective indicators, manufacturing performance has been transformed: productivity, profitability investment etc

- manufacturing output has risen under this Government (in 1989Q1, up 11 per cent on 1979H1) and at all-time high. It fell under Labour.

10. Recent monthly current account deficits mean balance of payments crisis imminent

- FSBR forecast current account deficit this year at £14½ billion or about 3 per cent of GDP, but no balance of payments crisis

- deficit reflects rapid rise in investment unmatched by increase in savings, so UK has been importing capital from abroad. Since balance of payments as whole must balance, inevitable counterpart has been current account deficit

- with world economy becoming increasingly integrated, inevitable that will be differences in pattern of savings and of investment opportunities in different countries, and hence balance of payments surpluses and deficits

- also, demand in UK economy, from both companies and consumers, has been growing faster than industry's capacity to meet it, and excess has to be met from imports. Strong growth in investment will in time produce additional capacity and enable British industry to meet more of demands on it

- Government has taken appropriate action and deficit will correct itself in time. No cause for concern provided firm financial framework in place, as it is. Meanwhile, general strength of economy and high level of overseas assets mean no problems in financing temporary deficit.

11. FSBR forecast for 1989 current account deficit unrealistic (TCSC Report on 1989 Budget)

- Forecast represents Government's best assessment of position. No new forecast until Autumn Statement

- Government envisaging quite marked slowdown in growth of domestic demand at time when world trade still rising very rapidly

- first quarter's figures not accurate indication of likely total for year; expect slowdown in growth of demand to be accompanied by lower import growth and effect to be concentrated in second half of year

12. Current account deficit unsustainable/ cannot be turned round without either depreciation or rising unemployment (TCSC Report on 1989 Budget)

- Many examples around world of sizeable deficits or surpluses persisting for considerable period. Reflects worldwide move to deregulation of capital markets, development of wide range of financial instruments, and massive growth of mobile capital

- UK deficit being financed comfortably because of strength of economy and high level of overseas assets

- also number of examples where countries have improved their current account without depreciation of the exchange rate, including UK. Japan had swing of 2.8 per cent of GDP between 1979 and 1983 with appreciating exchange rate

- made no secret of fact that UK domestic demand expected to grow more slowly than world average. Forecast for current account and unemployment expectations consistent with that.

13. Budget shows accept last year's strategy mistaken

- No. Fiscal policy very tight last year with unprecedented PSDR; that further tax reductions were possible this year with similar PSDR shows last year's reforms are sustainable

- cuts in tax rates in last year's Budget were supply side measures aimed at improving incentives

- growth of consumption last year financed largely by borrowing, especially on mortgages - not from tax cuts. Have taken steps to curb excessive borrowing

- cautious approach correct. Looser fiscal stance would be inconsistent with gradualist strategy of MTFS. Further year of debt repayment will lower burden of debt interest in future years.

14. Budget does nothing for poor; should have reversed 1988 'Budget for rich'

- 1988 not Budget for rich. All taxpayers benefited from its measures

- 70 per cent of cost of reform of NICs this year will go to those on less than average (male full-time) earnings

- also number of measures to help elderly eg extending extra age allowance to over 75s, abolition of earnings' rule. Further 15,000 elderly taken out of tax compared to indexation and 400,000 gain some benefit

- real take home pay for those on half average earnings likely to go up over 24 per cent 1978-79 to 1989-90. Went up 4 per cent 1973-74 to 1978-79.

15. Government policies consistently favour rich at expense of poor

- What matters to those on low incomes is their real standard of living, not their relative position. Real disposable incomes up throughout the income distribution

- living standards have never been higher. Real take-home pay of average married man with two children rose less than 1 per cent under Labour. In 1988-89 it is likely to have risen over 29 per cent - or £45 a week at today's prices - under this Government. Likely to rise further in 1989-90

- on DSS figures, post tax incomes of people at all levels rose in real terms between 1981-1985. Since 1985 real incomes have continued to rise, unemployment has fallen sharply and taxes have been further reduced. Real personal disposable income rose on average 3 per cent a year 1983-88. Marked contrast to slow growth between 1974 and 1979

- real value of supplementary benefit has increased between 1979 and 1987. Shows nonsense of suggesting that poverty should be defined as any particular proportion of supplementary benefit level - increasing level increases number of 'poor'

- between 1979 and 1986 average net income of pensioners rose by 23 per cent in real terms

- total expenditure on benefits up 33 per cent in real terms since 1979. Spending on sick and disabled has almost doubled in real terms

- in real terms, income tax paid by top 5 per cent up by 35 per cent in 1989-90 compared with 1978-79 while total for rest up by only 5 per cent.

16. <u>Tax relief for private medical insurance for over-60s unjustified</u>

- Strange that RHG and HG should be so obsessed with comparatively minor measure that had already been announced two months before Budget

- no reason why people should not opt out of burdening the NHS with costs of their health care. Very real benefits to NHS; average cost of tax relief £100 pa, while average cost of NHS care to over-65s is about £1,000 pa

- but particular reason for helping over-60s, many of whom will have been covered by employers or job-related schemes up to retirement, but find then that cost of health care rises just as ability to pay falls. Measure will give stimulus to market in provision of health care for elderly

- relief given at marginal rate and without 'targetting' because this is standard practice when giving tax relief as opposed to benefit payment. Relief at source also ensures that non-taxpayers will get benefit

- Government also putting massive additional resources into NHS. 1989 PEWP shows largest increase in resources ever made available to NHS : £2.5 billion in both 1989-90 and 1990-91.

17. <u>Tax cutting strategy has not produced falling tax burden</u>

    - Tax burden grew until 1981-82, reflecting need to reduce PSBR and so inflation, but now reduced from peak levels

    - other countries have had growing tax burdens. UK has average burden. Latest CSO figures for 1986 show that it is greater than US, Japan and Italy, but lower than France and most Scandinavian countries, and similar to West Germany

    - Government will reduce tax burden as and when feasible and prudent to do so. Judged that this year a prudent and cautious approach meant sensible to have no reduction in tax burden.

Miss J C Simpson
EB Division
Ext 5211

EUROPEAN COMMUNITIES COMMITTEE
COMMITTEE OFFICE
HOUSE OF LORDS
LONDON SW1A 0PW

switchboard 01-219 3000
direct line 01-219 5662

Psc can I have the first part of this transcript (on our files somewhere?)

7/6/89.

Dear Miss Simpson,

EUROPEAN COMMUNITIES COMMITTEE

SUB-COMMITTEE A

Please find enclosed the remainder of the transcript which was regrettably omitted in the first mailing. This section begins 'Our position . . . of the time'. I apologise for any inconvenience this may have caused. I would be grateful if this could be returned to me at the earliest opportunity.

Yours Sincerely
Sarah Lamble

MISS S LAMBLE
Secretary to Sub-Committee A

Miss Judith Simpson
Her Majesty's Treasury
Parliament Street
LONDON SW1P 3AG

cc PS/CEx
PS/EST
Miss O'Mara
Mr Mortimer
Mr Ilett
Mr O'Connor - IR.

There is a feeling that in terms of profitability and, therefore, of the size of the financial services cake to be earned in Europe as a whole at any rate for many years to come, never mind what may happen eventually, the outlook is not all that rosy. As I say, I do not necessary share that view, but it is quite strongly held. The next question is how much of that will be earned not just by the City of London but will actually accrue to our invisible earnings? We have to remember that, rightly I think, we have always been very open when considering that in London we have 500 foreign banks and we have 500 foreign securities quoted on the London Stock Exchange - less than half of that on many continental Exchanges. That has all been to the good, but we must remember there are some very powerful financial institutions operating out of London - the Japanese and Americans principally - against the possibility at any rate of a diminishing total cake to be earned in financial services the competition from those who will naturally repatriate their profits to Japan and the United States makes the contribution of invisible earnings somewhat problematic. That is just a footnote, it is certainly something to be set against the more pessimistic views.

(Mr Lilley) I find it hard to credit the pessimistic view that the financial services industry as a whole is going to go into decline. It has been one of the most dynamic and rapidly expanding industries, not just in this country but throughout Europe, and it shows no sign of going into reverse. Obviously, within this country we have a period of consolidating the huge changes and increases in capitalisation that took place with Big Bang. Generally, I think the long term trends are very well-established and we are in a good position to benefit in this industry. It would be very perverse indeed if we were not to welcome a freer market in financial services. I am sure you are not saying that but quoting others who express doubts. It would be like the Germans refusing to participate in a common market in manufactured goods for fear that they might at some future date suffer from the resurgent manufacturing industries of other countries once they are compelled into competitiveness. They are now having to face up to a much more competitive British industry but it has taken quite a long time. I am sure they have had benefits and, in the long term, the benefits will be mutual. So I am very confident of the ability of the United Kingdom financial services industry to gain both in terms of invisible earnings and employment.

<u>Chairman</u>

304. If I could pick you up on your last remark, "a more competitive British industry", I think that is undoubtedly true but, even so, the problem is surely the range of industries and range of products in which we are competitive is getting progressively narrower. One of the reasons for the imbalance on invisible trading on manufactured goods is that we no longer make, or have the capacity to make, many kinds of manufactured goods. In spite of increased investment, to which you refer, the investment - this is in new products, as opposed to replacement products or improving existing products - is not very strong. The confidence expressed that the balance of payments, as it were, will automatically put itself right seems to be based on hope more than anything else.

(Mr Lilley) No, it is based on experience and sound analysis. We are not the only country which ensures it has sound anti-inflationary policies and ultimate equilibrium in its economy as a whole as a result of exercising monetary policy; the most successful countries like Germany and the United States do likewise. I have no reason to suppose that that policy will be ineffectual here where it has been effective abroad. On the question of industry and whether we produce a narrower range of goods and products than we did in the past, I am not an industry minister, I can only speak as a constitutency Member of Parliament. What amazes me when I go round the factories there is that they are all making goods the existence of which I was previously unaware. In one factory they were making non-destructive, testing equipment the other day and selling masses of it to Japan. In another they were making highly recherche hi-fi equipment and their biggest customers, believe it or not, are the Japanese. So there are all sorts of goods being made which never were made before, and where we are doing very well indeed. Certainly some old, traditional industries, which did not adapt as rapidly as they might, suffered severe contraction, but even they are moving ahead now quite strongly.

305. I must say I agree entirely, there are some very bright things about, but if you look at the totality of the situation it is a good deal less rosy than the one you have painted. Various bodies, including committees on the CBI, have looked at various aspects of modern, high-technology industry and have found our relative position has not improved. Our absolute position may have been improved but not the relative. We are faced with the fact that at the present time we have, I

think, the highest interest rates in the Common Market; we have the biggest balance of payments deficit in the Common Market, yet this is presented as an extremely positive development. This does not carry universal acceptance with many economists.

(Mr Lilley) You are selectively quoting aspects of the economy. We also, within the Common Market, have the highest rate of economic growth. Within the Common Market we have the highest rate of manufacturing productivity growth - both very sound and real indicators of the strength of our economy. We have clearly taken the measures necessary to curb inflation and to bring about long term equilibrium in our balance of payments by having, as you said, high real interest rates and running a very strong and substantial surplus in our Government finances, so we have got the strongest public finances in the Common Market.

306. I accept that completely, and it is a credit to the Government. Taking one of your other points - highest growth rate - if I heard the Chancellor on the television and radio correctly he said within the last few weeks that the present high rates of growth are unsustainable.

(Mr Lilley) Our rate of growth of demand is unsustainable, and I said that earlier today myself. We have taken measures which will curb it a little to make sure that it is sustainable. That is not curbing output growth; output has been growing, it is the supply side of the economy that has been very ebullient. The demand within the economy has got a little ahead of itself.

307. One of the things we are trying to get at is we are going to have this 1992, it is presented as an enormous step forward, and part of it is the financial mechanisms which obviously do welcome to a very great degree any liberalisation. The question arises whether in fact we would be better to be more closely associated with the financial system in Europe than going it on our own, as we are at present. It is rather surprising that the great weight of evidence we have had from all quarters has been that to be members of an exchange rate regulatory system would be "a good thing". This comes from international chambers of commerce, from the CBI, from many financial institutions. With this background we are having to make up our minds whether we are right to remain independent for an indeterminate period or whether we should make more positive efforts to keep inside this particular - I do not know what the conveyance is!

(Mr Lilley) Our position has not changes in the course of this meeting and we will join when the time is right. We share your objective but, perhaps, not your assessment of the rightness of the time.

Lord Bruce of Donnington

308. You would agree, I take it, Mr Lilley, that it would be undesirable to join a mechanism of this kind at a time when our own currency in exchange rate terms was artificially inflated?

(Mr Lilley) The discussion on this matter often assumes that when we say the time is right we are waiting for a specific exchange rate relationship to be achieved and we want to enter and freeze it. That is not the sole consideration or paramount consideration that applies.

309. I have in mind the Chancellor's statement of March last that an exchange rate for the Deutschmark which went above 3.08 would be unsustainable?

(Mr Lilley) When it went above 3.20 it was unsustainable. It is now 3.16.

310. 3.08 in March.

(Mr Lilley) He said it would be unsustainable when it went above 3.20 and he proved, as is so often the case, to be correct.

Chairman

311. In discussions three years ago which led to the Single European Act this Committee did consider various problems, and at one time it was seriously suggested if we were not going to go along with the Single European Act a two-tier Europe would develop. In the event we accepted or signed the Treaty which more or less covered everything which we saw as feasible. We have had certain evidence that people feel if we still remained in this aloofness from the Exchange Rate Mechanism it is conceivable a two-tier monetary system will develop; the main aspects will move faster towards the development of close co-ordination between the central banks and monetary policy and leave us outside. Whether it is a good or bad thing, I am not sure, but do you think there is any risk of that?

(Mr Lilley) It is certainly desirable for the countries of Europe to move ahead and keep abreast of each other. So far, in terms of financial arrangements, we have been in the fast streams, if there have been any streams at all. It was we in 1979 who abolished all exchange controls between ourselves and the rest of the continent; we who developed the ECU market privately; we who issued ECU bonds and we who hold ECUs in our reserves. We are leading the way in a number of developments in this area in Western Europe. It would be very hard to imagine if ever a two-tier financial arrangement were to be developed in Europe that we would be other than in the first tier, with London's financial market, with our involvement in the free markets. Obviously we do not want to see any divisions open up within Europe and do not see any necessity for it.

Lord Seebohm: What about the Schengen Agreement?

Chairman

312. The original six.

(Mr Mortimer) I do not think we would regard that as being a precedent for establishing a two-tier Europe in the monetary field. It would be something a lot more substantial.

(Mr Lilley) I am sorry, I thought you were talking about the monetary arrangement, which my brain could not find any card index for.

313. We take great credit that we have abolished exchange control, but the context was that we were having a most enormous increase in national growth and foreign exchange resources to when the oil came on-stream and being in full spate during the early years of the decade.

The old worries, when we had all these controls, was because we were short of foreign exchange and had to do something about it flowing out, but we have had this enormous increase. It accumulated and our resources increased in the course of five or six years so we were in the excellent position to abolish the exchange rate controls. If you take Germany, it has an enormous export service and exchange rate controls have taken place to protect the currency getting weaker. Our problem is the currency getting too strong. To give ourselves all sorts of medals for the abolition of exchange controls is one thing, but whether we can in fact be quite so successful in the next five years is more of an open question, or do you disagree? Do you think we have adopted an irrevocable position regarding exchange controls, and no circumstance will arise where we would rather like to have them as a last resort?

(Mr Lilley) We have certainly taken this as a long-term policy, even before agreeing to the European capital markets liberalisation Directive and removing the underlying legislation which gave us reserve powers from the statute book, because we do not see it as being something we envisage relying on in the future. Once the European Directive is operational throughout Europe we will all be in much the same position. There are provisions for a temporary fall-back use of controls for up to six months which countries might feel they feel comfortable having on the statute book, as it were, initially, but even that provision is to be reviewed under provisions of the Directive and, possibly, rescinded in a move that Europe shall be a zone free capital movement without going backwards to rely on some controls at all.

314. If we get into trouble we put up the interest rate still higher?

(Mr Lilley) There are all sorts of measures one can take to help ensure continued equalibrium - on your exchange of interest rates is one and intervention, where appropriate, is another; there are arrangements for common help within Europe for that sort of thing. The exchange rate at the moment would be in a position, in the hypothetical circumstances you are envisaging, to take some of the strain.

315. One of the statements has been made is that we can finance a deficit of 10bn, 12bn, 15bn a year on the trade figures for some years because of our high resources overseas, but these resources, essentially, are in private hands. I am old enough to remember that during the war we did not mobilise the overseas stuff. The idea that £89bn, the value of our overseas assets, is available to the Government to draw on at whim is not very soundly based. Various economists say our present deficit is being covered by short-term money coming to London; and when they talk about short-term money it can go out again pretty fast. Is this an analysis which the Treasury subscribes to, or have I got it wrong?

(Mr Lilley) The deficit to which you refer is a private sector deficit, and the assets you refer to are predominantly private sector also. We do not envisage that the Government would have to intervene to render the two compatible. It is just a measure of the financial strength of the private sector as a whole. The position it is in vis-a-vis the rest of the world is very strong indeed. The reason people are lending to British institutions and firms is because they believe they are financially sound and making good use of the money. There is absolutely no reason to suppose they are suddenly going to change their minds.

316. I take it, it is not political?

(Mr Lilley) That is something foreigners envisage even less than I do!

317. It is perfectly clear abroad that the standing of the Prime Minister and the Chancellor has a great deal to do with maintaining confidence. Do you accept that there are grounds for a certain amount of unease, or are you as confident as you would lead us to believe?

(Mr Lilley) I am very confident about the robustness of the British economy and the fact we have taken the necessary measures to deal with the edging up of inflation and the somewhat excessive growth in demand.

, and that having taken those measures they will duly have effect over a course of time. The Chancellor has made it clear the first effect will be domestic and the last thing to benefit will be the balance of payments, but that it will affect the balance of payments in due course we do not doubt.

318. In due course is rather like getting inside the exchange rate system - you not prepared to put a date on it!

(Mr Lilley) Previously you were slightly critical that I was not prepared to look to the next century and base my actions on some project for the next century. I think it is reasonable to forecast the consequences of actions already taken and to base our assessment on previous experience, and our previous experience is that it takes time for those actions to bring about the desired effect.

CHAIRMAN] I think I will go round the table to see if there are any questions we have not covered.

Lord Roll of Ipsden

319. I was going to ask a totally unfair question, therefore I do not expect an answer. In the light of the discussion we had in the last five or ten minutes which bore on the broader question of the relationship between exchange rate policy and domestic stabilisation, ie interest rate policy and the role of monetary policy in regard to both (which is a tremendously contentious subject), I have never quite understood a remark that was made not all that long ago, on very high authority, that we did not want to join the ERM because it would tie us

to a deflationary D-mark. That strikes me as a very odd statement. As I say, I do not expect an answer but it did strike me as illuminating straightaway the obscurity in the subject.

(Mr Lilley) I think it was very comprehensible in context.

Chairman] That is a very good answer!

Lord Bruce of Donnington

320. I can only ask Mr Lilley questions which, if I were in his position, I would not answer.

(Mr Lilley) Thank you, my Lord. I must say that that sort of warning is not given in my House!

Lord Reay

321. Could I ask: do you think that the convergence of economic policies within the Community is something that is desirable, and do you think that it is tending to take note or not?

(Mr Lilley) The convergence to the best is desirable. Convergence towards elimination of inflation and to stable real policies which therefore have the consequence of greater stability in exchange markets are desirable. We do not particularly want to converge around the lowest common denominator - the worst performance - so, yes, we see convergence as desirable so long as it is convergence towards the best.

322. Do you see it happening ?

(Mr Lilley) There is clear evidence that that has been happening, that the level of inflation throughout the Community has been tending to come down. The degree of instability and volatility in policy making has diminished. There is greater co-operation and co-ordination not just within the Community but between the seven major economies, which is helpful worldwide. So I think one can almost measure the degree of improvement that there has been.

Chairman] Mr Lilley, when we had Professor Goodhart as a witness, who I think is well-known to the Treasury, we pressed him very hard on many points and he tended to give an answer "on the one hand" and "on the other". At the end I rather pleaded with him to come off the fence, and, as a matter of fact, I am waiting to see what your Committee says. You have been very helpful to us this morning in giving us very frank answers to our questions and I must say how much we are in your debt for the frank way in which you have answered all our questions and not dodged any of them in any way at all. We are all much clearer as a result of this morning's session. Can I, on behalf of the Committee, thank you for all your help.

CONFIDENTIAL

LORD PRESIDENT OF THE COUNCIL

CH/EXCHEQUER

REC.	08 JUN 1989
ACTION	FST
COPIES TO	

✓8/6

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

7 June 1989

PWP

Dear Nigel

I am writing to remind colleagues whose Bills have provisional places in the next Session, of Cabinet's conclusion at its meeting on 9 March that Ministers responsible for such Bills should keep a close eye on their preparation and ensure that they are ready for prompt introduction.

The programme for the next Session is a very full one and the time available for preparation is circumscribed by the need to avoid a late start to the fourth Session of the Parliament. It is, therefore, essential that instructions to Parliamentary Counsel should be delivered according to the timetable put forward by Departments in the bids submitted to QL for legislation in the next Session. I would be grateful if you could take a personal interest in seeing that this timetable is adhered to and that any dificulties are notified to Parliamentary Counsel at an early stage.

I am copying this letter to members of QL Committee and to Sir Robin Butler.

Yours ever

John

JOHN WAKEHAM

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CONFIDENTIAL

PS/CHANCELLOR

PWP

HOUSE OF LORDS

MINUTES OF EVIDENCE

TAKEN BEFORE

THE SELECT COMMITTEE ON THE EUROPEAN COMMUNITIES

(SUB-COMMITTEE A)

TUESDAY 18 OCTOBER 1988

MR PETER LILLEY, MRS MARGARET O'MARA, MR NICK ILETT, MR JAMIE MORTIMER AND MR BRIAN O'CONNER

Evidence heard in Public

Questions 270 -307

I take it there is some more because: this has no wrap-up.

There are only closing courtesies to follow (this was a v. early transcript, + the Reporters had not yet had these typed up).

OK. Thanks

MEMBERS' CORRECTIONS

Any Member of the Committee who wishes to correct the Questions addressed by him to a Witness is asked to send the correction to the Committee Clerk as soon as possible

TUESDAY 18 OCTOBER 1988

Present:

Benson, L
Butterworth, L
Geddes, L
Greenhill of Harrow, L
Kearton, L (Chairman)
Meston, L
Roll of Ipsden, L
Seebohm, L

Bruce of Donnington, L
Campbell of Croy, L
Reay, L
Serota, B

Williams of Elvel, L

Examination of Witnesses

MR PETER LILLEY, Economic Secretary; MRS MARGARET O'MARA, Assistant Secretary, Monetary Policy Division; MR N ILETT, Assistant Secretary and MR JAMIE MORTIMER, Assistant Secretary, Treasury, and MR BRIAN O'CONNER, Inland Revenue, called in and examined.

<u>Chairman</u>

270. Mr Lilley, can I welcome you and your colleagues to this meeting of Sub-Committee A. It is very kind of you to come, and we very much appreciate it. You are, in fact, our last witnesses; we thought we would finish our inquiry before the recess but, in actual fact, at one of our meetings just before the recess we felt a general, overall view from the Treasury would be very welcome. I also want to say, as I have already been reminded, the acoustics in this room are extremely bad. I hope you can hear me at this present voice level, but anything lower and you will not be able to hear me; similarly, if your voice went as low as this we would not be able to hear you. Our names are in front of us, and we have one or two people sitting in this morning who are fully entitled to, and equally may, ask questions as well as the Members of the Committee, but perhaps you would be kind enough to introduce your colleagues and then, if you so wish, make an opening statement.

<u>(Mr Lilley)</u> Thank you very much, my Lord Chairman. I will not make an opening statement, if that is all right with the Committee, but I will be happy to do my best to answer your questions. Can I introduce

Margaret O'Mara, on my left, from the Monetary Division of the Treasury; Nick Ilett, on my right, and Jamie Mortimer, dealing, respectively, with financial institutions and the European Community, and Brian O'Conner, on my far left, from the Inland Revenue.

271. As you are not making an opening statement I will start the ball rolling. Our evidence so far shows that most people welcome very warmly the idea of Europe with complete freedom of capital movements, but some of the witnesses feel that complete freedom of capital movements involves other quite profound changes in the way Europe runs its financial and monetary affairs. Some people feel that it would be very desirable to have much stronger exchange rate stability and that exchange rate stability would be helped if Britain was a full member of the Exchange Rate Mechanism - of the EMS; other people feel that even if we were members the strains of maintaining parity and of maintaining equalibrium and full freedom of capital movement would be very considerable. I believe if the brackets which hold in the exchange rate regulatory system widen they widen so much they become almost meaningless, but on the other hand if you tighten it up so effectively you really start moving towards the idea of a common currency and, perhaps, a central bank. So what we hope is that you may help us to clear our minds on the relative merits of these different arguments. In particular, it has been stated so many times that Britain will join the exchange rate regulatory system when the time is right, but is anyone prepared to give a definition of what the right time is, and when it may be?

(Mr Lilley) Perhaps I could answer the last question first. I am afraid we do not spell out all the conceivable circumstances and issues which have to be correct before the time can be deemed right; that has to be a pragmatic judgment and will be taken in a pragmatic way. The more general question you asked was whether the strains imposed on the stability of exchange rate mechanism itself, in general, exchange rate relationships within Europe by moving towards capital liberalisation, will be disruptive or not. We, firstly, believe that liberalising - removing exchange controls - is a good thing. It is beneficial to the financial area of Europe and the world. It enables people to have a greater measure of choices as to how they use their capital and use it more efficiently. Consequently, whether or not there are strains as a result on the exchange rate relationships or [whether it] brings about any changes, it is better to have exchange rate liberalisation than to have an artificial stability induced by exchange controls. We have to recognise that clearly there will be changes as a result of exchange controls. That is why countries had those controls to try and prevent things happening. I rather doubt whether they will necessarily be as disruptive as some people fear (though one can never be certain) because there are two consequences of removing exchange controls, as we in 1979 and the Germans and Dutch experienced, and that is, firstly, you release, of course, pent-up domestic demand which wishes to go abroad, but at the same time you make yourself a more attractive haven for foreign capital than you were when people thought once in they could not get out. Those two factors have some element of balance. We found the latter fact was very strong in our case, that actually the exchange rate strengthened after the removal of exchange control rather than weakened. It may well be that other countries in Europe will have a similar experience as they progressively dismantle their controls. Of course, several countries in Europe have, in wide measure, no exchange controls, others have very few, and are planning to diminish them even further. The whole of the Community is planning to get rid of them by 1990 except in the four countries where exceptional provisions will allow them to carry them over to 1992. So it is not a question of the Community moving suddenly from a situation where every country has exchange controls to one where no controls exist on a given day; it has already moved a long way down that road without, so far, harmful effect.

272. Ourselves, the Netherlands and Germany have got freedom of capital controls; the French had controls of a rather subtle kind which they are reducing, and Italy has quite rigorous controls, again, which they are reducing, but one of the things which does concern many of our witnesses is the effect on poorer countries of the Community who have more recently joined. They have an extra two years, to 1992, to get out controls. All sorts of arrangements are imposed to make sure that they can be supported in case of any major currency instability. Some of the evidence we have was that it still will not be enough unless, effectively, there are enormous reverse flows of capital to these members through the medium of structural funds and EIB. Do you have any views on that?

(Mr Lilley) I doubt whether any country made itself rich by imposing exchange controls on its own citizens. That can deal with a temporary problem and, clearly, the removal of such controls requires possibly a transititional adjustment phase.

On the whole I think that the less well off countries will make themselves better off once they have moved into a more liberal capital regime. In particular the reverse effect I mentioned before will come into play. It will be more attractive for foreign investors to put money in such countries if they know they have the option to withdraw it when they wish than if they feel trapped within it once they are there. By definition countries which are less developed have the endowment of natural and human resources which the good Lord has given us all and have opportunities for foreign capital to operate, both in the financial world and in direct investment. I do not hold to the view that the rich automatically get richer and the poor automatically get poorer within a regime of free markets and free capital movements.

273. If we accept the stated aims of the Community, to get more economic and social cohesion as enshrined in the Treaty, then the evidence we have had, not only in this inquiry but the one that preceeded it, was that many of the poorer countries do not have the projects which, in fact, attract capital which is looking for the maximum return, and that is why they have been so keen to get the structural funds increased so that they get grants to get the infrastructure coming through the central bodies of the Community. When we had evidence from the European Investment Bank they expressed considerable scepticism that there were sufficient major projects to make large scale investment worthwhile. Their criterion is that they must have a rate of return on their money, not an enormous rate of return but what you might call a bankers rate of return, and if the EIB is doubtful that there are sufficient opportunities for major capital investment on infrastructure in the

poorer countries how is freedom of capital movement going to help such countries?

(Mr Lilley) It is natural, of course, that the countries themselves should argue for transfers organised at a government level to themselves from the rest of the Community. To some extent they would say that, would they not? As far as the EIB is concerned I did not read that piece of evidence and I am not quite sure how narrowly focused they were in their interests of looking at specific large scale projects you mentioned. Development is not just a question of a few large grandiose projects; it is the development of whole industries, not least the financial service industry itself, deploying local capital more effectively which may well be enhanced if there is more competition; improving the efficiency of the local financial services industry within those countries and efficiency, therefore, with which it deploys local capital as well as attracts capital from outside. I am certainly not as pessimistic as your reports of the EIB make it sound as to the ability of countries throughout the Community to attract capital, nor do I believe that they are particularly short of opportunities for that capital to be productively employed.

Lord Roll of Ipsden

274. I wanted to raise a very general question. Perhaps I might ask this: if we assume that by 1992 or thereabouts a large part of the objectives of the Single Market are achieved, and some may not - we know there are some problems in the micro and macro-economic field - but let us assume broadly speaking we are nearly there, and we know from what Her Majesty's Government have said for quite a long time and from the

publicity exercise of the Department of Trade and Industry that this would be very much in line with Government wishes and objectives, the question that that poses in the financial field is what additional developments of monetary harmonisation, union and integration are necessary in order that the Single Market, which will be in existence at that time, let us say shall not be hampered and shall be able to develop further, whether it is precisely that which was discussed which the Delors Committee is now considering? Unfortunately, I believe this problem has been phrased in terms such as single European currency and the single European central bank which at least to some people are very emotive terms and probably obscure the discussion. I think the real problem is not so much, should there be a European central bank soon after 1992 or single European currency, but what functions of the central European bank and what purposes of a single currency would be necessarily put on the European level in order that the Single Market may develop? If the problem is put in those terms I think it would be much easier to make reasonable progress without causing very violent emotions on both sides of the Channel. We know perfectly well that the central bank for example has several important functions, because it is the Government's banker, or at least in most countries it is. That is probably an unnecessary attribute to the European banking institution. We know that the central bank is also, in most cases, the supervisory authority for the banking system as a whole; that, again, may not be necessary. We have processes and institutions for precisely that purpose so that may not be essential. On the other hand, when it comes to questions of exchange rate policy and interest rate policy, obviously a question does arise perfectly reasonably: are there any aspects of these two policies which should be more European than they are at the moment? Not necessarily by instituting an immediate central bank, or raising the question of whether it should be set in Frankfurt, London, Milan or Paris, or who would be the governor or what would be the political authority supervising it, but it would, I think, indicate in what direction the existing mechanism, such as the Monetary Committee of the central bank Governor's meeting, might be suitably developed at a fairly rapid pace. If this is at all a reasonable way of looking at the problem, and if this enables HMG to develop ideas on the subject, which it probably has already, would it not be a good idea if HMG were to come out with a proposal of this kind which I think would be politically desirable, which would be highly appropriate in terms of pushing this date further forward? I think it would be a very appropriate thing for a country which has been certainly for most of the time in the last 150 years the leading country on monetary economics, starting with David(~~?~~) Ricardo, to come forward with something of this kind?

(Mr Lilley) The approach you outline is very much in accord with the philosophy approach of the Government's; that we believe in a practical piecemeal step-by-step approach seeing where the benefits of a particular measure will exceed the costs and, if that is the case, moving forward in that direction, rather than taking a teleological view that there is an ultimate final objective back from which all the steps must be deduced and one must move along that path without deviating from the tramlines.

So I find your approach congenial. Whether we should at this stage make an initiative on that sort of line, spelling out a variety of such measures which might be suitable in 1992, I think, it would be premature while the Delors Committee is considering precisely these issues, for us to try and leapfrog that Committee. We will wait and see what it comes up with. Its terms of reference are to consider the stages, the concrete stages, so we did in the discussions at Hanover, try and get this emphasis on concrete and practical steps rather than grandiose final visions built into the terms of reference of that Committee. The broader question of whether 1992 and the liberalisation which it involves and we welcome requires wider exchange currency and monetary union, nobody (certainly you did not, my Lord and nobody else) suggests that that is a necessary prerequisite, neither Lord Cockfield nor the Checchini Report or any of the other documents relating to the single market suggest that we cannot get the benefits of the single market without first having a common central bank, or single currency. So there is no need for those things in order to get the benefits of greater liberalisation and free trade. It may be that there are steps which are beneficial in themselves in the currency and monetary field where we can co-operate with our partners and we look practically at them. That is why we have taken such steps as launching the ECU bonds to develop the ECU market which will have benefits across Europe as a whole as well as to the United Kingdom.

<u>Lord Greenhill of Harrow</u>

275. Who shares this pragmatic approach?

(Mr Lilley) Most practical people throughout Europe.

276. That is a pretty broad statement, but which Governments have the same approach as we do in these matters.

(Mr Lilley) I think it is true to say that the practical approach, though it is common to all practical men throughout Europe, also is more deeply imbued in the rhetoric of British politicians than it is of continental politicians. The rhetoric is sometimes more influenced by grandiose and abstract ideas, but I do not for that reason assume that the Governments of our partners are any less practical than ourselves when it comes to the crunch.

277. You have not named names.

(Mr Lilley) I have been generous to them all in supposing they are all practical men at heart.

Lord Roll of Ipsden

278. I do not altogether agree with Lord Cockfield. First of all, on this question of leapfrogging. We have, in fact, leapfrogged by a certain statement fairly recently from very high authority some of the things that might conceivably come out of a Delors rhetoric. I would have thought that a system of pragmatic approach gains realism and acceptability if it was spelled out a bit, and I do not see any reason why we should not take the initiative. The other point I wanted to make on this question of what is needed for the Single Market in the financial field and what is not. There I do beg to differ very considerably. I

would have thought exchange rate stability, or the large removal of excessive volatilities is absolutely essential if the liberalisation in 1992 and so on of trade and services, and all the rest, should really be effective because fluctuations in the exchange rate can be far more damaging to trade than even tariffs.

(Mr Lilley) I would agree it is beneficial to trade whether or not we liberalise, but of course the more you liberalise the more trade there is to be beneficial to, if you have reasonable stability in your exchanges and in your domestic currency, the value of your domestic currency. We want to move in that direction and that is what our domestic policies have long sought to secure, and it is recognised, I think, in the White Paper which Lord Cockfield produced leading up to the Single Market that there are undoubted benefits from greater stability in the value of money, both domestically and in foreign exchanges, and we would not quibble with that. The question is what institutional measures in addition to those which domestic governments introduce to achieve that are or may be needed.

Baroness Serota

279. Can I revert, for a moment, to Lord Greenhill's question. I am not very clear from Mr Lilley's answer whether governments are participating in any way in the thinking of the group that was set up after the Hanover Summit, or are they simply waiting to see the results of this liberalisation before they make any contribution to it?

(Mr Lilley) Technically that Committee consists of a number of large and central bank governors and two or three other distinguished economic figures participating in their personal capacity not as government delegates of each partner country. So it is sensible to see what this group, which is working on a fairly tight time-span, produces rather than throwing something into the melting pot which almost inevitably would not be produced in time for them to incorporate in their deliberations. If we were to try and produce a comprehensive plan we would obviously take the same time as they will. It is better to wait and see what this extremely learned Committee produces before we release our fire.

280. When are you expecting their report?

(Mr Lilley) I believe it is next April.

(Mr Mortimer) There will probably be a report to ECOFIN about next April and I think they are due to report to the Madrid European Council, which will be next June, but whether the European Council will be in a position to other than take note remains to be seen and there may be further discussions under the French presidency in the second half of next year.

Chairman

281. What I am not clear on is whether there is an input from the Treasury. The Bank of England is on the central committee; is he advised by the Treasury - does he keep the Treasury informed?

(Mr Lilley) We have very close links with the Bank of England.

282. We can infer it has an input through the Bank of England in the discussions?

(Mr Lilley) Yes, that enables a sort of process of osmosis to take place.

Lord Seebohm

283. When Lord Cockfield was giving evidence to us he said, in answer to questions, he thought the route towards a common currency was definitely by the development of the ECU. He said it is a thorny path but he said he saw no other route. Would you agree with that?

(Mr Lilley) I do not look as if everything is heading towards a final objective. I think the ECU is a practical instrument which is clearly of value to those involved in international trade. That is the private ECU. We want to see that practical usage develop in practical ways. Where it leads us we will follow. I am perhaps quibbling with the way you phrase the question but agreeing with the general thrust and with your intent.

Chairman

284. It can be summarised as "We know where we are going but we are not prepared to tell"?

(Mr Lilley) No, life is an adventure where we do not know the final objective always, and a lot of the best institutions are the product of human action rather than human design. We propose to proceed by sensible human actions rather than a grand design which may not conform with the complexities of life.

285. Can I come back to our own policy of recent months. It seems to me to have been generally thought that the Government became, as it were, an honorary member of the regulatory system by shadowing the D-mark. For a long time, it looked as if our policy was to keep the pound/D-mark ratio between 2.95, 2.85 and 3.00. In fact, the Chancellor took the steps, by reducing the interest rate to bring it back and now we seem to have accepted a higher, effectively, devaluation of between 3.15 and 3.20. It looks as if that is where we are now shadowing. In shadowing it through our own, as it were, boom of which we are very boastful in the European context in the last two or three years, we are now having to have extremely high rates and, to some extent, we are keeping our fingers crossed that the trade balance will put itself right. It has even been suggested that, in fact, there is nothing to worry about if the trade balance goes on at present levels for several years. Is this an accurate reflection of the Government's position, or have I got it wrong?

(Mr Lilley) There were a number of points. I will not comment on specific exchange rate numbers because that is not our practice and would not be helpful. The Chancellor has indicated in the past that a) we want to see stability insofar as it can be achieved compatible with our paramount concern of reducing inflation; stability of exchange rates; that the Deutschmark, and our relationship with the Deutschmark, can be related to the European currencies is very important because they consistute such a high proportion of our trade, but it is not the only measure in assessing the level of currency. As far as the balance of payments is concerned, the Chancellor has spelt out more eloquently than I could in his speech to the IMF and elsewhere our position, which is briefly: there is no possibility of every country being in surplus at the same time; some are in surplus and others are in deficit. There is no need for any one country to wish to be in surplus all the time. If you have had a period in surplus it is perfectly reasonable that there should be a period in deficit. There is every difference in the world between a deficit which is the reflection of a government spending more than it can raise from its people in taxation and, therefore, sucking in resources from abroad, which was often the case in the past but is the very reversal of the case at present where we have a healthier position on our domestic budget than almost any other major country in the world. In the first five months of this year we were in surplus to the tune of nearly £5bn on our budget. What we have is a position where private firms and individuals are investing more than they are saving and they are achieving that by borrowing savings from abroad and importing resources from abroad. It is no surprise that the biggest upsurge in imports is of imports of investment goods, and that British industry is in the process of re-equipping and expanding its capacity, which will have long-term benefits both for its production in the domestic market and overseas. We are in a better position to finance that, private individuals are in a better position to finance that; the country as a whole has net overseas assets second only to those of Japan. The difference between the private sector deficits, such as we have, and the public sector deficit is that the Government can always do what governments abroad do, inflate their way out of their own debts, but that is impossible for the private sector and people therefore do not lend them more than they themselves can service from their own investments that they make with those borrowings. We are confident that, although there is a need to prevent excessive growth, there has clearly been a degree to which demand has been outstripping the rapid growth of supply in this country. Measures have already been taken in the shape of increasing interest rates, and interest rates will be held for as long as need be, at a sufficient level to slow down that growth so that it can simply be in line with what capacity the economy has to produce. The very measures which ensure stability in that respect, and downward pressure on inflation also in the long run, ensure equilibrium on balance of payments.

Chairman: I think we have all seen that explanation from official sources. It is reasonable to say not all economists accept it as valid. some even say it is rationalising a rather unfortunate turn of events.

Lord Williams of Elvel

286. When you were answering Lord Roll's question you said - and you must correct me if I misunderstood - that you did not see a single currency and a European central bank as being essential for major

benefits that are to accrue from the single internal market, but you did agree with Lord Roll that exchange rate stability, or some assurance that there would not be fluctuations of a major nature between different currencies within the Community, would be essential in order to realise those benefits. If that means anything it must mean either being a full member of the Exchange Rate Mechanism, or whatever system comes out, a revamped ERM which comes out of the Delors Committee, or else it means shadowing the EMS so closely it will be de facto a member without the advantages. Would you agree with that analysis, or not?

(Mr Lilley) I would not agree with the analysis, nor with the assumptions in the question about what I previously said. I did not say it was me who did not think a single currency and central bank were essential to achieve the benefits of 1992, I said Lord Cockfield did not believe it, nor did anybody else believe it and nor did the Cecchini Report believe it.

287. Nor did you?

(Mr Lilley) I go along with it but I am the most insignificant in this gallery of people I quoted. Nor did I then say it was essential to have a degree of exchange rate stability. I said exchange rate stability is desirable and reduction of inflation - a stable value of your domestic currency - is desirable whether or not you expand trade in the way we hope to see following on from 1992. We want to achieve a stable currency by pursuing the appropriate economic policies of doing it. If there are any additional institutional measures of incremental steps that will help in that direction we will consider them in a practical way.

288. So you do not follow Lord Roll when he says he regards it as being absolutely essential that there should be exchange rate stability. If that is the case do you regard the decision to enter the ERM, as one witness has said, as being a political decision and not a economic decision at all?

(Mr Lilley) It has both political and economic aspects, taking all into account in assessing whether the circumstances are right.

Lord Butterworth

289. Can you form any judgment as to when, in what year, the Government is expecting to see a single currency?

(Mr Lilley) I do not think anybody, even those who do see that as a set and committed objective, could put a timescale on it. Anyone who did attempt to, I am sure, will put a very long timescale on it.

290. Could you see it falling within this century?

(Mr Lilley) No, I would not.

291. Is it right, in fact, the value of currency must depend upon the economy on which it is based? Do you think any other country, such as America, would have any faith in a country's economy unless there was some federal government which commanded its economy?

(Mr Lilley) I think the value of the currency depends not purely on the strength of its economy in terms of the actual real output, important though that is, but on the financial management of that currency, particularly as expressed over a long period of years. The strength of the German currency is not just because the German economy is strong, but because they have followed very sound financial policies for a very long period - likewise the Swiss currency, and the currencies of a number of small countries with very sound currencies. It is not just the size of the economy that matters or whether or not they have got a federal government or are part of a wider federal unit. It is the sound management of the currency which, first and foremost, determines its value.

292. Who is going to manage the Single Market (?) ?

(Mr Lilley) You are leaping into a realm into which we are not necessarily moving. We are moving forward step by step in the development of things like the ECU, the development of free movement of capital between countries and liberalising our exchange controls and so on.

293. We are moving forward step by step but we must have a plan. What is the plan?

(Mr Lilley) Why must we have a plan that spells out for many years ahead a specific objective when there are concrete steps which we can make now which may move in one direction or another?

Lord Geddes

294. On exactly that note, trying to paraphrase or change my Lord Chairman's statement of about ten minutes ago, it seems to me from what Mr Lilley has said that we know in which direction we are going but we have not the remotest idea what we are going to find when we get there. Would that be a fair comment?

(Mr Lilley) I suppose you could make that slightly perjorative remark about anything involving free markets. We know that when we open up our markets in 1992 in general terms it is going to make us better-off but I do not know in any concrete way what the level of employment in particular industries is going to be, which industries will benefit most or which countries will benefit most. So that we know we are setting off on a journey in establishing the Single Market, we know it is to our benefit but we could not describe the end result, if there is an end result, in very specific terms. We know, for example, that when we helped to develop the ECU market we are creating something which is of benefit to those financing trade between our countries, and we have taken the step we have done on the basis of the existing market, it has expanded it, and it has created a wider range of instruments people can use - maybe there will be further steps we can take. Some people predict that as a result there will be an ECU parallel currency alongside national currencies, and it will begin to displace them. Others think that that is logically impossible since it is currency based on the component currencies involved. We do not have at this stage to predetermine the future development of things like the ECU so long as we can, beneficially to all concerned, make incremental developments at this stage.

<u>Lord Bruce of Donnington</u>

295. My Lord Chairman, dealing with projections into the future, as to what may happen as a result of the near-completion of the internal market in 1992, could you, Mr Lilley, inform us whether the Treasury have examined the projections put forward in the Cecchini report and, in particular, the assumptions on which they are based? Taking into account the sources which are set out in the Cecchini report itself, have they checked those and, in so checking, have they subjected it to the normal rigours of the Treasury model? Are they in agreement with the projections that are put forward in the Cecchini report?

(Mr Lilley) It is a vast report and covers a vast array of different sectors and potential developments. We have examined it and our officials have looked at it and commented on it, but we are not submitting it to an A level examination and reporting back that it scores so many out of one hundred. In general it is a very valuable contribution in trying to assess and quantify the potential benefits of the changes that are being introduced in 1992. It indicates that they are substantial, and we would agree with that. Whether the precise numbers are right or whether it is even possible at this stage to say at this stage any set of numbers are right is difficult. I used to be in the business of economic forecasting and econometric quantification and I am very sceptical of the ability of anybody accurately to quantify in advance this sort of thing than, perhaps, those who have not tried their hand at it. So I would not endorse it as a one hundred per cent correct assessment of the future, but it is as good a try as anyone is likely to make.

296. Many of us would agree with you in your caution in approaching this whole question, but if the basic assumptions have not been tested and the projections tested in the manner that I inferred in my question (and bearing in mind there have been previous predictions as to "substantial benefits" that in the event have not in fact accrued) what real justification based on any detailed economic and statistical calculations and forecasts enables you to say that in your view the benefits will be substantial?

(Mr Lilley) I certainly would not base, nor did we base, our commitment to the Single Market on the Cecchini report. It did not exist at the time we made, or Heads of Government made that commitment (I forget when the first commitment was made). We were then basing our commitment on the general experience of mankind that free markets are more likely to produce prosperity and growing wealth than compartmentalised and non-competitive markets and that, therefore, it was better wthin Europe to remove the barriers to trade - those rather discrete barriers - which existed after the abolition of tariffs and quotas, so that there could be greater competition, and it is a reasonable presumption that the gains will be positive. All Cecchini has tried to do is put a number against that positive side; all we needed to know in order to go down that line was that the gains would be positive and significant.

297. But is it not the case that since the progressive elimination of barriers in Europe the market is 75 per cent complete anyway, aside from livestock and aside from the financial services, and is it not the case that since this has happened unemployment in Europe has gone up to 15 million; that the total increase in European GNP has in fact been very disappointing indeed (and is, in fact, said by the Commission itself to be disappointing) and that since the market has progressively developed there has been less and less convergence between the economies of various Member States? Bearing those things in mind and bearing in mind previous Governments' - not necessarily your own - projections that the benefits would be substantial, within the context that I have mentioned, how can you can forecast that the benefits of the completion of this process, which is only miniscule compared with the progress made over the last 20 years, is going to bring substantial benefits? Benefits to who?

(Mr Lilley) Benefits to the vast majority of citizens of the States of Western Europe. I would not agree with your description of the consequences of the steps that have already been taken between members of the Common Market to create a Common Market. Following 1958 there was a period of very sustained and rapid growth. The world as a whole experienced a period of recession and unemployment following the oil crises of 1973/74 and 1979/81. That affected everybody; it affected countries more the more regulated and controlled their domestic industries were. Those which were competitive and flexible, like the United States, experienced less of a rise in unemployment and it more rapidly came down. We therefore see advantages within Europe of further deregulation of our activities. Our own experience within the United Kingdom since 1979 has been dramatic evidence that an economy which does deregulate and introduce competition internally - insofar as it can - can transform from being a very sluggish and stagnating economy to one with much greater dynamism and growth. After the very painful periods of the recession, which reached its nadir in 1981, we have grown at a very sustained and rapid rate, with unemployment now coming down more rapidly than anywhere else in the world, or any other major country.

We see that as a model for deregulation within Europe as a whole and benefits that can flow from it. I think it is pretty concrete evidence that it is beneficial.

298. I was considering Europe as a whole.

(Mr Lilley) I was giving evidence as to why, when applied to Europe as a whole, it will be beneficial to Europe as a whole.

Chairman

299. Why is the deregulation of capital movements going to be so beneficial, in particular, to the UK? You have already deregulated. If it is deregulated for Europe as a whole what particular benefits flow to us from it?

(Mr Lilley) I would not exaggerate the benefits to the United Kingdom as a whole from the Capital Liberalisation Directive. As you rightly say, we had already removed our own exchange controls both as regards Western Europe and, within a few months in 1979, as far as the whole world was concerned; but clearly the controls applying within Member States which prohibit their citizens from carrying out transactions with financial institutions in the United Kingdom impede those citizens from carrying out mutually beneficial arrangements with this country; and once they have gone such arrangements will be possible. People living in France, for example, will be able to hold bank accounts here, and that is desirable. It also sets the scene for the deregulation of the financial institutions and the second banking Directive, which is still being discussed in the investment institutions Directive, which is at an earlier stage, both can take place more naturally within an area of free capital movement than they could without that. It is hard to see how they would operate without free capital.

Lord Butterworth

300. To what extent do we see a demand for reciprocity in banking services as a break on freedom of movement of capital?

(Mr Lilley) We are concerned about this proposal, which was inserted at a late stage and without consultation in the draft second banking Directive, and we are naturally arguing against it in the discussions which are going on about this draft Directive. We would not wish to see enshrined in European law - and we are not alone in this, other countries also feel it could be damaging - anything which could set up a barrier between a European financial area and the rest of the world. Certainly that would be extremely damaging to London, which has the position of one of the three great financial centres in the world, and it retains that because it is closely linked by free intercourse with Tokyo and Wall Street. We are hopeful that we will be able to persuade our partners of the danger of setting up a rigid barrier based on reciprocity powers.

Chairman

301. One of the things which has been mentioned in our discussions has been the course of the balance of payments on invisibles. Deterioration in recent years has been very highly publicised. The fact that surplus on invisibles has ceased to grow and, according to a statement of Lord Limerick who is concerned on these matters, the surplus on invisibles in 1988 will be less than 1987 and perhaps lower still in

1989. The reason given is because we are running a deficit on tourism. Equally, it is here that the financial services sector is not generating the extra revenue to make up the shortfall on visible trading. Is there any reason to suppose if everyone deregulates in Europe that London will have a competitive advantage? Is it possible, in fact, we shall see Frankfurt, Milan or even Paris rising as rival centres? The advantages of London really stem from the fact that it is one of the few places where things are very open. If all the other major centres become equally open and the domestic institutions get used to the idea and the big internationl organisations get used to the idea has the Government any fears that London's present very highly regarded position might be at risk?

(Mr Lilley) The Cecchini Report in its assessment of the relative efficiency and advantages of different industries and sectors showed that in most respects the financial sector in this country was the lowest cost and most efficient industry and, therefore, had a relative advantage. If you wanted to typify the Common Market, it began with the Germans having a relative advantage in manufacturing, and so when manufacturing markets were opened they had the easy option; others had the more painful benefits that come from competition when your less efficient industries are exposed to a more efficient one. It is beneficial, but not so much fun as when you are the person who starts off in the lead. The French had the great advantage of being the supreme agricultural producers. We have the relative advantages in services, and particularly financial services, and our opportunity is coming with 1992; rather late in the day perhaps but it is coming. I have every confidence that British industry, the financial services industry, will do well in that environment.

London has the great advantage of a head start. It is a much more sophisticated and developed and competitive centre than others and will be able to sell its wares and its expertise throughout the Community more easily and more readily as the barriers to the operation of the financial institutions within the Community diminish. We are confident that it will do well.

302. Although I can see amongst the papers we have for this meeting a submission from the Bank of England giving the results of a questionnaire they sent to enormous numbers of financial institutions of various kind and the response rate is very poor. Even so, in the response rate there was a surprising lack of knowledge, or even indifference on the part of many institutions on European opportunities. Is this something you are aware of from the Bank of England?

(Mr Lilley) We are certainly involved. I took part in the seminar organised at the Bank of England, with the Secretary of State for Industry, of alerting the financial institutions to the development of 1992. It is a two-way process. One, it is important that they be aware of what is happening, to prepare for it and take advantage of the opportunities; two, that they help us know what is needed in order to mould those opportunities, because the Directives are still being negotiated and the form they take will be influenced by the feedback we and other governments get from industries as to what will help industry best to compete. I think as it becomes clearer what is involved in these Directives, or likely to be involved, the financial sector is becoming much more geared up to prepare for it. Part of the reason for sending out that sort of questionnaire was to give a stimulus to it. There was a survey reported in yesterday's newspaper carried out by one of the accountancy firms to show there is much greater awareness and preparation now than there was even six months ago. I think people are getting ready for it.

Lord Roll of Ipsden

303. If I may say so, Mr Lilley's answer is fine as far as it goes. I do not think it quite deals with the question you have posed, which is the effect on our invisible earnings, and there I think two further factors should be taken into account. One is what is going to be, on the new Directives finally achieved, the size of the financial services cake, as it were, and on that point (and I do not necessarily share this view) I have heard some very pessimistic views expressed which are quite different from the advantages for the Single Market in the Cecchini Report as far as industry is concerned.

There is a feeling that in terms of profitability and, therefore, of the size of the financial services cake to be earned in Europe as a whole at any rate for many years to come, never mind what may happen eventually, the outlook is not all that rosy. As I say, I do not necessary share that view, but it is quite strongly held. The next question is how much of that will be earned not just by the City of London but will actually accrue to our invisible earnings? We have to remember that, rightly I think, we have always been very open when considering that in London we have 500 foreign banks and we have 500 foreign securities quoted on the London Stock Exchange - less than half of that on many continental Exchanges. That has all been to the good, but we must remember there are some very powerful financial institutions operating out of London - the Japanese and Americans principally - against the possibility at any rate of a diminishing total cake to be earned in financial services the competition from those who will naturally repatriate their profits to Japan and the United States makes the contribution of invisible earnings somewhat problematic. That is just a footnote, it is certainly something to be set against the more pessimistic views.

(Mr Lilley) I find it hard to credit the pessimistic view of the financial services industry as a whole that it is going to go into decline. It has been one of the most dynamic and rapidly extending industries not just in this country but throughout Europe, and it shows no sign of going into reverse. Obviously, within this country we have a period of consolidating the huge changes and increases in capitalisation that took place with Big Bang. Generally, I think the long term trends are very well-established and we are in a good position to benefit in this industry. It would be very perverse indeed if we were not to welcome a freer market in financial services. I am sure you are not saying that but quoting others who express doubts. It would be like the Germans refusing to participate in a common market in manufactured goods for fear that they might at some future date suffer from the resurgent manufacturing industries of other countries once they are compelled into competitiveness. They are now having to face up to a much more competitive British industry but it has taken quite a long time. I am sure they have had benefits and, in the long term, the benefits will be mutual. So I am very confident of the ability of the financial services industry to gain both in terms of invisible earnings and employment.

Chairman

304. If I could pick you up on your last remark, "a more competitive, British industry", I think that is undoubtedly true but, even so, the problem is surely the range of industries and range of products in which we are competitive is getting progressively narrower. One of the reasons for the imbalance on invisible trading on manufactured goods is that we no longer make, or have the capacity to make many kinds of manufactured goods. In spite of increased investment, to which you refer, the investment - this is in new products, as opposed to replacement products or improving existing products - is not very strong. The confidence expressed that the balance of payments, as it were, will automatically put itself right seems to be based on hope more than anything else.

(Mr Lilley) No, it is based on experience and sound analysis. We are not the only country which ensures it has sound anti-inflationary policies and ultimate equalibrium in its economy as a whole as a result of exercising monetary policy; the most successful countries like Germany and the United States do likewise. I have no reason to suppose that that policy will be ineffectual here where it has been effective abroad. On the question of industry and whether we produce a narrower range of goods and products than we did in the past, I am not an industry minister, I can only speak as a constitutency Member of Parliament. What amazes me when I go round the factories there is they are all making goods the existence of which I was previously unaware. They were making non-destructive, testing equipment the other day and selling masses of it to Japan. Now they are making highly recherche hi-fi equipment and their biggest customers, believe it or not, are the Japanese. So there are all sorts of goods being made which never were made before, and where we are doing very well indeed. Certainly some old, traditional industries, who did not adapt as rapidly as they might, suffered severe contraction, but even they are moving ahead now quite strongly.

305. I must say I agree entirely, there are some very bright things about, but if you look at the totality of the situation it is a good deal less rosy than the one you have painted. Various bodies, including committees on the CBI have looked at various aspects of modern, high-technology industry and have found our relative position has not improved. Our absolute position may have been improved but not the relative. We are faced with the fact that at the present time we have one of the highest inflation rates in the Common Market; we have, I think, the highest interest rates in the Common Market; we have the biggest balance of payments deficit in the Common Market, yet this is

presented as an extremely positive development. This does not carry universal acceptance with many economists.

(Mr Lilley) You are selectively quoting aspects of the economy. We also, within the Common Market, have the highest rate of economic growth, within the Common Market we have the highest rate of manufacturing productivity growth - both very sound and real indicators of the strength of our economy. We have clearly taken the measures necessary to curb inflation and to bring about long term equalibrium in our balance of payments by having, as you said, high real interest rates and running a very strong and substantial service in our Government finances, so we have got the strongest public finances in the Common Market..

306. I accept that completely, and it is a credit to the Government. Taking one of your other points - highest growth rate - if I heard the Chancellor on the television and radio correctly he said within the last few weeks that the present high rates of growth are unsustainable.

(Mr Lilley) Our rate of demand is unsustainable, and I said that earlier today myself. We have taken measures which will curb it a little to make sure that it is sustainable. That is not curbing output growth; output has been growing, it is the supply side of the economy that has been very ebullient. The demand within the economy has got a little ahead of itself.

307. One of the things we are trying to get at is we are going to have this 1992, it is presented as an enormous step forward, and part of it is the financial mechanisms which obviously do welcome to a very

great degree any liberalisation. The question arises whether in fact we would be better to be more closely associated with the financial system in Europe than going it on our own, as we are at present. It is rather surprising that the great weight of evidence we have had from all quarters has been that to be members of an exchange rate regulatory system would be "a good thing". This comes from international chambers of commerce, from the CBI, from many financial institutions. With this background we are having to make up our minds whether we are right to remain independent for an indeterminate period or whether we should make more positive efforts to keep inside this particular - I do not know what the conveyance is!

mg.ee/dlcp/7.6-aa

PERSONAL

From : D L C Peretz (MG)
Date : 7 June 1989
x 4460

MR ALLAN

cc Mr Pickford

FIRST ORDER PQs : INSPIRED QUESTIONS

We had a discussion in MEG yesterday of the problems that the present volume of PQs are causing for some of us. We identified a particular problem with the volume of "inspired" PQs that Nigel Foreman gets put down.

2. The problem is not so much the volume, as that in some areas these tend to be misdirected : being awkward to answer, or not quite targeted at the "bull points" we want to get across.

3. I know that in some cases Mr Foreman consults individual Under Secretaries before he gets to work. Would it be possible to have a general rule, in future, that he should consult Mr Pickford about the precise questions to be inspired, before he sets out getting them tabled?

D L C PERETZ

psec.lb/mr.4 Lords

UNCLASSIFIED

Dune

pmp

FROM: Assistant Parliamentary Clerk
DATE: 9 June 1989
EXTN: 5007

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/C&E
Mr Davis - AEF1
Mr Pirie - FIM1
Mr Mercer - EC2
Miss O'Mara - MG
Mr Saunders - ST2
Mr Wood - LG2
Mr Gieve - IDT
Mr Dyer

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

ORAL QUESTIONS

Wednesday 14 June The Lord Ezra - To ask Her Majesty's Government whether and if so when they propose to privatise the Bank of England.

Government Spokesman: Lord Strathclyde. FIM1 in the lead.

TREASURY INTEREST QUESTIONS

Thursday 15 June The Countess of Mar - To ask Her Majesty's Government whether they intend to make good the shortfall of £490 million in this year's National Health Service budget which is due to inaccurate inflation forecasts.

Government Spokesman: Lord Henley. Department of Health in the lead.

UNCLASSIFIED

<u>**Tuesday 20 June**</u> The Lord Orr-Ewing - To ask Her Majesty's Government how this year's Budget will facilitate the provision of low-cost houses to buy and to rent.

Government Spokesman: To be confirmed. Department of Environment in the lead

<u>**Wednesday 21 June**</u> The Lord Airedale - To ask Her Majesty's Government what steps they propose to take to reverse the increase in cigarette smoking in 1988 in view of the fall in real terms of the price of cigarettes.

Government Spokesman: To be confirmed. Department of Health in the lead.

The Lord Taylor of Gryfe - To ask Her Majesty's Government whether they will make an early statement on the future of the soft loan facility, in view of its importance to United Kingdom exporters.

Government Spokesman: To be confirmed. ODA in the lead.

Mari Rogerson

MARI ROGERSON

CONFIDENTIAL

PWP

Inland Revenue

Told PS/FST

NBL @ C

Central Division
Somerset House

FROM: D DENTON
EXT: 6302
DATE: 9 JUNE 1989

cw/ To be aware.

Are you content that we should reply so fully?

@15

1. ~~MR BUSH~~
2. FINANCIAL SECRETARY

PQ FROM MR CHRIS SMITH ABOUT COSTS OF EXTRA-STATUTORY CONCESSIONS (ESCs)

1. Attached is a suggested answer to the PQ from Mr Chris Smith asking for details since 1979 of the costs of taxation income foregone by the Treasury as a result of extra-statutory decisions on tax liability. The terms of the answer and this note have been agreed with Customs (Mr Warr: 3913-5027).

2. This Parliamentary Question follows up the exchanges during Standing Committee on 11 May about Customs' ESCs - Dr Marek indicated at the time that the Opposition front bench would take up the Economic Secretary's invitation to table questions on costs (see paragraph 1 of background note).

3. The short answer to the specific question is that, for the reasons explained in the first paragraph of the suggested reply, the information sought is not available in the form requested. But we do have <u>some</u> information about the costs of <u>some</u> individual ESCs so there are various options open to you on how to respond to Mr Smith:-

---

cc. PS/Economic Secretary
Mr Warr - C and E

Mr Isaac
Mr Painter
Mr Beighton
Mr Bush
Mr Lewis
Mr Calder
Mr Dearman
Mr Stewart (Stats)
Mr Massingale
Mr McManus
Mr Wilcox
Mr Denton
Mr Brewer (Room 44)
PS/IR

PS/Chancellor

cc Mr Culpin
Mr Gieve

– As Revenue are proposing that we tell people for the first time that the ESC on removal expenses (this year's Budget starter) costs over £100 million a year, as does the one on training courses, you should be aware of this.

– Steven [signature] 12/6

(a) an answer to the effect that the information he has requested is not available;

(b) something more informative which explains that, although a complete answer cannot be given, some information is available centrally and that you would try to help if Mr Smith wrote to you about particular concessions in which he had an interest; or

(c) to give as full a reply as possible at the outset within the constraints of the limited information which is available.

4. Given the background to the question - the essentially constructive comments of Dr Marek in Standing Committee on the subject of ESCs and the offer and comments made by the Economic Secretary during the debate (notwithstanding the general caveat about the availability of information) - we do not recommend option (a). It would be likely simply to encourage further, more detailed PQs directed at individual ESCs (as happened in 1984 - see paragraph 4 of background note). The choice, in our view, lies between options (b) and (c).

5. On balance, we recommend option (c) ie the most helpful and constructive approach that is possible in the circumstances. Option (b) might defer the publication of what are at best some uncertain costings estimates but Mr Smith could well follow up with supplementary questions designed to establish for which ESCs estimates are possible and why estimates are not possible in other cases. In these circumstances it might not be possible to present the information that is available in a proper and balanced context. Option (c) does at least give the opportunity from the outset of presenting the information in the most suitable way. And it would probably enable any follow up questions to be answered along the lines that the available information had already been given.

6. But adopting option (c) would mean putting into the public domain for the first time the fact that there are two concessions which cost more than £100 million per annum (A5 - mainly removal expenses (which was part of the relocation costs package that was dropped from the Budget last February) - and A63 - external training courses: expenses borne by employer) and another over £50m (A67 - payments to employees moved to higher cost housing areas - the other part of the relocation costs package). As explained in paragraph 6 of the background note, A63 and A67 were not classified as ESCs at the time of the previous Parliamentary interest. A5 was, but a specific costing was not offered at the time - our more recent work on the concession has now enabled us to produce an estimate.

7. Costings of this nature could fuel calls for legislating ESCs generally - and the larger ones in particular - and reopen the previous Parliamentary interest in making all concessions subject to Parliamentary scrutiny. But, given the underlying facts in this small number of cases, we see no way of altogether eliminating these possibilities if Members choose to pursue them. You would be able to say that Ministers do consider ESCs when considering legislation and point to the fact that in recent times a number of concessions have been legislated (or formalised under Regulations) or have become obsolescent because of legislation - since January 1986, for example, 19 of the Inland Revenue's and 13 of Customs' (including Finance Bill 1989).

8. The terms of the proposed answer do not cover the existing administrative practice about employer subsidised canteens on which Mr Massingale and Mr Lewis minuted you on 10 May 1989. This is another expensive rule (annual costs are above £10 million and may be closer to £50 million). Although its existence has been public knowledge since the 1940s it has not to date been formally classified as an ESC. It would not be appropriate, therefore, to include it in this list.

9. Copies of the Departmental booklets listing published concessions are attached* for information.

D Denton

D DENTON

* Top and Economic Secretary's copies only.

We will be under v. strong pressure to legislate for the 3 big ones (A5, A63, A67).

2. Note that, for the 1st 2 of these, the cost in the answer [illegible] was that shown in the [illegible] with Stockings notes.

PRIORITY WRITTEN

FRIDAY, 26 MAY 1989

TREASURY

La - Islington S and Finsbury

MR CHRIS SMITH: To ask Mr Chancellor of the Exchequer, if he will indicate, for each fiscal year since 1979, the total amount of taxation income foregone by Her Majesty's Treasury as a result of extra-statutory decisions on tax liability.

DRAFT REPLY

Extra-statutory concessions are operated locally and it would be disproportionately expensive, for the Departments and taxpayers, to collect the detailed information needed to determine precise annual costs. Most concessions are made to deal with what are, on the whole, minor or transitory anomalies under the legislation or to meet cases of hardship at the margins of the tax code. They generally apply to relatively few people and usually involve small amounts of tax in individual cases. There are, however, some exceptions - where the numbers of taxpayers benefiting from a concession and the amounts of tax involved in individual cases are larger.

The Inland Revenue have been able to estimate, in terms of broad orders of magnitude, the current annual revenue costs of most concessions appearing in their published booklet (IR1). The details are given below (references are to the numbers which appear in the booklet). The five largest concessions are all practices of long standing - A1, A5 and A67 date from the 1940s, A63 from the 1960s and A65 from the start of North Sea oil exploration.

~~Acc Banking note~~

Accord f Banking note

Revenue Cost - £m		Inland Revenue (Booklet IR1)	
~~100-250~~ 200 250	:	A5	Expenses allowances and benefits in kind (mainly removal expenses and bridging loan costs borne by employers).
	:	A63	External training courses - expenses borne by employer.
50-100	:	A67	Payments to employees moved to higher cost housing areas.
10-50	:	A65	Workers on offshore oil and gas rigs or platforms - free transfers from or to mainland.
	:	A1	Flat rate allowances for cost of tools and special clothing.
3-10	:	A2	Meal vouchers.
	:	A6	Miners: free coal and benefits in kind.
	:	A19	Arrears of tax arising through official error.
	:	A22	Long service awards.
	:	A27	Mortgage interest relief: temporary absences from mortgaged property.
	:	D2	Residence in the United Kingdom: year of commencement or cessation of residence.
	:	D22	(CGT) Relief for the replacement of business assets: expenditure on improvements to existing assets.
	:	D24	(CGT) Relief for the replacement of business assets: assets not brought immediately into trading use.
	:	D26	(CGT) Relief for exchange of joint interests.
	:	I2	Direct exports from tanker-loading fields.
	:	I5	Petroleum Revenue Tax instalments.

Of the remaining 181 Inland Revenue concessions currently in operation (which include about 40 which are obsolescent and a further 8 which are being legislated this year and/or which are likely to become obsolescent as a result of legislation this year) the relevant revenue costs are thought to be:

Revenue Cost - £m	No. of Concessions
0.5-3	13
0.1-0.5	30
below 0.1	85

This leaves 53 for which the costs are not known, although the majority of these are thought unlikely to involve significant amounts of tax.

Customs and Excise concessions are published in Notice 748. They have 39 concessions currently in operation (of which 9 are being legislated this year). They estimate that at least 10 of these (and almost certainly more) involve minimal or negligible cost in terms of tax forgone.

D Denton

D DENTON
Principal, Central Division
Extn: 6302

G H Bush

~~G H BUSH~~
~~Director, Central Division~~
~~Extn: 7586~~

CH
8.9

/BACKGROUND NOTE

MR CHRIS SMITH

BACKGROUND NOTE

1. This particular question appears to be a follow-up to the exchanges in Standing Committee on 11 May 1989 in relation to certain amendments tabled by the Opposition to Clause 2 of this year's Finance Bill (House of Commons, Standing Committee G, cols 7 to 16 - copies attached). In discussing Customs' regulation-making powers under the provision, Dr Marek, on behalf of the Opposition front bench, expressed the hope that more information would be made available about extra-statutory concessions (ESCs) and promised to support any Government action taken to decrease the number of concessions and to put them on a regular basis. Dr Marek indicated, in response to the Economic Secretary's remarks that information on costs can be elicited by PQ if it is available and that the Government would always do its best to provide such information, that questions would be tabled - see columns 15 and 16 of the debate.

2. An ESC is a relaxation which gives the taxpayer a reduction in liability to which he is not entitled under the strict letter of the law but which, broadly speaking, is within the spirit of the relevant legislation. Most are made to deal with what are, on the whole, minor or transitory anomalies under the legislation and to meet cases of hardship at the margins of the code where a statutory remedy would be difficult to devise or would run to a length out of proportion to the intrinsic importance of the matter.

3. Treasury Ministers are consulted whenever a new Inland Revenue concession is envisaged. Details of new concessions (the text, a copy of the press release announcing the concession and an indicator of the concession's suitability for statutory cover) and modifications to existing concessions are reported annually to the Comptroller and Auditor General and concessions are scrutinised carefully and frequently (twice a year) with a view to removing any which are no longer applicable, or recommending them as candidates for legislation. Customs have broadly similar arrangements.

4. The texts of all ESCs are published (Inland Revenue concessions in booklet IR1 and Customs' concessions in Notice 748). The practice of publishing all concessions is relatively recent; before 1985 some which applied to small, specialised, interest groups and were thought to be of no interest to the public at large were not included in the booklet or Customs' then published material. But in May 1985, following Parliamentary and public interest in and criticism of unpublished concessions, the then Financial Secretary (Mr Moore) announced in a PQ the publication of a number of previously unpublished concessions and gave an undertaking that Inland Revenue administrative practices would be reviewed regularly to identify any which should properly be classified as ESCs so that they could be included when the published list of concessions was updated.

5. But no information is regularly made available about the costs of concessions. The last occasion on which there was Parliamentary interest in costs was in the mid-1980s when some 250 PQs were tabled about individual ESCs, including many Questions on costings, mainly by Mr Mark Fisher. This followed a Ministerial comment during a debate on a 1984 Finance Bill new clause (which was designed to give Parliamentary control over ESCs operated by the two Departments) to the effect that any Minister could be questioned about ESCs by way of oral or written questions, a not dissimilar comment to that made by the Economic Secretary in the recent Standing Committee debate (see paragraph 1 above). For the same reasons that apply now, it was only possible then to give individual answers on costings in a dozen or so cases. The remaining questions were answered by indicating either that annual costs were thought not to exceed specified ceilings (£0.5 million or £0.1 million) or that insufficient data was available to make any costing. A similar line was taken in follow-up written correspondence with Mr Fisher.

6. The background to the five Inland Revenue concessions which are thought to cost more than £10 million per annum currently is as follows:-

A63
(External training courses - expenses borne by employer)
(Estd Cost £250m)

- Although formalised as an ESC in August 1986, it was previously an administrative practice dating back to the late 1960s.

A5
(Expenses allowances and benefits in kind - mainly removal expenses)
(Estd Cost £200m)

- Originally introduced in the late 1940s and published as an ESC since 1949. With ESC A67, was part of Starter 107 for the 1989 Budget (Reform of reliefs for relocation costs) when the concession would have been legislated. But the package was dropped in February.

Confidential

A67
(Payments to employees moved to higher cost housing areas)
(Estd Cost £50-100m)

- Although formalised as an ESC in August 1986, it was previously an administrative practice with its origins in the late 1940s. With ESC A5, was part of Starter 107 referred to above. The intention had been to withdraw this concession.

Confidential

A65
(Workers on offshore oil and gas rigs or platforms - free transfers from or to mainland)
(Estd Cost £25m)

- Although formalised as an ESC in August 1986, origins in a practice that arose in the 1940s and applied to inshore seafarers. It has applied to North Sea oil workers since the advent of North Sea oil exploration.

A1
(Flat rate allowances for cost of tools and special clothing)
(Estd Cost £15m)

- Origins in the early 1940s and published as an ESC since 1949.

[Dr. Marek]
business in Committees being very much of an oppositional nature. Ministers have briefs to counter Opposition amendments, which usually have "Resist" written in capital letters at the top. I realise that that is part of the constitutional system and that the raison d'être of a Minister in a Committee is to secure the passage of the Bill without amendment, unless a mistake has been made and a Government amendment has to be tabled. That is always a great pity, but I hope that we can make progress on this Bill on a more co-operative basis, especially as the Chief Secretary said that he did not consider the Bill to be tendentious.

So, if the Bill is not tendentious and will not divide the Committee too much, we shall try to be co-operative and help the Government. As the Bill has had its Second Reading and as the House of Commons has agreed in principle that it should go into Committee, we shall try to improve it, on a co-operative basis. I hope that we shall be able to proceed quickly and that, contrary to last year when we made much progress in the first sitting and then became stuck on clause 13, we can go steadily on and improve the Bill.

In that spirit, I shall not make a long statement on the amendments, but amendment No. 20 is important. However, because Opposition Members do not have access to all the expertise and knowledge pertaining to financial legislation, we may be tabling amendments that are wrong—I think that one of our later amendments is wrong. Also, the amendments may be unnecessary, and if so, the Economic Secretary will be able to explain why.

We are worried that this provision could result in the regulations making special laws for special and individual cases. That is bad law in principle. Regulations should always cover classes of cases. An amendment may not be necessary to specifically rule out helping Mr. Jones with a particular problem. If that cannot occur, there is no need for the amendment. Clause 2(2)(b) states:

"provide for relief to be allowed in cases or classes of case set out in the regulations."

The commissioners may not intend to deal with individual cases in those regulations, but we must ensure that they cannot even be tempted to do so.

In the spirit of co-operation, I shall not expand my case. I have made my point and shall be interested to hear the Minister's response.

The Economic Secretary to the Treasury (Mr. Peter Lilley): It is a pleasure to be back under your chairmanship, Mr. Crowther, and facing the battle-hardened troops on Opposition Benches. I am encouraged by my own seasoned troops behind me, reinforced by some new talent conscripted from outside.

One of the features of last year's Committee, in which we gained our experience, was the often constructive nature of the amendments. I am glad that we are off to a good start with an amendment proposed in a spirit with which I have much sympathy. I do not intend powers to be created to give individuals preferential treatment, although I agree that to non-lawyers such as myself, the reason for the wording was not immediately apparent. However, I understand that it is a standard legal term; indeed, there are 127 cases in law where the phrase,

"in cases or classes of case"

is used. It is standard legal drafting in legislation such as the Income and Corporation Taxes Act 1988. To truncate the phrase would cause difficulties and undermine the use of the phrase elsewhere in legislation.

Mr. Win Griffiths (Bridgend): Like the Minister, I am a non-lawyer, so the phrase

"in cases or classes of case"

does not mean much to me. Will the Minister explain the exact reason for keeping the wording as it is, and what would happen if the amendment were adopted?

Mr. Lilley: The meaning of the phrase is that it effectively includes a class of one. We may have to deal with a single example and it is, apparently, difficult to phrase a class of one in law. That does not mean that we intend to enable the Government to set up special privileges for named individuals.

Mr. Griffiths: Does that mean that an individual case would be unique, or might other individuals have the same case to put to the Government?

Mr. Lilley: As I understand it, it means that a case might be unique at the time of framing it, but other virtually identical cases may arise. They would then constitute a class. So although the wording is not satisfactory to non-lawyers such as myself and the hon. Member for Bridgend (Mr. Griffiths), I hope that the Committee will recognise that it is standard legal terminology and has no nefarious intent.

Dr. Marek: If none of my hon. Friends wishes to make any further points, and in view of the Economic Secretary's comments about lawyers' strange inability to write down exactly what they mean—that does not happen often—I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Dr. Marek: I beg to move amendment No. 21, in page 2, line 35, after "conditions", insert "imposed by the reglations".

Clause 2(2) says that

"The regulations may include such provision as the Commissioners think fit in connection with allowing reliefs, and in particular may—

(e) provide for relief to be allowed subject to such conditions as the Commissioners may impose on the person claiming relief".

Mr. Lilley: I understand the spirit in which the amendment has been tabled. It is in line with the purpose of the clause, which seeks to reduce the number of extra-statutory concessions and get all details on a firm legislative basis. None-the-less, although normally we should hope to incorporate any details of legislation in regulations, which would have to be approved by the House, there can be a need for the commissioners to specify administrative details of how those regulations should be implemented—for example, details of record-keeping, submission of returns and retention of records. That would be cumbersome in regulations, and might have to be varied frequently with the changing nature of business. We should not want the House to have to replace all the regulations every time a change was made.

It is a fairly well-established practice to give such discretion to commissioners to introduce conditions for administrative handling of regulations. For example, in the Excise Duties (Hydrocarbon Oils) (Deferred Payment) Regulations 1985, that power exists in virtually identical wording. It is used for such matters as imposing conditions on keeping records on liabilities incurred, and such like. Therefore, having established the meaning of the measure, I hope that we shall be able to do without the amendment.

Dr. Marek: In view of what the Economic Secretary has said, it is difficult for the Opposition to insist on the amendment. When we debate amendment No. 24, which is about the commissioners publishing details of their activities, we might seek more information.

In view of the Economic Secretary's words, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Dr. Marek: I beg to move amendment No. 23, in page 3, line 9, leave out

"be liable on summary conviction",

and insert "on summary conviction pay".

It would be useful if the Economic Secretary could tell us about the sentencing policy on penalties for those who contravene Customs and Excise rules and who are prosecuted. The amendment perhaps represents a more puritan spirit of the Opposition; it seeks to toughen up the penalties that must be paid when a person contravenes or fails to comply with a regulation made under this measure. Subsection (4)(a) states that a person

"shall be liable on summary conviction to a penalty of three times the value of any goods".

5 pm

That does not mean that he will be sentenced to a penalty of three times the value of any goods. The amendment simply toughens up the provision. It removes the words

"be liable on summary conviction"—

the amendment is slightly defective because it does not include the word "to", but never mind that—and provides that a person shall

"on summary conviction pay"

a penalty of three times the value of any goods.

Paragraph (b) goes on to say that the goods will "be liable to forfeiture". We considered whether any goods should be forfeited, but we believe that that discretion should be given to the judge or magistrates, depending upon the individual circumstances.

A reasonable compromise would be to insist on a penalty of three times the value of any goods. I hate to introduce a contentious note, but especially with the Government's insistence on trying to save as much public expenditure as possible and their not properly staffing Customs and Excise and the Inland Revenue, people will frequently say, "The chances of getting caught are not great. The maximum penalty is three times, but in practice the judges have been issuing penalties of only one and a half times, so it is worth the risk of not complying with any of the regulations."

If that is so, this legislation is ineffective and we are defeating its purpose. The Opposition are trying to be helpful. We think that the Government should use more of a stick so that people who may be tempted to be lackadaisical in complying with the regulations will concentrate and spend a little more time making sure that they comply. I shall be interested to hear the Economic Secretary's comments.

Mr. Lilley: The hon. Member for Wrexham (Dr. Marek) asked about sentencing policy. That is obviously a matter for the courts, and I am afraid that I cannot give him any statistical information on how they have interpreted the discretion that they have been given in parallel cases. However, our policy—which has generally been adopted by Parliament—has always been to give the courts an element of discretion so that, up to the maximum penalty, they can relate the actual penalty to the precise circumstances of the case. That is what the current wording of the clause does.

As the hon. Gentleman rightly said, the proposed wording would deprive a court of that discretion, which the Government would not be in favour of doing because we believe that the courts should be able to adapt the sentence within the range provided to the precise circumstances of the case.

Dr. Kim Howells (Pontypridd): I am a little perplexed about what the sentences are likely to be. The clause refers to

"three times the value of any goods".

Will the Economic Secretary tell me exactly what is meant by hydrocarbon oil, as we are debating it? I thought that all oil was hydrocarbon. I understand that there is a light hydrocarbon and a heavy hydrocarbon. If it is heavy hydrocarbon, is the hon. Gentleman talking about fuel oil—in which case, there would be very large penalties indeed, would there not?

Mr. Lilley: Most oils are hydrocarbons, but not all hydrocarbons are oils. I do not know whether that gets us a great deal further. The nature of the clause is fairly general and covers all specific reliefs relating to duties on hydrocarbon oils. Some will be very valuable; some will involve large quantities and some small. That is why the penalty is specified in this way, so that where people are dealing in large quantities of a valuable commodity, the penalty is potentially large. Where they are dealing with only a small amount of a less valuable commodity, the potential penalty is smaller.

Mr. Major: That is right.

Mr. Lilley: Of course it is right. What an extraordinary lack of confidence my right hon. Friend the Chief Secretary shows. However, it is a comfort to know that it is right. I hope that the Committee will see the logic of the clause as it stands.

Dr. Marek: Nevertheless, will the Economic Secretary look into the sentencing policy to make sure that the intentions are carried out in practice? The Minister nods. In that case, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Dr. Marek: I beg to move amendment No. 24, in page, 3, line 23, at end insert—

"(7) The Commissioners shall publish in each financial year a report relating to the previous financial year showing the reliefs given in the various classes of case and the individual total reliefs of the various classes.".

I do not suggest that the Committee should spend much time on the amendment, but it deserves some consideration. It seeks to add a new subsection (7) to section 20AA of the Hydrocarbon Oil Duties Act 1979. If the phrase,

"in the various classes of case"

is not legalistic, the amendment may not have the best wording, but its intention is clear.

Every year we have problems in Finance Bill Committees about which extra-statutory concession has been given by Customs and Excise and to whom. Perhaps there are publications that shed light on such matters, but I have not seen them. It would be useful if Customs and Excise could, in a special report, as a requirement of the Hydrocarbon Oil Duties Act 1979, tell the public what it is doing and how it interprets regulations, especially as the Economic Secretary has said that it would be inappropriate to put in all the conditions and that some concessions have to be extra-statutory.

I hope that the Government will think seriously about accepting the amendment or tabling another on Report if our wording is not acceptable.

Mr. John Battle (Leeds, West): Yesterday, on the Floor of the House, I asked the Financial Secretary whether he would consider publishing monitoring reports of the way that the business expansion scheme is used, for example. The public have a right to know how public money is spent, especially in local government, and where reliefs go.

Yesterday I drew this analogy. The Department of the Environment instructed local authorities three years ago to publish detailed monitoring reports every year on how they spent their money on the urban programme. So there is no reason why there should not be regular monitoring reports of how public money is spent and how reliefs contribute to that public expenditure. Not only public expenditure but reliefs come from the Treasury. We should know to whom the reliefs go and how much they are.

I hope that the Minister will agree that the amendment is not heavy-handed and political in the usual context of such debates. It would be a sensible addition to the clause and I hope that he will support us, certainly in the spirit, if not in the wording of the amendment, and instruct Customs and Excise to publish what could be described as monitoring reports. Each year it would then be made plain exactly where the money has gone.

Mr. Lilley: I appreciate the points made by the hon. Members for Wrexham (Dr. Marek) and for Leeds, West (Mr. Battle), but there are distinct problems. The amendment refers to reliefs and, in effect, asks for records to be kept of tax that is not paid. That would impose an additional burden on industry, which does not necessarily have those figures; it would be required to keep them, transfer them to Customs and Excise and then have them collated and collected. We do not have those figures at present.

Perhaps I may give an example of what might be involved. I hope that I get it right. If I do not, no doubt my right hon. Friend the Chief Secretary will let me know.

If a garage washes out a tank that contained mineral oil and recycles some of that filthy oil, it gets certain reliefs because it does not sell that to the public. It does not keep a record of the tax that it has not paid on the oil used for cleaning out tanks. To require that records are kept in such circumstances would impose an added burden on business and I am sure that no one wishes to do that if it can be avoided.

Mr. Battle: Is the Economic Secretary saying that no one keeps the records? The logic of his remarks is that we do not know how much tax relief is involved.

Mr. Lilley: No. A record of the volumes will be kept at the time and a calculation will be made. But, in the end, the company must pay a certain amount of duty. It will be liable to checks and spot checks to ensure that it is acting in the right way. However, it will not separately identify the amount of tax that is not paid for each specific relief in a way that would be convenient for the compilation of the figures that the amendment suggests should be published. It would involve a collating burden of all the figures in the internal accounts and records of those companies.

Mr. Tony Worthington (Clydebank and Milngavie): Can the Minister help us by giving the figures? How much money is involved under the clause? What reliefs are likely to be involved? I realise that it is a difficult question, but it would be helpful to know whether we are dealing with a trivial or substantial sum.

Mr. Lilley: I cannot give an easy answer to that question. We are talking about a power to translate extra-statutory concessions into legislation. Just how many that will be remains to be seen. There are not many—some six of the 19 Customs and Excise ESCs are accounted for by the hydrocarbon oil ESCs. In total, they amount to less than £10 million, but how many could be translated into law remains to be seen. But given the small sums involved, I hope that the committee will reject the amendment.

Dr. Kim Howells: I am a little troubled by the vagueness of the Minister's reply. Suppose that the price of oil suffered the type of fall that it has suffered over the past three to four years and suddenly it became profitable for oil companies to use residues from the refining process as fuel oil for power stations. In those circumstances, surely they could begin to refine less and to use more of the residue as a source of profit in the future. How will the clause relate to such a movement, because oil prices can be very volatile?

5.15 pm

Mr. Lilley: On the contrary, the clause will tighten up prices. At present there is an extra-statutory concession. It is one of the ESCs to which I referred in rather vague terms, but I would not expect hon. Members to rely on the details that I gave about its operation; none the less, it operates as an extra-statutory concession. But if circumstances changed, and it became an opportunity for a rip-off instead of a desirable concession, we should have to do something about it. In any case, if it were made a legal provision, the House would have the opportunity to ensure that such a legal provision did not allow the switching of intention of which the hon. Member for Pontypridd (Mr. Howells) spoke. I am informed that a major part of the maximum £10 million relief has not yet even been given on petroleum vapour recovered, and that is one reason why the estimate is vague.

Dr. Marek: Where would we find information about extra-statutory concessions? Do the Government publish such information, and is it detailed? If the Economic Secretary could tell us where to look, it would probably help us in later clauses.

Mr. Lilley: We publish a list of all extra-statutory concessions, but I am not sure where one can find it.

Mr. David Shaw (Dover): The Customs publishes its own list.

Mr. Lilley: The Customs publishes its own list, which will be available from the Customs and Excise, and I imagine that the Inland Revenue will provide similar information. I shall take the advice of my hon. Friend the Member for Dover (Mr. Shaw) and send a copy of the list to the hon. Member for Wrexham (Dr. Marek), so that he will know which ones relate to Customs and Excise.

I have said all that I wish to say on the subject, and in the light of the relatively small amount, and the general intention in the clause to move to a more statutory basis, I hope that the amendment will not be thought necessary.

Dr. Lewis Moonie (Kirkcaldy): I can tell by the Committee's rapt attention that the subject has excited a great deal of interest. I sympathise with the Minister, because it is clear that he knows about as much about it as I did when I first looked at the amendment. Nevertheless, it highlights the need for Departments to be more ready to impart information about what they do.

I accept the Minister's comment that to collect information from every industrial user, who is gaining what in most cases will be a fairly small amount, would involve a disproportionate cost. But perhaps we should look at the general picture. This is not exactly within the framework of the amendment; I put the suggestion to the Minister as an alternative that he need not accept, but merely agree to look at. The logical assumption of having penalties is that occasionally people are convicted, and I wonder how many cases there are. It is another example of information that may be held by the Customs and Excise rather than by the hapless users.

Mr. Lilley: We are talking about extra-statutory concessions, and as such, no penalties are involved. That is one reason for moving in the direction of legislation, as proposed in the clause.

Dr. Moonie: All is now much clearer than it was when I rose to speak. So this new provision will enable that to be done, in which case we shall be interested to see its effects in future.

Mr. Win Griffiths: On a point of order, Mr. Crowther. Is there any means of brightening the lights in this part of the Room when my hon. Friend the Member for Kirkcaldy (Dr. Moonie) rises to speak? I suffer from a complete blackout, as the light from the window is shut out and I have to rely on the dim light here.

The Chairman: The size of any hon. Member is not a matter for the Chair. I can do little about that.

Dr. Moonie: Further to that point of order, Mr. Crowther. I am on a fairly strict diet, so in the many months ahead during which we shall consider the Bill the problem may resolve itself.

Amendment negatived.

The Chairman: Before we move to clauses 3, 4 and 5, I must inform the Committee that recently I was appointed adviser to the National Licensed Victuallers Association. Those clauses affect the brewers rather than the licensees, but if any hon. Member feels that it would be improper for me to be in the Chair while those matters are discussed, the Committee can resolve that such matters be deferred and be considered under the chairmanship of my co-Chairman.

Mr. Major: The Government are content for you to remain in the Chair, Mr. Crowther.

Mr. David Shaw: I am grateful to you, Mr. Crowther, for pointing out your particular interest. I should point out that in the Register of Members' Interests I declare that I am a director of a small real ale brewery.

The Chairman: It seems to be the wish of the Committee that I remain in the Chair while these matters are discussed, so we shall move to clause 3.

Mr. Major: On a point of order, Mr. Crowther. I am not sure—perhaps I was deeply engaged in something else—whether we have approved clause 2 stand part.

The Chairman: I was so anxious to get my point over to the Committee that I omitted that important matter.

Question proposed, That the clause stand part of the Bill.

Dr. Marek: The Opposition are also happy for you to remain in the Chair, Mr. Crowther, when we discuss alcoholic liquor duties. Some amendments have been tabled, but those clauses should not take too long.

Clause 2 is not too contentious. It is a pity that the Committee did not accept amendment No. 24 because, although the Customs and Excise publishes a list of extra-statutory concessions, not much additional information is available. I hope that the Economic Secretary will at least take into account the spirit of the debate in Committee and see what he can do. It would not increase the administrative burden on industry, and it would be a minor administrative burden to the Customs and Excise, to let the public have any further information about extra-statutory concessions that may easily be obtained.

Mr. Lilley: On that latter point, we hope that we are dealing with a diminishing problem since the purpose of the clause is to diminish the number of extra-statutory concessions and translate them into law. Should any hon. Member wish to know the revenue forgone on either an extra-statutory concession or the subsequent regulations that replace it, that information can be elicited by a parliamentary question if it is available to us. We would always do our best to provide such information. When this provision is on a firm legislative basis, the information is likely to be more forthcoming.

The clause is in line with the spirit of the House, which has always been jealous of its right to tax and does not like the power to alter or raise taxation to pass from its hands. The House accepts the need for the power to introduce extra-statutory concessions, but that power should be used as sparingly as possible.

Since 1985, the Government have been committed to reduce the number of extra-statutory concessions whenever the possibility arose. There are 19 extra-statutory concessions relating to customs and excise, six of which relate to hydrocarbon oils, and the measure is designed to reduce that number. We have taken similar measures in other areas of customs duties, and I hope that the Committee will welcome the direction in which we are moving.

Question put and agreed to.

Clause 2 ordered to stand part of the Bill.

Clause 3

ORIGINAL GRAVITY OF BEER

Dr. Marek: I beg to move amendment No. 25, in page 3, line 33, at end insert—

"(2) The Customs and Excise shall publish figures for each brewery showing the amount of duty paid for each financial year beginning with 1989-90.".

The Economic Secretary made a helpful reply, and I am sure that the Opposition will table some questions to discover the amount of relief that is given in extra-statutory concessions. I agree that we should try to decrease their number and that we should put them on a regular basis. If the Government want to make further progress on that, the Opposition will support them.

Will the Economic Secretary explain what type of people are proper officers within the meaning of the Alcoholic Liquor Duties Act 1979 and why the Government want to change the word "proper officer" to:

"brewer in accordance with subsection (2)"?

The amendment is more specific. It was tabled because members of the Committee and the public should know how much duty is paid by each brewery. It would be useful to know whether the amount of duty paid will change because of the change in regulations. I read the press release put out by Customs and Excise which explained the changes in estimating duty—whether it is done by distillation analysis or whether it is done using a saccharometer. A full explanation of the changes—perhaps on the clause stand part debate—would be useful.

The amendment is straightforward. It seeks the publication of information, but commercial advantage or commercial secrecy will not be involved. Customs and Excise must know the figures and they should be made publicly available.

Mr. Lilley: It is the long-established policy of revenue Departments not to divulge the tax liabilities and payments of individual taxpayers. This well intentioned amendment would require them to do that. It would be against long established policy and, under clause 174, it would be a criminal offence to reveal the tax position of an individual. Consequently, the Government are reluctant to accept it.

Dr. Marek: It was my understanding that a proper officer or a brewer would not be acting in an individual capacity, but would be acting on behalf of a company. Have I got that wrong?

Mr. Lilley: Whatever the capacity of the proper officer and the brewer, if Customs and Excise were required to reveal the tax affairs of an individual brewery it would be against previous policy, the provisions of the Bill and criminal law. It would also probably be against the Official Secrets Act at present. The role of proper officers does not alter that position.

Mr. Battle: It would be pertinent to ask the Economic Secretary whether the clause will be affected by the report from the Monopolies and Mergers Commission. There will be great changes throughout the industry and the clause will affect what happens in the industry if it goes through unamended. Can he give us more information about that because many of us are receiving letters from proccom **UNCLASSIFIED**

Ch
Any comments?
AA

FROM : MISS J C SIMPSON (EB)
DATE : 13 JUNE 1989
Ext 5211

1. MR PERETZ
2. CHANCELLOR

Copies attached for:
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary

cc PCC
MEG
Mr R I G Allen
Mr Beastall
Mr Harris
Mr T R H Luce
Mr Moore
Mr Mountfield
Mr Odling-Smee

Mrs Chaplin
Mr Tyrie
Mr Call

PS/IR
Mr McNicol - IR
PS/C & E
Mr Warr - C & E

I have wait for a 2nd draft after Mins may also care to comment.

We had a short discussion of some aspects of this at PCC today, but have not yet had comments from all officials who have been involved with Select Committees. The Lord President asked for a reply by Friday, and we will put up a revised draft trying to meet that timetable.
DLP 13/6

PROCEDURE COMMITTEE ENQUIRY INTO THE WORK OF SELECT COMMITTEES

The Lord President has written to colleagues asking for their views on a number of questions posed by Sir Peter Emery, the Chairman of the Procedure Committee, into the working of the Select Committee system. The responses will form the basis of a memorandum which he has been asked to submit to the Committee as part of their enquiry into the select committee system.

2. We have carried out a trawl for reactions in the Department and the Revenue Departments. The results so far have been incorporated in the attached draft minute. We are still working on this and have not yet heard from everyone who might have views. Given the limited time available, however, we thought it would be helpful if we could have preliminary comments from Ministers now, which could be incorporated in a revised draft.

3. In considering Sir Peter Emery's questions, there are a number of points of which you might like to be aware.

(a) <u>Replies to Committee reports</u>

The question of the content and timing of Government replies to Select Committee and PAC reports is being dealt with separately.

We have assumed that, by extension, the same applies to the 'copyright' select committees claim in any evidence that has been submitted to them, until they themselves publish it.

(b) Burden on resources

The Treasury ought to be particularly concerned with the burden placed on resources by the work of the select committees. We have made some attempt to quantify this, but the figures almost certainly underestimate the number of hours involved. In addition, they do not bring out the fact that often the work is incurred at times when the officials and Ministers concerned are already busy precisely because something of importance or topical interest is happening, or the fact that when a Committee enquiry is in progress it can absorb a great deal of time even if, when spread over a whole year, it is a comparatively modest proportion. There is also the question of the input/output ratio : whether the amount of work involved is excessive or unjustified in the light of the results of any particular enquiry.

It may be that in view of this, it would be better to refer to the burden on resources in qualitative rather than quantitative terms even though in principle the Treasury would like to get the objective costs of the select committee system recognised (see paragraph 3 of the note). We should be grateful for your view on this point. You may like to know that the total we have identified so far for the Treasury alone, over the past couple of years, adds up to some 85 days at Under Secretary level and above and some 660 days at Assistant Secretary and below. For those at Under Secretary and above, it amounts to some 3½% of the time of those most often involved.

wouldn't sound dramatic

c) Treasury evidence to other Select Committees

We should like to take this opportunity to get a firm statement on the record about the extent to which the Treasury can legitimately be asked to give evidence to other departmental select committees.

There are, of course, subjects on which the Treasury can and should give evidence (tax, civil service pay) to other Departmental Select Committees. But the Treasury's overall responsibility for public expenditure always poses a temptation for select committees (and departments) to feel that the Treasury should give evidence on any matter that covers expenditure, wherever the policy responsibility lies. You will recall the various attempts of the Transport Select Committee over recent months to get a written memorandum from the Treasury and even oral evidence from the Chief Secretary. This is a tendency we feel should be strongly discouraged (see paragraph 6 of the note).

(d) Possible changes in practice or procedure

Two changes in practice and procedure which would reduce the demands on Departments would be a more structured approach to future work programmes by the Committees; and more formal advance notice of questions for oral sessions. These changes could also improve the quality of evidence presented to enquiries, but as they would also restrict the Committees' freedom of manoeuvre we suspect that they would not be acceptable. We should, however, be grateful for your views on whether it is worth raising the issues.

No ?

4. You will note that there are also two questions (part of number 1 and number 7) where officials are not in a good position to express a view, as they relate to how the House itself sees the work of the Committees.

Previous enquiry

5. You may recall that a similar exercise was conducted in 1981 to assess the work of the select committees in the first two years after they were established. In responding to that exercise, the present Foreign Secretary drew particular attention to the problem of committees expecting to be able to take evidence from the Treasury on almost any subject that involved public expenditure.

The other specific points he mentioned (restrictions on the membership of the committees; the performance of the Government members; encouraging departmental committees in the scrutiny of estimates; committee 'copyright' on evidence; preventing the committees insisting on official witnesses of an unreasonably high rank; and the need to be able to refuse to provide evidence on the grounds of disproportionate cost) all appear either to have been resolved or to be outside the terms of the present enquiry. The Treasury's overall conclusion at the time, that the Committees had done some useful work but on the whole had not fulfilled their true potential, still seems to stand.

6. The Lord President has asked for a response by Friday, 16 June, if at all possible.

JS

MISS J C SIMPSON

PROCEDURE COMMITTEE ENQUIRY INTO WORK OF THE SELECT COMMITTEES

1. Value to the House and to Ministers

[Is there anything we can usefully say about the value of the Select Committee system to the House?] TCSC reports on Treasury business have never been debated on the floor of the House, but in 1982 the then Chairman (Mr du Cann) said that "there have been constant references ... when the House has been discussing economic, financial and civil service affairs. This is in many ways a more accurate barometer of the Houses's regard for the work of the Committee".

?? They're "attached" as relevant docs to eg A's motion

~~In principle~~ there is clearly value to Ministers in the opportunity to explain the background to policy decisions and to discuss issues at greater length and depth than is possible in debates on the Floor of the House. It is also possible for evidence given to a Select Cttee to influence the formulation of Govt policy. ~~The different perspectives adopted by the Committees' specialist advisers also sometimes throw new light on issues.~~ One example where a Select Committee enquiry provided valuable background to inform later policy decisions was a 1986 Transport Select Committee enquiry into the UK shipping industry, which produced factual evidence which enabled the general taxation regime for UK seamen working abroad to be considered on a more informed basis. Departmental Select Committee examinations of spending plans have sometimes been a useful reinforcement of the pressure to ensure value for money in public spending.

2. Effectiveness in carrying out their remit

The TCSC undertakes a wide range of enquiries covering all aspects of its remit. They are all legitimate in that they relate to areas of major Treasury policy concern, although the value of some of them is doubtful especially when, as has happened, the enquiry is so prolonged that the underlying circumstances have changed substantially in the meantime. In recent years, the main 'baseload' of the TCSC has been annual enquiries into the Autumn Statement and Budget. This also reflects the annual cycle in the Treasury's own work. The Committee then builds more detailed enquiries around this framework. Short reports responding to particular circumstances have on the whole we believe proved more valuable, and less costly in Ministers' and officials' time, than the more protracted enquiries.

do we want to give them the [illegible] credit?

The influence of the committee can be seen in the introduction of the Autumn Statement combining the Industry Act Forecast and the main public expenditure decisions, first as an oral statement and then as a printed document. Other amendments and improvements to the presentation of financial documents to Parliament have also resulted from the TCSC's work. It is not always easy to know whether or not the Committee has been the decisive influence; for example, the TCSC made a number of recommendations to deal with the problem of staff losses in the Inland Revenue which were in fact already in hand. Much the same situation arose with the recent enquiry into the condition of official statistics where the TCSC's recommendation for an enquiry coincided with the Government's conclusion that such an exercise was necessary.

3. Impact on departmental resources

Some enquiries can make enormous demands on departmental resources. Those that have done so in the past include the TCSC's enquiry into monetary control and monetary policy (1979-1980) and the financial consequences of membership of the EC (1983-85).

In a number of cases (a large part of the enquiry into the consequences of EC membership, some of the Committee's enquiries into international monetary arrangements, and their enquiry into long term trends in resources and public expenditure) no report was ever produced. There are, of course, sometimes benefits from the simple publication of evidence but this is most likely to be the case in single, one-off enquiries such as the TCSC occasionally mounts into aspects of the EC Budget.

In recent years, the main burden of work for the Departmental Treasury has been dealing with routine enquiries into the Budget, Autumn Statement and PEWP. Because they are routine and because the Committee's work to that extent follows that of the Department rather than <u>vice versa</u>, the demands imposed by the TCSC on the Treasury may well be less than those made by other select committees on their departments. But they do impose an additional strain on resources and involve a substantial amount of effort for the senior officials involved, often at times when such effort is hard to spare. Non-routine enquiries can mean even more work: the Inland Revenue put in 360 man-hours in two weeks (during the run-up to the Budget) preparing for an oral hearing into staff losses in the department and Customs and Excise's preparation for their hearing in the same enquiry involved 32 man-days.

4. Process of consideration of reports

TCSC reports on Treasury business are normally considered only within the Department and the Government's reply takes the form either of a memorandum or a response during debates on the floor of the House. The replies are not normally very lengthy.

5. Possible changes in practice or procedure

no

[See the covering minute.]

6. Overlap

There is no problem with the terms of reference as between the different departmental select committees. But the provision for the select committees to investigate expenditure does mean that a number of them feel they should be entitled to demand memoranda or even oral evidence from the Treasury on matters which are the responsibility of other departments. Other Departments sometimes do less than they might to discourage this. It would be helpful if Select Committees could explicitly accept that the Treasury does not give evidence on matters that are the responsibility of other departments.

A particular area where subject matter can overlap is on Europe. For example, since 1983-84, the TCSC has carried out ten enquiries on EC matters and both it and the Scrutiny Committee are at present considering the Delors Committee report.

On the specific question of overlap with the work of the NAO/PAC, this has not on the whole been a problem with the Departmental Treasury. The only example recently is the present enquiries into developments on 'Next Steps'. The OMCS is in the lead in both cases, although there is a large amount of Treasury involvement. The problem occurs more often with the Revenue Departments. Overlapping enquiries into staff losses in the Revenue Departments resulted in the Inland Revenue having to give evidence to the PAC in July 1988 and the TCSC in January 1989, while Customs and Excise ended up giving evidence to both Committees on the same day in January 1989. We are also concerned at the evidence from some other Departments that they are suffering from a considerable overlap with the consequent duplication of effort involved.

7. Impact of Committees on work of House as a whole

~~[It is not clear how this differs from (1).]~~

That is a matter for the House to judge. But the work of the Committees should enable ~~[illegible]~~ subsequent debates to be better informed.

31 MAY 1989

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

26 May 1989

FINANCIAL SECRETARY

REC 31 MAY 1989

Miss J Simpson
Mr Beastall
Mr S Pickford
Mr Shore
Mrs Chaplin

Dear Sir Geoffrey,

PROCEDURE COMMITTEE ENQUIRY INTO THE WORKING OF SELECT COMMITTEES

Sir Peter Emery has recently written to me (see letter attached) about the Procedure Committee's forthcoming enquiry into the work of Select Committees. I have been invited to submit a memorandum giving the Government's views, and I am writing to seek the views of colleagues on the nature of our response.

I doubt whether it will be in our interests either in relation to Parliament or the wider public to provoke a major row with the House on the shortcomings of the Select Committees. At the same time, the Procedure Committee's investigation and Sir Peter's letter provide us with a genuine opportunity to indicate a Government view on matters of current and prospective concern in this field, to put down markers for the future, and to try to steer the Committee's future pattern of work into constructive, or at least less unhelpful, channels. For example, there is a clear invitation to us to address the current problems faced by some Departments of overlapping enquiries from different Committees at the same time (notably the PAC and other Departmental Committees); we might also, for example, want to encourage discussion on the right balance between carefully researched reports produced over a relatively lengthy period and quick reactions to particularly controversial issues of the day. We will also need to take account of the imminent arrival of television in the Committee rooms as well as on the Floor of the House.

On the other hand, I believe we should <u>not</u> raise with the Committee matters which are essentially internal to Government, such as the content of initial Government responses to Select Committee reports, on which I have written separately to you today.

I should, therefore, welcome colleagues' comments on the specific questions posed in Sir Peter's letter, together with any more general observations you may wish to offer at this stage, by <u>Friday 16 June</u>, if at all possible. I will then aim to circulate a draft memorandum for comment by the end of June, so that we can meet Sir Peter's proposed timetable.

My officials will be in touch with Departments separately about some of the background and factual material we shall also need.

cc: Mr Tyrie

Contd 2/ . . .

Finally, colleagues should note that it is probable that the Committee will wish to take oral evidence not only from me but also from a small number of departmental Ministers. The Procedure Committee may be prepared to accept guidance from us on the most appropriate choices in this area.

I am sending copies of this letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

Yours sincerely

pp **JOHN WAKEHAM**

(approved in draft by the Lord President
and signed in his absence)

Sir Geoffrey Howe QC MP
Secretary of State for Foreign & Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

FROM SIR PETER EMERY MP

LORD PRESIDENT OF THE COUNCIL
RECEIVED
19 MAY 1989

HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt. Hon. John Wakeham, MP,
Lord President of the Council and
Leader of the House of Commons,
House of Commons,
London SW1A 0AA.

18th May 1989

Dear John,

As you know, my Committee is proceding with an enquiry into the overall working of Select Committees, but that we are concentrating initially on those aspects affecting European Legislation. However, we are making preparations to turn to the new enquiry and, although the terms of reference embrace all Select Committees, it is likely that we shall focus our attention primarily on the departmentally related Committees.

My Committee would therefore be very grateful for a memorandum from you covering the following points:

i. the value to the House and to Ministers of a system of departmentally related Select Committees:

ii. an assessment of the effectiveness with which these Committees have carried out their task of examining "the expenditure, administration and policy of the principal Government departments", as set out in Standing Order No 130; it would be helpful if you could indicate in particular the main areas in which Select Committees have had an influence on the Government (either directly through the acceptance of their recommendations - particularly when this involved a significant switch or modification of policy - or through the indirect contribution of their activities to the wider public debate on issues of importance);

iii. the impact on the Government both in terms of the expenditure, manpower and other resources devoted to responding to requests from Committees for evidence and in the form of any increased workload for Departments which is otherwise attributable to their activities;

iv. the process by which Select Committees' recommendations are considered by the Government;

v. an indication of any aspects of the work of Select Committees over the last ten years which suggest that changes in practice or procedure may be desirable;

/......

vi. an assessment of the extent to which problems are posed for the Government by the existing demarcation between the terms of reference of different departmentally related Committees and, more particularly, between those Committees and the Public Accounts Committee;

vii. the impact, good or bad, of the work of Select Committees on the House as a whole;

I would be grateful if you could have a response from you during the early part of July. I will write to you separately as Chairman of the Services Committee.

Always

Peter

Sir Peter Emery MP
Chairman,
Procedure Committee.

SECRETARY OF STATE
NORTHERN IRELAND

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

PMP

The Rt Hon the Lord Mackay of Clashfern
Lord Chancellor
House of Lords
LONDON
SW1A 0PW

1416

13 June 1989

Dear Jim,

CONTRACTS (APPLICABLE LAW) BILL

I have seen a copy of your letter of 15 May to the Foreign Secretary regarding the proposed Contracts (Applicable Law) Bill and I am content that you should proceed with the Bill.

The Bill should, of course, extend to Northern Ireland so as to facilitate the United Kingdom's ratification of the Rome Convention. I agree with what you say about the Convention applying to conflicts between the laws of two territorial units within a state; thus the Convention would apply to contracts with, for example, a Northern Ireland and a Scottish element.

I am copying this letter to members of OD(E), the Home Secretary, the Secretary of State for Scotland, the Attorney General and Sir Robin Butler.

Tom

TK

PM/SOFS/24

psec.lb/bd.1 cab **CONFIDENTIAL**

FROM: B O DYER (Parly Clerk)
DATE: 14 June 1989
EXTN: 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve - IDT
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 15 JUNE 1989
PARLIAMENTARY AFFAIRS

Following is the business currently proposed for the Commons next week (subject to Shadow Cabinet representations tonight - one of the Opposition days may be deferred):

Monday 19 June

2.30pm: Welsh Questions
3.30pm: **Statement on Student Loans**
4.00pm: [**Opposition 13th Allotted Day** (S&LD) - subject to be announced]

Tuesday 20 June (Memo: Fin. Bill St. Cttee 10th Sitting - 4.30pm)

2.30pm: Employment Questions
3.15pm: PMs Questions
3.30pm: Ten Minute Rule Bill - Teresa Gorman: Public Places (Hygiene)
3.40pm: **Opposition 14th Allotted Day** (Lab) - subject to be announced
10.00pm: **Finance Bill Ways & Means Resolutions (5) - PMG**
- : Opposition Prayers on three Scottish Community Charge Orders

Wednesday 21 June

2.30pm: Trade & Industry Questions
3.30pm: Ten Minute Rule Bill - Alan Meale : Greyhound Betting Levy
3.40pm: **Self-Governing Schools (Scotland) Bill** : Remaining stages

P.T.O

<u>**Thursday** 22 June</u>

2.30pm: Northern Ireland Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: [**Northern Ireland Business**]

10.00pm: **Pesticides (Fees & Enforcement) Bill:** Remaining stages

<u>**Friday** 23 June</u>

9.30am: **Private Members' Motions**

1. Roger Gale : subject to be announced
2. Simon Burns : Litter
3. Irvine Patnick : Sheffield's Regeneration

<u>**Monday** 26 June</u>

2.30pm: Energy Questions

3.20pm: Civil Service Questions (Mr Luce)

3.30pm: **Opposition 15th Allotted Day** (Lab) - subject to be announced

B. Dyer

B O DYER

fim1.dr/devereux/13.9.6

APS/CLEX.

PMP

ORAL

FOR ANSWER ON 14 June 1989

HMT Ref: 4-0042

CM/ This is for EST to clear but you will want to see it as well. OK if EST content? DJS

TREASURY

OK

Dem -

Lord Ezra

To ask Her Majesty's Government whether and if so when they propose to privatise the Bank of England.

DRAFT REPLY: LORD STRATHCLYDE

The Government ~~does not propose~~ has no plans to privatise the Bank of England.

[signature]

R J DEVEREUX
FIM1 Ext 4648

MOM

MISS O'MARA
MG Ext 4699

told PS/EST

NOTES FOR SUPPLEMENTARIES

FACTUAL

1. **Bank's present position dates from 1946.** Bank of England Act 1946 transferred Bank's capital stock into public ownership; Government is now sole owner. Prior to 1946 Bank undertook similar functions (eg Government's banker, principal issuer of bank notes etc) but capital stock held by private sector.

2. **Governor and rest of Court of Directors (12) appointed by Crown** for terms of four years (five for Governor and Deputy Governor; Governor's present term began 1988).

3. **Bank has many roles**

(a) advising on and executing monetary policy;

(b) supervising City; statutory responsibility for banking supervision under the Banking Act 1987; some statutory responsibility for wholesale markets under Financial Services Act 1986;

(c) agent for Government on note issue, management of Government's debt, and management of foreign currency reserves. Costs, £90 m in 1988-89, met by Treasury and score in public expenditure.

(d) Government's and bankers' banker.

4. **Bank made £137 million operating profit in 1988-89.** Report and Accounts published annually. Total assets at 28 February 1989 were some £4 billion.

5. **Bank pays annual "dividend" to Treasury: £56.6 million in 1988-89.** Payment, strictly in lieu of dividend, required under Bank of England Act 1946.

POSITIVE

6. **Present system works well:** stability of financial system enhanced by standing of the Bank of England which acts as an undoubted lender of last resort to the banking system.

7. **City very successful as a result**: makes major contribution to balance of payments.

8. **Taxpayer benefits financially** through Bank "dividend" (£56.6 million in 1988-89), and through seignorage on Bank's note issue (£1.4 billion in 1988-89).

fim1.dr/devereux/13.9.6

<u>**DEFENSIVE**</u>

A. General

9. <u>**No other OECD country has privately owned central bank.**</u> Not serious option for UK.

10. <u>**Present arrangements lead to higher inflation than elsewhere as Government can resort to the monetary printing press?**</u> Adherence of present Government to counter-inflationary policies beyond question. Public finances unprecedently sound, public sector expected to be in surplus by some £14 billion this year alone.

11. <u>**Independent central bank (like Bundesbank) not appropriate for UK**</u> which has different constitutional arrangements: doubt whether Parliament would welcome removal of Ministerial accountability.

12. <u>**Bank does not decide monetary policy**</u>, but advises Government and implements Government's decisions.

B. Note Issuing

13. <u>**Note issue should remain a public sector function**</u> [Note comment below on limited nature of Scottish and Northern Irish Banks' note issues]. Private note circulation would transfer seignorage revenues (the difference between face value and production costs) from taxpayer to private bank shareholders. Government cannot risk loss of confidence in national currency. No other country gives legal tender status to private sector liabilites.

14. <u>**Scottish and Northern Irish Banks have only limited note issuing privileges**</u>. Only a few banks retain note issue privilege (3 in Scotland, 4 in Northern Ireland). Apart from small fiduciary element, all private sector notes have to be backed by Bank of England notes, or coins. Scottish and Northern Irish notes not legal tender anywhere in the UK.

C. Delors

15. **Delors Committee Report: Economic and Monetary Union**

(i) **Government's view of Report?**

Valuable piece of analysis which brings out very clearly the fundamental nature of economic and monetary union and transfer of national sovereignty it would involve.

Also makes clear that economic and monetary union are not possible within the existing Treaty. No question of UK agreeing to further Treaty amendment.

(ii) **Government's attitude wholly negative?**

No. Government has proposed number of practical steps which could be taken in field of monetary cooperation: indeed UK is already doing more than others in this respect.

(iii) **Report advocates UK should join ERM?** Government's position well known. Will join when time is right.

(iv) **Is UK Government committed to report by the fact that Governor has signed it?** All members sat on Delors Committee in personal capacity. No Government is committed by contents of report.

(v) **Government's attitude to Treaty amendment?**

No question of Government agreeing to Treaty amendment, particularly when Treaty so recently amended to conform with Single European Act. Such talk simply diverts attention from what we should be doing - completing single market.

(vi) **Is UK committed to economic and monetary union?** As Chancellor made clear in Chaham House speech, EMU implies nothing less than European Government and political union. Simply not on agenda now or for foreseeable future. Report itself sets no timetable for achieving EMU.

fim1.dr/devereux/13.9.6

BACKGROUND NOTE

It is not clear what lies behind this question. The question was tabled the day after the Bank published its annual accounts, which reported record profits. The question may represent a straightforward suggestion that the Government privatise a profitable public sector body. The briefing takes the line that it is completely inappropriate to have a private sector central bank. However, the briefing also covers recent suggestions (in an Institute for Economic Affairs paper) that private banks be given note issuing powers, and the Government's line on the Delors Committee.

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

/16/6

15 June 1989

Dear John,

PROCEDURE COMMITTEE ENQUIRY INTO THE WORKING OF SELECT COMMITTEES

Thank you for copying to me your letter of 26 May to Geoffrey Howe in which you seek colleagues views on the nature of the Government's response to Sir Peter Emery's letter of 18 May about the above-mentioned enquiry.

As you know, despite prolonged negotiations through the usual channels, culminating in the debate you took on 20 December 1988, it has proved impossible to set up a Select Committee on Scottish Affairs during this Parliament in a way that would be consistent with the conventions for determining the composition of Select Committees. As a result there has not been a Select Committee on Scottish Affairs since 1987. The Scottish Office has however continued to be the subject of considerable Select Committee scrutiny as is confirmed by the enclosed list of written/oral evidence given by Scottish Office Ministers and officials to the Select Committees in the last 18 months. During the same period Scottish Office officials also appeared before the Public Accounts Committee in relation to 7 separate PAC enquiries. The absence of a Scottish Select committee has not therefore resulted in any significant reduction in the extent of Parliamentary scrutiny of the expenditure, administration and policy of my Department.

In view of the present position I am not particularly well placed to offer current comment on the various points in Sir Peter Emery's letter - at least insofar as they relate to departmental select committees. One thing however which the absence of a Scottish Select Committee has done is to reduce the potential which existed previously for overlap between the Scottish Select Committee and other select committees. Overlap could obviously become a potentially sizeable problem for us if acceptable arrangements for re-instating a Scottish Select Committee were to be agreed.

Another point that concerns me is the impact of Select Committee investigations on departmental resources. Select Committee enquiries tend as often as not to relate to policy issues that are in the public eye. This inevitably adds to the burdens on staff who are anyway already overstretched and, whilst this may be unavoidable, I do think Select Committees must be encouraged to be more selective and to avoid asking for more by way of evidence than they need for purposes of their particular enquiry (particularly where these requests are at the behest of Clerks/Advisers to the Committee rather than the Select Committee itself).

My officials will be happy to provide full background on the present position and related factual information should you require it. I am sending copies of this letter to the Prime Minister, other Cabinet Colleagues, David Waddington, Richard Luce and Sir Robin Butler.

Yours ever,

Malcolm

MALCOLM RIFKIND

SCOTTISH OFFICE MINISTERIAL AND OFFICIAL EVIDENCE TO SELECT COMMITTEES

Select Committee	Enquiry	Written Evidence	Oral Evidence
Agriculture	Chernobyl	January 1988	Official - May/June 1988 Ministerial - June 1988
	Land Use and Forestry	February and October 1988	Official - November 1988 and February 1989
	Salmonella in Eggs	December 1988	-
Energy	Electricity Privatisation	-	Ministerial - April 1988 and February 1989
Treasury and Civil Service	The Next Steps	May 1988 and May 1989	-
Home Affairs	Drug Trafficking and Crime	May 1989	-
Transport	Roads for the Future	October 1988	Official - March 1989
Welsh Affairs	Inward Investment	April 1988	Official - April 1988
House of Lords Science and Technology Committee	R & D	by July 1989	-
House of Lords European Communities Committee	Agriculture and Food Research	February 1988	Official - March 1988
	Nitrates in Water	April and June 1989	-
House of Lords Murder and Life Imprisonment Committee	Murder and Life Imprisonment	January 1989	Official - May 1989
Joint Committee on Parliamentary Procedure	Private Legislation	February 1988	Official - December 1987

PCC165L6

1

THE DEPARTMENT OF TRANSPORT

FOR TRANSPORT

FROM THE SECRETARY OF STATE

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1A 2AT

My Ref:
Your Ref:

CH/EXCHEQUER
REC. 16 JUN1989
ACTION FST
COPIES TO

16/6

16 JUN 1989

Dear John

PROCEDURE COMMITTEE INQUIRY INTO THE WORKING OF SELECT COMMITTEES

Thank you for sending me a copy of your letter of 26 May to Geoffrey Howe.

I agree that we should provide a constructive response to the Procedure Committee. I believe that it is worthwhile taking the trouble to be constructive and helpful to Select Committees, and to cultivate good relations with them. We have attempted to do this with the Transport Committee, for instance through having occasional informal lunches with them, and I am sure that this has contributed to the reasonably good relations we enjoy.

I attach a note which summarises our experience with the Transport Committee, under the headings set out in Sir Peter Emery's letter to you, and offers some suggestions for improving Committees' effectiveness.

I am sending copies of this letter and attachment to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

Yours

Paul

PAUL CHANNON

PROCEDURE COMMITTEE INQUIRY INTO THE WORKING OF SELECT COMMITTEES

Note by Department of Transport

(i) The value of Departmentally related Select Committees

1. The system of Departmentally related Select Committees can be and sometimes is a useful way for Parliament to scrutinise the Government on subjects which for one reason or another are not suitable for the floor of the House. For instance, the Transport Committee's current inquiry on airport security is proving a most useful forum in which to discuss (in confidence for security reasons) the Department's proposals.

2. The Procedure Committee's report that led to the establishment of Departmentally related Select Committees saw two main purposes for them: first to add to Parliamentary scrutiny of Departments, and secondly to add to the quality of Parliamentary debates. Our assessment is that the Transport Committee has been more effective at the former than the latter.

(ii) Effectiveness

3. Effectiveness can be considered in two parts: first, the choice of subjects for study, and secondly the quality of the reports produced.

4. On choice of subjects, the Transport Committee has often done well. For instance, their 1984-85 report on road safety opened up several important aspects and has strongly influenced the Department's subsequent policies in this field. And on other occasions they identified areas of policy that were ready for development or restatement, even if the responding statements of policy owed comparatively little to the Committee's particular recommendations (as with their reports in 1986-87 on the financing of rail services and in 1985-86 on tolled crossings).

5. However, there have also been occasions on which their inquiries could with advantage have been more precisely focussed. For instance, their annual report on the Public Expenditure White Paper (PEWP) tends to range very widely, and sometimes to go over ground already covered in previous years. This makes it difficult to have in-depth discussion at the hearings, as neither the Committee members nor the Departmental witnesses can easily be briefed fully on all the topics that are raised.

6. On the other hand, the Committee's concerted drive over several years to increase and improve the information included in the Department's chapter of the PEWP has certainly been helpful in encouraging the Department to present our programmes more fully.

7. There is also a danger of selecting a topic for investigation that has already been the subject of considerable study by others, such as the 1987-88 report on airline computer reservation systems, which is certainly an important area, and one on which they produced a very sensible report, but it contained little that was new.

8. One way of tackling these types of difficulty might be for Committees to have a two-stage procedure for selecting areas for inquiry. In the first stage they could invite written evidence on a reasonably broad topic, and then on the basis of that select the areas for detailed study on which they would then take oral evidence from those bodies that had most to contribute on those aspects.

9. An alternative approach, if the Committee was unsure whether it wished to hold an inquiry at all in a certain subject area, would be to take oral evidence from officials (in private), and then decide whether to mount an inquiry.

10. On quality, most of the Committee's reports have been good. Some were largely accepted by the Government, for instance those on road safety and the channel tunnel. Other reports were a useful contribution to debate, even though the response in the event rejected some of the recommendations (as with the 1985-86 report on airport security) or even most of the recommendations (as with the 1985-86 report on tolled crossings).

11. However, some inquiries have perhaps taken rather too long, and have either been less topical when they reported or have been largely overtaken by events (as with the 1987-88 report on the decline of the merchant fleet, where an 18 month inquiry produced a report that was not of corresponding substance, no doubt partly because of the introduction in the meantime of the Merchant Shipping Bill).

12. These problems might be alleviated if Committees aimed to tackle only one, or at most two, subjects at once, and to complete each inquiry more quickly - but we are not advocating the "instant reactions" type of report.

(iii) Workload

13. The Committee undoubtedly generates a substantial volume of work for the Department. There have been occasions in which the Committee has entered into areas of excessive detail. Our impression is that this has often been at the behest of their specialist assistant or advisers, and that the resulting material has been of little benefit to the Committee. When combined with the tendency to range widely, this has led to a heavy burden on the most senior officials, as they are the only ones with sufficiently wide responsibilities to give oral evidence (without taking an excessively large team of witnesses) and yet they need to be briefed in great detail.

14. It may therefore be helpful if advisers could liaise more closely with the Committee to ensure that questions pursue only the topics that the Committee wishes to explore, and if they could brief the Committee more fully, so that the Members understand these topics sufficiently to pursue points effectively. But there must be doubt as to whether this will have much effect in practice.

(iv) Government consideration

15. We generally aim to respond within the two-month deadline, though some recommendations are sufficiently substantial and novel that it is not practicable to carry out the necessary consultations within that period. In such cases, we aim to provide a substantive response on as many of the recommendations as we can, and an interim response on the difficult ones.

(v) Changes in practice or procedure

16. One or two members of the Committee are sometimes tempted to "play to the gallery" in public hearings, and this is likely to be exacerbated by the advent of television. Such behaviour contributes little to the effectiveness of the Committee's investigation, and can waste a considerable amount of time for all concerned. This seems to be a matter for the Committee itself, and for the Chairman in particular to establish a more disciplined approach.

17. Sometimes the Committee has made recommendations, based on suggestions from external bodies, which are not well founded. It might improve the quality of reports if the Committee asked the Department, in its evidence at the end of the hearings, about any such suggestions which the Committee was minded to take up.

(vi) Overlaps

18. The Department has not experienced great problems with the Transport Select Committee overlapping with other Select Committees. (Our main problem has been with the NAO encroaching on areas that stretch their terms of reference.) There was an overlap with the Defence Committee on merchant shipping in 1987-88. We understand that the Clerk to the Transport Committee liaises with other Clerks to try to avoid such overlaps.

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SWIH 9AT

16 June 1989

✓ 19/6

Dear John

PROCEDURE COMMITTEE INQUIRY INTO THE WORKING OF SELECT COMMITTEES

Thank you for your letter of 26 May, covering Sir Peter Emery's request for a memorandum on the working of Select Committees and seeking the views of colleagues as to its contents.

I agree with your general approach that the Committee should be given our views on matters of current concern to us, but that we should avoid any possibility of a major confrontation with the House.

The Home Office is fortunate in its Select Committee. Their reports usually indicate a realistic understanding of what is achievable, and the Committee has given Ministers a valuable channel of communication to the back benches about the more important developments and issues within the Department. Nor have we had any particular difficulties with PAC overlap; there has only been one "near miss" with a PAC inquiry since May 1987.

.... I attach, as an Appendix to this letter, a memorandum giving the Home Office view on each of the points raised by Sir Peter. I hope that you will find this helpful in preparing the Government response.

On the question of Ministerial witnesses before the Procedure Committee I do not think, for the reasons given above, that Home Office Ministers should be in the lead in giving evidence on Select Committees if the likelihood is that the Procedure Committee will wish to concentrate on difficulties rather than the more positive aspects of their work and influence.

I am copying this letter to the recipients of yours.

Yours ever,

Douglas.

The Rt Hon John Wakeham, MP.

E.R.

DRAFT

INQUIRY BY THE PROCEDURE COMMITTEE INTO SELECT COMMITTEES

Points raised by Sir Peter Emery

i The value of a departmental select committee to Ministers largely depends on its membership and on its Chairman. Provided there are no problems with the Chairman in particular, a departmental select committee enables Ministers to have a ready-made channel of communication to the back benches about the more important developments and issues within their Department. This works on a day-to-day, informal basis by the committee being given a steady flow of information in the form of copies of Parliamentary announcements and news releases and the Chairman being briefed in advance of Ministerial statements and other major announcements; and on a more formal basis by which select committees undertake inquiries which enable the Department to explain the problems facing it more fully than would otherwise be possible in Parliament.

The value of departmental select committees to the House of Commons is arguably not a matter for Government to comment on, but it follows from the above that a system which enables a group of back-bench MPs to be better briefed about a Department's work in general and on certain issues at any time in particular ought to be a benefit to the House as a whole. Not only should it make for more informed speeches and interventions on the floor of the House but it also provides, through the reports of the departmental select committees, more background information to other Members.

In the case of the Home Affairs Committee the theory works out reasonably well in practice, with the committee having a hard core of about five keen members and with Mr Wheeler, in particular, being helpful. Successive chairmen have been

/careful to balance

careful to balance the committee's need to be credibly and usefully inquisitorial with the need to avoid damaging Ministers' ability to carry out their executive responsibilities.

ii The effectiveness of departmental select committees is difficult to assess but the Home Affairs Committee has certainly had its successes. Its recommendation in 1988 that the IBA and the Cable Authority should be replaced by a single regulator, which had not been Home Office policy hitherto and which was adopted in the Broadcasting White Paper, is an example.

More generally, a report such as that of the Home Affairs Committee on Broadcasting helped to shape and crystallize public debate, and the committee's interest in issues such as common police services and drugs either has had or will very likely have an impact on at least the news media's perception of the public debate. The Committee has been influential in the case of passports and nationality by emphasising the vital interests of customer service whether in minimising delays or in setting nationality fees. Where recommendations are rejected, the Committee tends to take a realistic approach and to limit itself to expressions of disappointment.

The secret of success is likely to be that a select committee will appear influential if it inquires into an area which it knows is a 'live' one and on which there is a strong likelihood that the Government will have to take some action. Where a Committee can be particularly helpful (admittedly from the point of view of Government rather than of itself) is in endorsing a need for action and perhaps the general line which the Government itself proposes to take - an example is the proposal to abolish the controversial 'SUS' law in 1981.

However, the fact that Government policy appears to move in the direction suggested in a report is not necessarily a

/simple sequence

E.R.

simple sequence of cause and effect. In the case of private sector involvement in the remand system it was a variety of other influences, including the pressure of circumstances, which led to the Government changing its view, 12 months after the Home Affairs Committee report on the subject.

iii There is clearly a demonstrable impact on Government resources caused by the work required in furnishing committees with memoranda and in supplying oral evidence. This has a quantifiable effect on the officials and divisions chiefly concerned with preparing the material required. (Details can be supplied if required.) The impact more generally on the Home Office is less easily determined and, we suggest, merges in as a relatively small proportion of the amount of work required of Departments by Parliamentary scrutiny in general, ranging from MPs' correspondence to PCA cases.

iv Although recommendations are, formally speaking, normally considered first by officials who then put their proposals to Ministers, the shrewd Chairman will ensure that the Minister knows at an early stage which recommendations he is particularly keen on and why. (Details can be given.)

v Provided there is no risk of provoking a row, three areas are suggested in which changes might be desirable:

a) we wonder whether a quorum of 3 out of 11 Members is really good enough, particularly when proceedings will be televised;

b) we are fortunate in the Home Office in having a select Committee which has relatively few inquiries current at any one time and inquiries which take a reasonable length of time involving a good deal of outside witnesses. If other Departments find their committees to be too eager to flit from one short inquiry to the next then it would be well worth pursuing the suggestion that we should encourage discussion on the right balance between carefully researched reports and quick reactions to controversial issues; and

/c) finally, and

E.R.

c) finally, and perhaps most controversially, it might be worth raising the question of conflicting interests which may be held by influential members of select committees. There is of course the register of Members' interests but some commentators have taken the view that the Committees, as bodies which examine the Government's expenditure, administration and policy, should be demonstrably impartial and objective - by contrast with the individual MP who is free to air his own views on the floor of the House. This might be raised in the context of committees' improving their defences against attacks on their impartiality which can only undermine their influence. We would not want the Home Affairs Committee singled out in any way on this but it is mentioned here in case there is general concern on this issue among Departments and could be presented in a broad context to the Procedure Committee.

vi The Home Office has been fortunate to experience no overlaps as such. There has only been one 'near-miss' since May 1987 when the PAC inquired into the prison building programme, previously the subject of a Home Affairs Committee inquiry.

vii The impact "good or bad" of the work of select committees on the House of Commons as a whole is another invidious question rather like the first on the "value to the House" of departmental select committees. Looking at committees in a constructive way one could say that the impact had been good in increasing the opportunities for Members to come together to deal with issues in detail and, to quote from Mr Wheeler's article in the 5 June issue of The House Magazine, to "scrutinise the policy, administration and expenditure of departments in a far more sophisticated and frequently less party political way than is possible in the Chamber".

Home Office
June 1989

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

BF 22/6

My ref:

Your ref:

Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

CH/EXCHEQUER
REC. 21 JUN 1989
ACTION FST
COPIES TO

16 June 1989

✓ 21/6

Dear Lord President

PROCEDURE COMMITTEE ENQUIRY INTO THE WORKING OF SELECT COMMITTEES

Thank you for copying to me your letter of 26 May to Geoffrey Howe.

I agree with the general line you propose. But given my Department's recent experience over the Environment Committee's Toxic Waste Report - described in the attached letter from Sir Terry Heiser to Sir Robin Butler - I think that the memorandum might also usefully reaffirm the rule that officials' advice to Ministers is confidential, and the implication that committees should not seek to speculate on that advice.

If you agree, officials will deal with this point in providing our input to the draft memorandum. I have no particular comments meantime on Sir Peter Emery's list of questions. But I look forward to seeing the completed draft of the memorandum.

I am copying my letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

Yours sincerely

R Bright

pp NICHOLAS RIDLEY

(approved by the Secretary of State and signed in his absence).

2. 37/1/37

Department of the Environment
2 Marsham Street London SW1P 3EB
01 276 3600

Permanent Secretary
Sir Terence Heiser KCB

AZ
DC
PS to Mr Bu... 153
cc Mr Burr
Mr ...
Mrs McDonald
Mr Packer
TPN

CONFIDENTIAL

Sir Robin Butler KCB CVO
Permanent Secretary
Cabinet Office
Whitehall
London
SW1

2 May 1989

Dear Robin

DEPARTMENTAL SELECT COMMITTEES

Michael Quinlan wrote to you on 7 March about the difficulties his Department has experienced in its relationships with the Select Committee on Defence, and I have now seen your reply of 11 April.

2. You should also be aware of an issue which has arisen over the Environment Select Committee's recent report of their inquiry into toxic waste, the Government's response to which was published last week.

3. In paragraph 190 of their report, the Committee said:

> "DOE inaction on waste management has been a catalogue of neglect since 1974. The NAWDC and the IWM both concluded that there had been a vacuum of central guidance, legislative change and leadership on waste management issues [17].
>
> > 'We have done our bit. And there is a big vacuum in the middle with nothing coming out of it.' [18].
>
> We fail to understand why we are still waiting for loopholes identified in 1981 to be remedied. It is clear to us that there has been serious neglect on the part of those advising Ministers throughout and a lack of leadership and commitment at the top over a number of years leading to a loss of staff, poor morale, and loss of direction."

The notations 17 and 18 refer to questions 120 and 1390 and the answers in the minutes of evidence given by Mr Burford, Assistant County Surveyor (Waste Disposal) at Lancashire County Council, and Mr Hewitt, Treasurer and past Chairman of the National Association of Waste Disposal Contractors (NAWDC) and Mr Pullen a member of NAWDC's Legislation Committee - copies are attached at A.

4. "Throughout" appears in the context of the Report as a whole to cover the period from 1974 to the present, but the reference to 1981 in paragraph 190 'et seq' and the paragraphs on the Inspectorate of Pollution (see paragraphs 154 to 180), leave the clear impression that the Committee is focussing on the present Government's period office - copies of these paragraphs are at B. This is despite the Committee's subsequent claim in the press notice which they issued to coincide with the Government's response (at C) that they:

> "were not criticising specifically this administration, which has begun to take action, but the history of neglect by successive administrations - principally by local government."

5. This is an example of a Select Committee trying to drive a wedge between civil servants and Ministers. The basic rule is that advice given to Ministers should not be discussed (paragraph 31 of the Cabinet Office Memorandum of Guidance) so the Committee's criticism can be based on no more than speculation. The same rule makes it impossible for us to defend ourselves effectively. I am glad to say, however, that my Secretary of State agreed to make an appropriate reply, and paragraph 6 of the foreword of the response to the Committee's report puts the following statement on the record:

> "In the course of their report the Committee have seen fit to allege neglect and inaction on waste management since 1974 and serious neglect on the part of those advising Minister's throughout. Speaking, as they can only do, for their own term of office, the Government reject this sweeping charge and wish to reaffirm their confidence in their officials and to take full responsibility for the conduct of policy."

6. Copies of this letter go to those who attend our Wednesday morning meetings.

Yours

Terry

SIR TERRY HEISER

psec.lb/mr.4 Lords

UNCLASSIFIED

FROM: Assistant Parliamentary Clerk
DATE: 16 June 1989
EXTN: 5007

PS/CHANCELLOR

mp

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/C&E
PS/IR
Mr Davis - AEF1
Mr Illett - FIM1
Mr Mercer - EC2
Miss O'Mara - MG
Mr Saunders - ST2
Mr Wood - LG2
Mr Gieve - IDT
Mr Dyer

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

ORAL QUESTIONS

Friday 23 June The Lord Dormand of Easington - To ask Her Majesty's Government whether they are satisfied with the state of the economy.

Government Spokesman: Lord Brabazon. EB in the lead

The Lord Bruce of Donington - To ask Her Majesty's Government what proposals they made to the EEC Economic and Financial Council on 19th June regarding measures to combat fraud against Community funds; what were the specific reactions of other Member States to these proposals; and what decisions were made by ECOFIN as a result.

Government Spokesman: Lord Brabazon. EC2 in the lead

UNCLASSIFIED

UNCLASSIFIED

TREASURY INTEREST QUESTIONS

Tuesday 20 June The Lord Orr-Ewing - To ask Her Majesty's Government how this year's Budget will facilitate the provision of low-cost houses to buy and to rent.

Government Spokesman: Earl of Caithness. Department of Environment in the lead

Wednesday 21 June The Lord Airedale - To ask Her Majesty's Government what steps they propose to take to reverse the increase in cigarette smoking in 1988 in view of the fall in real terms of the price of cigarettes.

Government Spokesman: Lord Henley. Department of Health in the lead.

The Lord Taylor of Gryfe - To ask Her Majesty's Government whether they will make an early statement on the future of the soft loan facility, in view of its importance to United Kingdom exporters.

Government Spokesman: Lord Glenarthur. ODA in the lead.

Thursday 29 June The Baroness Burton of Coventry - To ask Her Majesty's Government whether they will state those items discussed at the meeting of the European Consumer Affairs Council held on the 1st June indicating both the decisions reached and progress made thereon, with particular reference to product safety, consumer credit and future priorities for relaunching consumer protection policy.

Government Spokesman: To be confirmed. DTI in the lead

Wednesday 5 July The Lord Jenkin of Roding - To ask Her Majesty's Government whether they have assessed the impact on forestry planting of the new forestry tax and grant regime introduced in the 1988 Budget.

Government Spokesman: To be confirmed. Scottish Office in the lead.

Mari Rogerson

MARI ROGERSON

SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

CT/9088/89

16 June 1989

Thank you for copying to me your letter of 26 May to Geoffrey Howe. I would offer the following comments on the individual points raised by Sir Peter Emery.

i. In principle a system of departmentally related Select Committees is a desirable buttress to accountability and the democratic process which should assist Ministers and the House. My view is that, in practice, this ideal has not yet been reached.

ii. In my experience the quality and standards of Select Committee inquiries vary enormously. So far as the Welsh Affairs Committee (WAC) is concerned they have produced 4 reports since 1987. Three of these reports - Repair and Condition of Privately Owned Housing in Wales, Tourism and Government Expenditure in Wales - have been disappointing and have not altered the direction or development of policy. I have adopted one recommendation of the latter report, namely that the Welsh Office should publish a separate commentary to expand upon the material contained in the annual Public Expenditure White Paper. My Department published the first commentary earlier this year.

The fourth report, on Inward Investment, was very much better. I have not yet responded to it but I can say that the Committee's review has resulted in a very useful collection of information being assembled and a range of interesting views expressed.

CH/EXCHEQUER
REC. 20 JUN 1989
ACTION FST
COPIES TO

✓20/6

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
London SW1A 2AT

/The difficulty

The difficulty with the WAC is that it covers a broad range of subjects and consequently there is very limited expertise available on the Committee for any specific subject. There is also a tendency for a number of members to make personal/political statements or to dwell on happenings or deficiencies in their own constituencies rather than asking well directed questions on the effectiveness of the policies and administration of the Department. In my opinion most members fail to use their membership as a genuine opportunity to get to the heart of Government policy and the effectiveness of its stewardship of public funds.

iii. There is no doubt that the amount of departmental time and cost devoted to preparation, hearings and subsequent responses to reports is substantial. It is difficult to be precise but the cost of dealing with the Inward Investment inquiry which started in October 1986 will be about £50,000. The average for the other three inquiries is about £11,000.

iv. I should think that the procedures are similar in most departments. Officials examine the recommendations in the first instance and make their views known to Ministers who consider them and discuss with officials, other public bodies/advisory committees and colleagues as appropriate.

v. My comments in ii. bear on this. In short they do not live up to expectations which arose in the early days of setting up Departmental Select Committees.

vi. My Department has not suffered from this problem so far. However, I am aware that it causes difficulties to some colleagues - not least George Younger.

vii. As I said earlier the quality of reports varies. The best ones may stimulate the House into considering and debating possible gaps and shortcomings in the pursuit of certain policies, although frankly none of the Welsh Affairs Committee reports has come into this category. Others merely reflect political differences and some of the more technical ones make little impact.

I am copying this letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

FROM THE RIGHT HONOURABLE THE LORD MACKAY OF CLASHFERN

PMP

LORD CHANCELLOR

HOUSE OF LORDS,
LONDON SW1A 0PW

CH/EXCHEQUER
REC. 19 JUN 1989 ✓19/6
ACTION Ms Brown
COPIES TO CST, FST, PMG, EST, Mr Wicks, Mr Cankester, Mr Monck, Mr Phillips, Mr R Allen, Mr I Wilson, Mrs Case, Mr Mortimer, Mr Burr, Mr Knight, Ms Symes, Mr Russell, Mrs Chaplin, Mr Tyrie, Mr Call

Your ref MM5APJ

Our ref EI 10/67/01

16 June 1989

Dear David,

CONTRACTS (APPLICABLE LAW) BILL

Thank you for your letter of 6 June. I am pleased to have your support for this Bill.

I agree that our consumer protection law must be safeguarded and I confirm that officials in our Departments are in touch about this.

So far as the possible extension of the Convention's principles to cover arbitration agreements and agreements on the choice of court is concerned, my officials have sought the views of Lord Justice Mustill as Chairman of the Departmental Advisory Committee on Arbitration. However, because of the usual rules on the confidentiality of future legislation, and also because of constraints of time, I do not propose to take up the matter with the whole Committee. My officials are following a similar course with the Commercial Court Committee, corresponding only with the Chairman, Mr Justice Hirst, and a nominee of the judge.

The Right Honourable
Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

cont'd/

I am copying this to Sir Geoffrey Howe and other members of OD(E) to the Home Secretary, the Secretaries of State for Scotland and Northern Ireland and Sir Robin Butler.

Yours ever,

James.

FROM: D I SPARKES
DATE: 19 JUNE 1989

MISS SIMPSON (EB)

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PCC
MEG
Mr R I G Allen
Mr Beastall
Mr Harris
Mr T R H Luce
Mr Moore
Mr Mountfield
Mr Odling-Smee
Mrs Chaplin
Mr Tyrie

PS/IR
Mr McNicol - IR

PS/C&E
Mr Warr - C&E

pwp

PROCEDURE COMMITTEE ENQUIRY INTO THE WORK OF SELECT COMMITTEES

The Chancellor was grateful for your minute of 13 June covering a draft contribution, to the Lord President's memorandum on the working of the Select Committee system. He had the following comments:

- Section 1: delete paragraph 1 in its entirety. The first two sentences of paragraph 2 to read: "There is clearly value to Ministers in the opportunity to explain the background to policy decisions and to discuss issues at greater length and depth than is possible in debates on the Floor of the House. It is also possible for outside evidence given to a Select Committee to influence the formulation of Government policy."

- Section 5: The Chancellor does not think we should raise the issues you mention in paragraph 3(d) of your minute.

- Section 7: the Chancellor suggests the reply reads: "This is a matter for the House to judge. But the work of the Committees should enable subsequent debates to be better informed".

2. The Chancellor would be grateful if other Treasury Ministers could pass their comments direct to you at an early opportunity.

D.C.

DUNCAN SPARKES

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

The Rt Hon John Wakeham MP
Lord President and
Leader of the House of Commons
Privy Council Office
Whitehall
London
SW1A 2AT

BF 22/6

CH/EXCHEQUER
REC. 20 JUN1989
ACTION FST
COPIES TO

/2016

19 June 1989

Dear John

PROCEDURE COMMITTEE ENQUIRY INTO THE WORKING OF SELECT COMMITTEES

Thank you for the sight of your letter of 26 May to Geoffrey Howe.

I agree with you that there is nothing to be gained from provoking a row with the House about the shortcomings of Select Committees. In my own field, the Social Services Committee tend to conduct rather unwieldy and poorly focused enquiries. It is worth remarking that the Committee which has had probably the most direct impact on the working of my Department has one of the narrowest remits. My Department has made significant changes to working methods and performance in response to interest from the Select Committee on the PCA. The breadth of the range of topics on which the Social Services Committee (and on occasion the PAC) expect to take evidence at a single hearing also adds very substantially to the already heavy burden of preparation on Ministers and on senior officials which such hearings impose. A further unfortunate tendency of Select Committees is that the membership can become too settled around a consensus which may well not reflect the balance of opinion in the House as a whole. Some mid term movement in membership might well be generally desirable.

I fully agree that it would be useful to use the opportunity of Sir Peter Emery's enquiry to suggest improvements. One area that he has already suggested should be covered, and which I very much endorse, is that the demarcation between Departmental select committees and the Public Accounts Committee should be clarified. There is an increasing overlap here with the PAC, backed by the resources of the National Audit Office, showing a pronounced tendency to mount value for money investigations which encroach closely on sensitive policy issues. Indeed there are some senses in which it might even be said that the PAC is yielding to the temptation to compete with the Departmental committees. For example, the NAO are currently investigating the effectiveness of last year's social security reforms, an issue on which the Social Services Committee are also carrying out an enquiry. Anything the Government could do to encourage the Departmental Committees to see off the PAC would be much welcomed.

E.R.

I am sending copies of this letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

John

JOHN MOORE

35/3 typ3.lb IF2/lb.20.16.6

UNCLASSIFIED

Rx, your pr.

FROM: D RAMSDEN
DATE: 19 June 1989
x5548

PPS/CHANCELLOR

cc Mr Edmonds o/r

cc Mr Scholar

RESERVE BANK OF NEW ZEALAND BILL

You requested information on the bill referred to in the attached Times article. The Times article is by and large an accurate summary. We have obtained a copy of the bill, the explanatory note is attached. The bill was put before the New Zealand Parliament on 4 May. The main clauses are:-

- Clause 8 which sets out the primary function of the bank to formulate and implement monetary policy so as to maintain price stability (though no specific inflation targets are quoted).

- Clause 9 requiring the Minister of Finance and Governor to formulate policy targets which are then published. (Clause 14 stipulates that at least every 6 months the bank must publish a statement setting out plans for the next six months).

- Clause 47 sets out the grounds on which the governor can be removed on recommendation of the Minister of Finance.

2. If you would like a copy of the bill itself please let us know.

3. We do not yet know the political background to the introduction of this bill but we have asked the FCO to find out.

David Ramsden

D RAMSDEN

UNCLASSIFIED

ECONOMIC VIEW

Privatization blueprint for the Bank governor

25

One option for monetary reform which Nigel Lawson did not mention in his comprehensive demolition of the fashionable alternatives in the Commons last week was an independent central bank. The New Zealand Parliament is about to consider a bill which will give the Reserve Bank of New Zealand a large measure of autonomy in conducting the country's monetary policy.

X

Under the proposals the finance minister and the governor of the bank will agree targets for key economic indicators, on the lines of our own medium-term financial strategy, and it will then be up to the bank to achieve them. According to the government, the likely aim will be to reduce the level of inflation in New Zealand from 4 per cent to between 2 per cent and nil by the early 1990s.

Decisions on interest rates will be left to the bank. It will only be possible to overrule the governor by a vote in Parliament, and he will automatically recover his independence within six months in the absence of another vote.

Would inflation now be lower in this country if control of monetary policy had been left in the hands of the Bank of England? Would the Bank, for instance, have been less inclined to allow sterling to fall in 1985 or interest rates to come down last spring?

The degree of political independence open to any central bank can be exaggerated. Even those archetypes of the independent central bank, the US Federal Reserve and the Bundesbank, do not take their decisions in a political vacuum. For instance, political considerations undoubtedly played their part in the Fed's actions before the US presidential election.

There is also a case for co-ordinating all key economic policy decisions under one roof. The drawbacks of not doing so are starkly apparent in the US where the Administration, the Fed and Congress all hold some of the levers so that making them move in the same direction sometimes seems impossible.

But it is clearly easier for an independent central bank to take politically unpopular actions than for an elected government. Mr Lawson half acknowledged this when he told the Treasury Select Committee recently that the idea of an independent central bank had great merits. It is arguable – as it is also argued of full membership of the European Monetary System – that the mere fact of giving the Bank of England some autonomy would have a confidence-building effect, worth say 2 per cent off interest rates.

In New Zealand, the government proposes to go further and carry the purpose of central bank autonomy to its logical conclusion by introducing a positive incentive for the defeat of inflation. Under the new regime the governor's salary will be linked to how successfully the targets for inflation are achieved. The present governor, Don Brash, who is likely to secure the first contract under the new arrangements, is apparently all in favour of a personal incentive of this kind. Robin Leigh-Pemberton's views are not recorded.

4/12

THE TIMES

Time to take a longer view

25

Nigel Lawson faces two hurdles this week: the continuing strength of the dollar and the figures for earnings and inflation on Thursday and Friday. Last week the pound ended at its lowest level in terms of the effective exchange rate index since February last year.

As Karl Otto Pöhl, the Bundesbank president, said of the mark recently, the present situation is primarily one of dollar strength rather than pound weakness. Nevertheless a Chancellor who is committed to defending the currency as a key part of his counter-inflation strategy cannot forever ignore a drop in its value, whatever the cause.

Markets will be hoping to see no acceleration in the figure for average earnings above the present 9¼ per cent. Although this is a lagging indicator, reflecting the rise in earnings over the past 12 months rather than the effect of settlements on costs in the next 12, anxiety about the rate of pay increases and export competitivenesss makes it of key importance.

On inflation, the City is prepared for a further rise, perhaps to 8.4 per cent, but another month in which the figure turned out higher than expected would badly upset confidence. The last inflation figure started the train of events leading to interest rates at 14 per cent.

Today's figures, however, are not the only important consideration. As Paul Turnbull of Smith New Court says, there are too many "coincident" economists in the City whose reactions reflect the data of the moment rather than likely future developments. A year ago relatively few voices were raised in alarm at the implications of an acceleration in the money supply and a fall in interest rates; now perhaps there are too few looking beyond the present hump in inflation at the gradual effect of the slowdown in consumer demand. Put another way, there are too many economists around trying to ensure that their forecasts come true.

Rodney Lord
Economics Editor

Monday, June 12, 1989

106/3 → Mr P Edmonds (IF2)
Do you have any information on X?
A S Allan
14/6

RESERVE BANK OF NEW ZEALAND BILL

EXPLANATORY NOTE

THIS Bill alters significantly the role and functions of the Reserve Bank. The Bank will continue to be the central bank for New Zealand. Its primary function will be to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices. The Bill comes into force on its enactment.

Part I of the Bill continues the existence of the Bank as a body corporate and gives it the rights, powers, and privileges of a natural person.

Part II of the Bill sets out its main functions and powers.

The Bank is to act as the central bank for New Zealand. Its primary function (which is set out in *clause 8* of the Bill) is to formulate and implement monetary policy directed to maintaining price stability and in doing so the Bank is directed to have regard to the efficiency and soundness of the financial system and consult with and advise the Government and other persons and organisations which it considers can assist it to achieve and maintain its economic objective.

Clause 9 of the Bill requires the Minister of Finance and the Governor of the Bank to formulate policy targets for carrying out the Bank's primary function during the Governor's term of office. It is the duty of the Governor to ensure that those policy targets are followed by the Bank as closely as possible in carrying out its primary function. These targets are to be published and laid before the House of Representatives.

Clause 11 empowers the Governor-General by Order in Council to direct the Bank to formulate and implement monetary policy for any economic objective specified in the order for a period of up to 6 months and the Bank is required to act in accordance with that direction notwithstanding the provisions of *clause 8*. If an order is made the Minister and the Governor must fix new policy targets for the period of the order.

The Bank is required at 6-monthly intervals to provide the Minister with, and publish, policy statements stating the policies and means by which the Bank proposes to achieve the policy targets, the reasons for adopting them and containing a review and assessment of the implementation by the Bank of its primary function during the period to which the preceding statement relates. A

No. 158—1

Price
incl. GST $6.00

copy of every policy statement must be laid before the House of Representatives.

Clauses 15 to 22 relate to foreign exchange and foreign exchange dealing by the Bank. The Bank is authorised to deal in foreign exchange (*clause 15*) and may be required by the Minister to transact its foreign exchange business within guide lines notified to it by the Minister (*clause 16*).

Clause 17 confers power on the Minister to direct the Bank that all its foreign exchange dealing must be at rates of exchange or within a range of rates of exchange specified in the direction and to deal at those rates or within any range of rates specified with such persons or classes of persons as may be specified. This power of direction may not be exercised without the prior authorisation of the Governor-General by Order in Council given within the preceding 30 days. Separate authorisation must be given for each separate occasion on which such a direction is given.

Foreign exchange gains on dealing in foreign exchange within the guidelines set by the Minister (under *clause 16*) and at the Minister's direction (under *clause 17*) are to be paid to the Public Account. Foreign exchange losses incurred in so dealing are to be met from the Public Account.

Clause 20 authorises the making of regulations for regulating the business of foreign exchange dealing and providing for the Bank to authorise foreign exchange dealers. *Clause 21* requires the Bank to give advice to the Government on foreign exchange matters.

Clause 22 requires the Bank to maintain foreign reserves at a level, or within levels, determined by the Minister of Finance in consultation with the Bank.

Clauses 23 to 28 relate to the issue of currency. The Bank will have the sole right to issue bank notes and coin. The right to issue coins is at present conferred on the Minister of Finance by the Decimal Currency Act 1964. Under the Bill the Reserve Bank will continue to issue bank notes and will also issue coins.

Clauses 29 to 37 of the Bill confer additional functions and powers on the Bank.

Part III of the Bill relates to the management of the Bank. There will continue to be a Governor of the Bank.

The Governor is to be appointed by the Minister of Finance on the recommendation of the Board. The Bill provides that it is the duty of the Governor to ensure that the Bank carries out its primary function and gives the Governor authority to act in all matters not expressly required to be dealt with by the Board.

There is to be either 1 Deputy Governor or 2 Deputy Governors appointed by the Board on the recommendation of the Governor. If 2 Deputy Governors are appointed the Board is required to designate 1 of them as the Deputy Chief Executive.

The Governor may be removed from office by the Governor-General by Order in Council on the recommendation of the Minister of Finance. The grounds on which the Governor may be removed are set out in *clause 47* of the Bill.

The principal grounds are—

(a) That the Bank has not adequately carried out its functions:

(b) That the Governor has not adequately discharged the responsibilities of office:

(c) That the Governor's performance in ensuring that the Bank achieves its policy targets has been inadequate:

(d) That a policy statement is inconsistent with the Bank's primary function or any policy target:

(e) That the Bank's resources have not been properly or effectively managed.

These and other provisions in the Bill are designed to ensure that the Governor of the Bank is directly accountable for the Bank's performance of its functions and powers.

The Bank will continue to have a Board of Directors. The functions of the Board are set out in *clause 51*. The principal functions are to—

(a) Review the Bank's performance in carrying out its functions:

(b) Review the performance of the Governor:

(c) Review the performance of the Governor in ensuring the Bank achieves its policy targets:

(d) Determine whether policy statements are consistent with the Bank's primary function and its policy target:.

(e) Review the use of the Bank's resources.

The Board may advise the Governor on matters relating to the exercise by the Bank of its functions and powers. It is intended that the Board's role will be to monitor and assess the Bank's and the Governor's performance as well as to act in an advisory role.

The Board is to consist of not less than 7 and not more than 10 members of whom not less than 4 and not more than 7 members must be non-executive directors. The Governor and the Deputy Governor or if more than 1 Deputy Governor is appointed, each Deputy Governor are members of the Board. The non-executive directors are appointed by the Minister.

Part IV of the Bill re-enacts, with modifications, sections 38A and 38B of the Reserve Bank of New Zealand Act 1964 relating to use of the words "bank", "banker" and "banking".

Part V of the Bill deals with the registration of banks and prudential supervision of registered banks and combines in a separate Part, with modifications, provisions of Parts VA and VC of the Reserve Bank of New Zealand Act 1964 dealing with bank registration and prudential supervision. The principal differences are—

(a) The criteria for determining applications for registration of banks are expanded, in particular, by requiring the Reserve Bank to consider the ability of an applicant to carry on business in a prudent manner and by defining the factors to be considered:

(b) The Bank is expressly empowered to impose conditions of registration which relate to the matters to which it is to have regard in determining applications for registration:

(c) The Bank is to publish the principles on which it acts, or will act, in dealing with applications and imposing conditions of registration:

(d) The grounds on which registration may be cancelled are expanded, in particular, by enabling registration to be cancelled if a registered bank has not carried on business in a prudent manner:

(e) Registered banks may be required to undergo credit rating assessments and publish those assessments:

(f) Registered banks may be required to disclose publicly information prescribed by the Bank under *clause 79* of the Bill:

(g) The Bank's prudential supervision is to be confined to registered banks; it will not extend, as is the case under Part VC of the Reserve Bank of New Zealand Act 1964, to the wider class of specified institutions which includes authorised dealers in foreign exchange and financial institutions designated by the Bank as specified institutions as well as registered banks:

(h) The provisions relating to prudential supervision and statutory management have been significantly redrafted.

Part VI of the Bill contains provisions relating to Reserve Bank funding and accounts. The provisions relating to funding are designed to ensure the Bank is financially accountable for the performance of its core policy functions.

Part VII of the Bill contains miscellaneous provisions, amendments to other Acts, repeals and a number of transitional provisions.

The Bill amends section 5 of the Securities Act 1978 by removing the exemption conferred on trustee bank's successor companies, building societies, and Post Office Bank Limited, by subsections (2) and (2B) of that section, from the trustee and trust deed requirements of the Act. This exemption is to be limited to private savings banks.

The amendments to section 5 of the Securities Act 1978 are also significant in their application to registered banks. Registered banks will be exempted from the prospectus requirements of the Securities Act 1978 in relation to offers of debt securities in addition to the current exemption from the trustee and trust deed requirements of that Act. The amendment is to come into force on a date to be appointed by the Governor-General by Order in Council. Registered banks will, instead, be subject to disclosure requirements prescribed by the Reserve Bank under *clause 79* of the Bill. The amendment to section 5 of the Securities Act 1978 exempting those banks from the prospectus requirements (as well as the trustee and trust deed requirements) will be brought into force when the Reserve Bank has prescribed under *clause 79* the information which the banks shall publish.

Clause 166 of the Bill continues for 12 months the application of Part VC of the Reserve Bank of New Zealand Act 1964 to any person, other than a registered bank, that was, immediately before the commencement of the Bill, a specified institution within the meaning of section 38K of that Act.

dti

the department for Enterprise

Mr Halligan
Please would you diary a reply now. AB 13/7

Mr Bottrill
Advice pl. I tht we had tried to kill some of these proposals at official level?

22.6

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon John Major MP
Chief Secretary
HM Treasury

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Mr Mountfield
I have written to ECGD asking for clarification on (i) borrowing (ii) Treasury consent to fees and (iii) reinsurance. We are likely to have to advise the CST to resist these. AB 29/6

PS/CST

Thank you. Noted 29/6

Further advice when we have ECGD's reply.

Mr Bottrill

29

Direct line 215 5422
Our ref PS1CPN
Your ref
Date 20 June 1989

Dear John,

EXPORT CREDITS GUARANTEE DEPARTMENT

PROPOSED EXPORT CREDIT AND INVESTMENT GUARANTEES BILL

1 You will be aware that the Lord President has granted ECGD authority to introduce a Bill to amend the Export Guarantees and Overseas Investment Act 1978 (EGOI). I am writing to clear formally the proposed measures on policy grounds. I attach a schedule listing these.

2 The principal power being sought (Item 1 on the schedule), to which the Chancellor gave his support in a letter to the Lord President on 15 February 1989, will enable ECGD to give guarantees so as to achieve significant public expenditure savings on outstanding loans under the Fixed Rate Export Finance (FREF) scheme. ECGD wish to take advantage of opportunities in the international capital markets to reduce the funding costs incurred in the exercise of its basic statutory functions. Although ECGD were unsuccessful in obtaining legislative time in 1988/89 for this measure the financial markets are expecting ECGD to pursue this course following earlier negotiations with the banks.

3 In addition to the above, ECGD are also seeking a number of minor changes to their powers in order to respond to developments in their business environment. In respect of Item 4 on the schedule - the provision to market ancillary services - it is increasingly the case that multi-national companies look to their insurers to provide more comprehensive support packages and this measure would enable ECGD to meet this demand and at the same time develop its business.

4 The new power at Item 3 would enable ECGD to deploy its risk assessment and claims resources in support of export credit insurance provided by third party insurers. Closer co-operation could then take place between ECGD and the private sector to their mutual benefit and to the benefit of UK exporters.

5 As you will note the powers sought are not controversial and are designed to enable ECGD to take advantage of the marked changes in the commercial and financial markets since ECGD last sought legislation. I should welcome your endorsement of these measures.

6 I have not of course included any reference to possible legislative implications of decisions we may take on the recent Review of ECGD's status.

7 I am copying this letter to E(A) members.

Ever
David

LEGISLATIVE PROPOSALS

POWER SOUGHT	PURPOSE
1. To empower ECGD to do whatever is appropriate to control/minimise public expenditure and trading losses and to reduce the funding costs of existing commitments, in particular in respect of FREF.	1&2. To take advantage of developments in the capital markets.
2. To pay/supplement fees and commissions and expenses in connection with loans and guarantees.	
3. To give, and receive, reinsurance on a global basis.	3. Present powers restrict ECGD to reinsure only in the circumstances of specific new trans actions. This power would enable reinsurance arrangements to be entered into on a general, non-specific, basis.
4. To market ancillary services.	4. To develop business by presenting a more comprehensive business package.
5. To empower ECGD to enter into contracts to provide a risk assessment and/or claims service in order to facilitate the provision of export credit insurance by UK insurers.	5. To remedy ECGD's lack of powers to deploy its risk assessment and claims resources in support of export credit insurance provided by third party insurers.
6. To give Investment Insurance cover for loan guarantees.	6. To give guarantees in respect of certain loans to overseas Associates of UK companies.
7. To enter into commitments denominated in ECUs and other currency combinations.	7. To introduce more flexible foreign currency financing arrangements.

proccom

UNCLASSIFIED

This now incorporates all the comments we have received. DLP 21/6

FROM : MISS J C SIMPSON (EB)
DATE : 21 JUNE 1989
Ext 5211

1. MR PERETZ
2. CHANCELLOR

Copies attached for:
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary

cc PCC
MEG
Mr R I G Allen
Mr Beastall
Mr Harris
Mr T R H Luce
Mr Moore
Mr Mountfield
Mr Odling-Smee

Mrs Chaplin
Mr Tyrie

PS/IR
Mr McNicol - IR
PS/C & E
Mr Warr - C & E

Ch/ Despite express requests, we have received no comments from any other Treasury Ministers. Content to send? DJS

OK

PROCEDURE COMMITTEE ENQUIRY INTO THE WORK OF SELECT COMMITTEES

My minute of 13 June attached a draft response to the Lord President's letter of 26 May asking for colleagues' views on a number of questions posed by Sir Peter Emery, the Chairman of the Procedure Committee, into the working of the Select Committee system. The responses will form the basis of a memorandum which he has been asked to submit to the Committee as part of their enquiry into the select committee system.

2. I now attach a revised response, which takes account of your comments. I have had no comments from other Ministers.

JS

MISS J C SIMPSON

proccom UNCLASSIFIED

pls type as final

Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
SW1

PROCEDURE COMMITTEE ENQUIRY INTO WORK OF THE SELECT COMMITTEES

You sent me a copy of your letter of 26 May to Geoffrey Howe.

I attach a note of Treasury Ministers' views the questions on the working of the select committee system posed by Sir Peter Emery.

I am copying this letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

envelopes pls.

NIGEL LAWSON

copy list as above

PROCEDURE COMMITTEE ENQUIRY INTO WORKING OF SELECT COMMITTEES

1. Value to the House and to Ministers

There is clearly value to Ministers in the opportunity to explain the background to policy decisions and to discuss issues at greater length and depth than is possible in debates on the Floor of the House. It is also possible for outside evidence given to a Select Committee to influence the formulation of Government policy. One example where a Select Committee enquiry provided valuable background to inform later policy decisions was a 1986 Transport Select Committee enquiry into the UK shipping industry, which produced factual evidence which enabled the general taxation regime for UK seamen working abroad to be considered on a more informed basis. Departmental Select Committee examinations of spending plans have sometimes been a useful reinforcement of the pressure to ensure value for money in public spending.

2. Effectiveness of the committees in carrying out their remit

The TCSC undertakes a wide range of enquiries covering all aspects of its remit. They are all legitimate in that they relate to areas of major Treasury policy concern, although the value of some of them is doubtful especially when, as has happened, the enquiry is so prolonged that the underlying circumstances have changed substantially in the meantime. In recent years, the main 'baseload' of the TCSC has been annual enquiries into the Autumn Statement and Budget. This also reflects the annual cycle in the Treasury's own work. The Committee then builds more detailed enquiries around this framework. Short reports responding to particular circumstances have on the whole we believe proved more valuable, and less costly in Ministers' and officials' time, than the more protracted enquiries.

The influence of the committee can be seen in the introduction of the Autumn Statement combining the Industry Act Forecast and the main public expenditure decisions, first as an oral statement and then as a printed document. Other amendments and improvements to the presentation of financial documents to Parliament have also resulted from the TCSC's work. It is not always easy to know whether or not the Committee has been the decisive influence; for example, the TCSC pursued enquiries on a number of measures to deal with the problem of staff losses in the Inland Revenue which were in fact already in hand. Much the same situation arose with the recent enquiry into the condition of official statistics where the TCSC's recommendation for an enquiry coincided with the Government's conclusion that such an exercise was necessary.

3. Impact on departmental resources

Some enquiries can make enormous demands on departmental resources. Those that have done so in the past include the TCSC's enquiry into monetary control and monetary policy (1979-1980) and the financial consequences of membership of the EC (1983-85).

In a number of cases (a large part of the enquiry into the consequences of EC membership, some of the Committee's enquiries into international monetary arrangements, their enquiry into long term trends in resources and public expenditure and the enquiry into staff losses in the revenue departments) no report was ever produced. There are, of course, sometimes benefits from the simple publication of evidence but this is most likely to be the case in single, one-off enquiries such as the TCSC occasionally mounts into aspects of the EC Budget.

In recent years, the main burden of work for the Departmental Treasury has been dealing with routine enquiries into the Budget, Autumn Statement and PEWP. Because they are routine and because the Committee's work to that extent follows that of the Department rather than vice versa, the demands imposed by the TCSC on the Treasury may well be less than those made by other select committees on their departments. But they do impose an additional strain on resources and involve a substantial amount of effort for the senior officials involved, often at times when such effort is hard to spare. Non-routine enquiries can mean even more work: the

Inland Revenue put in 360 man-hours in two weeks (during the run-up to the Budget) preparing for an oral hearing into staff losses in the department and Customs and Excise's preparation for their hearing in the same enquiry involved 32 man-days.

4. Process of consideration of reports

TCSC reports on Treasury business are normally considered only within the Department and the Government's reply takes the form either of a memorandum or a response during debates on the floor of the House. The replies are not normally very lengthy.

5. Possible changes in the select committees practice or procedure

We have identified none of general application.

6. Overlap

On the question of overlap between the work of various Parliamentary committees, the Treasury has found no problem with the terms of reference as between the different departmental select committees. But the provision for the select committees to investigate expenditure does mean that a number of them feel they should be entitled to demand memoranda or even oral evidence from the Treasury on matters which are the responsibility of other departments. Other Departments sometimes do less than they might to discourage this. It would be helpful if Select Committees could explicitly accept that the Treasury does not give evidence on matters that are the responsibility of other departments.

A particular area where subject matter can overlap is on Europe. For example, since 1983-84, the TCSC has carried out ten enquiries on EC matters and both it and the Scrutiny Committee have recently considered the Delors Committee report.

On the specific question which Sir Peter raised of overlap with the work of the NAO/PAC, this has not on the whole been a problem with the Departmental Treasury. The only recent examples have been financial reporting to Parliament, on which the TCSC and the PAC both have a legitimate interest, and the present enquiries into developments on 'Next Steps'. The OMCS is in the lead on the latter, although there is a large amount of Treasury involvement. The problem occurs more often with the Revenue Departments. Overlapping enquiries into staff losses in the Revenue Departments resulted in the Inland Revenue having to give evidence to the PAC in July 1988 and the TCSC in January 1989, while Customs and Excise ended up giving evidence to both Committees on the same day in January 1989. We are also concerned at the evidence from some other Departments that they are suffering from a considerable overlap with the consequent duplication of effort involved.

7. <u>The impact of Committees on work of House as a whole</u>

This is a matter for the House to judge. But the work of the Committees should enable subsequent debates to be better informed.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 238 2290

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

21 June 1989

Dear John,

PROCEDURES COMMITTEE ENQUIRY INTO THE SELECT COMMITTEE SYSTEM

Thank you for your letter of 26 May.

I agree that it would not be in our interest to provoke a major confrontation between the Government and the Select Committees. However, it is important that we take this opportunity to have a close look at the workings of Committees and make suggestions to improve their work in the future.

Before I offer my comments on the questions raised in Peter Emery's letter, there are two broader points I would wish to see reflected in our Memorandum.

Firstly, it appears that Committees now have an ever increasing staff of advisers and specialists. I appreciate that Committees deal with highly technical issues and need good advice to do the job. However, it worries me that much of the work of Committees, particularly the writing of Reports, now seems to be done by the staff and advisers, to the extent that Members do not themselves always seem to have a full understanding of the issues examined and reported on. This is not a healthy trend, and if it continues Parliament will be the worse for it.

My second broad point concerns the questioning of Ministers. It seems usual Committee practice for Ministers to be called early in a Committee's enquiries. I can readily appreciate that Committees find it useful to take Ministerial evidence early. However, it would be very useful if Ministers had the opportunity to give evidence again late in the course of an enquiry, when the Committee was close to forming its conclusions and recommendations. A Ministerial appearance at this stage could provide a valuable opportunity for the Government to deal with some of the criticisms, and particularly those based on misunderstandings, before these found their way into a published Report.

Turning now to the questions in Peter Emery's letter, I have the following comments.

SECRETARY OF STATE FOR ENERGY

I am convinced of the value, both to Parliament and Ministers, of departmental Committees. Of course, there are times when a subject for enquiry does not fit neatly into one "departmental" pigeon hole, and I can see that subject based Committees might have a role here. However, the most damaging thing Committees in general could seek to do would be to attempt to open up divisions between departments or between Ministers. The present system, in mirroring the demarcation between departments, helps guard against this. When enquiries cross departmental boundaries, as we know from some NAO and PAC investigations, there is a clear increase in the difficulty and cost of dealing effectively with the investigation, without any particular gain either to Parliament or the public. I would wish to see our Memorandum support the present system.

On the effectiveness of Committees it is clearly difficult to identify a readily acceptable measure. I do not think that Committee effectiveness can be assessed on the basis of how many times changes have been made in policy. The Committees have an important role in conducting frank examinations of policy, and in acting to focus attention on issues which might otherwise attract less. Often such enquiries provide a useful forum for the Government to explain its policies in relation to an issue of major importance: I would certainly place the current Energy Committee enquiry into the Greenhouse Effect in this category.

It is difficult to provide an answer to Peter Emery's question about the resource impact of dealing with Committees. Certainly the cost is considerable. My officials have done some calculations based solely on the staff costs involved with preparing papers, briefings and attending meetings. In our experience these direct costs vary from around £15,000 for the Greenhouse Effect enquiry to £5,000 - £10, 000 each for enquiries into UK-USSR relations and Electricity Privatisation. Obviously these are basic staff costs, and they do not fully reflect the economic cost of diverting senior staff attention away from their main duties. It is going to be a tall order to achieve such a costing for Committee work in any one department, let alone for Whitehall as a whole. Perhaps the lesson to take away from this is that, as a large part of the opportunity cost for some departments will consist of the time of senior officials and managers being taken up in giving evidence, the Government must restate the right of Ministers to decide which officials shall give evidence on the Government's behalf.

My final point concerns Peter Emery's question about the overlap between Committees, particularly between departmental Committees and the PAC. I do not believe that our Memorandum is the appropriate place to advance at length our arguments concerning improvements in co-ordination between Committees, but I do think that it is right to reflect the existence of the problem. Better coordination between

SECRETARY OF STATE FOR ENERGY

Committees, and the avoidance of placing undue burdens on particular parts of some departments, certainly has something to contribute towards improving the workings of the Committee system and increasing its value to Parliament.

I am copying this letter to the Prime Minister, Cabinet colleagues, David Waddington, Richard Luce, and Sir Robin Butler.

Yours Ever,

Cecil.

CECIL PARKINSON

FROM: D I SPARKES
DATE: 21 June 1989

MR D RAMSDEN (IF2)

BF 28/6

RESERVE BANK OF NEW ZEALAND BILL

The Chancellor was grateful for your minute of 19 June commenting on the Times article concerning the Bank of New Zealand Bill. He would like to see a copy of the Bill itself.

DIS.

DUNCAN SPARKES

psec.lb/bd.1 cab **CONFIDENTIAL**

FROM: B O DYER (Parly Clerk)
DATE: 21 June 1989
EXTN: 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve - IDT
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 22 JUNE 1989
PARLIAMENTARY AFFAIRS

Subject to Shadow Cabinet representations tonight, following is the business proposed for the Commons next week:

Monday 26 June

2.30pm: Energy Questions

3.20pm: Civil Service Questions (Mr Luce)

3.30pm: **Opposition 15th Allotted Day** - subject to be announced

Tuesday 27 June (**Memo:** 4.30pm Fin. Bill St. Cttee 12th Sitting - New Clauses)

2.30pm: Health Questions

3.15pm: PMs Questions

3.30pm: Ten Minute Rule Bill - Harry Cohen: Animal Experiments

3.40pm: **Football Spectators Bill** (Lords): Second Reading

Wednesday 28 June

2.30pm: Environment Questions

3.30pm: Ten Minute Rule Bill - Anthony Coombs: Postal Services

3.40pm: **Opposition 16th Allotted Day** - subject to be announced

P.T.O

Thursday 29 June (Memo: 4.30pm Fin. Bill St. Cttee 13th & final day)

2.30pm: MAFF Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: **Representation of the People Bill:** Second Reading

7.00pm: **Opposed Private Business**

Friday 30 June

9.30am: **Policing in London:** debate on a motion for the Adjournment

B. Dyer

B O DYER

FROM: SUSIE SYMES (EC1)
DATE: 21 June 1989
EXT: 4441

ECONOMIC SECRETARY

cc PS/Chancellor
PS/Paymaster General
Sir P Middleton
Mr Wicks
Mr Odling-Smee
Mr Riley
Mr R I G Allen
Mrs M E Brown
Mr Gieve
Mr Mercer
Miss O'Mara
Mr Pirie
Mr Kroll

Mr Bostock - UKREP

ECOFIN 19 JUNE, ARRANGED PQ

I attach for approval a draft arranged Parliamentary Question and Answer reporting on ECOFIN.

2. If you are content with the draft, would Miss James please let Parliamentary Section know.

Susie Symes

SUSIE SYMES

typg.ul/ln/ec1/20.6.(11)

ECOFIN ARRANGED PQ

To ask the Chancellor of the Exchequer, if he will make a statement on the outcome of the latest meeting of the European Community's Economic and Finance Council.

DRAFT REPLY BY THE ECONOMIC SECRETARY

The ECOFIN Council met in Luxembourg on 19 June. ~~The Economic Secretary~~ represented the UK.

The Council adopted a regulation re-weighting the ecu.

The Council reached substantive agreement on a common position, subject to some further procedural details, on the draft second banking coordination directive and on the solvency ratios directive; and reached agreement on a common position on the insider trading directive.

The Council reached agreement on a common position on a revised Financial Regulation. The Council adopted the 18th VAT Directive.

The Council had a further discussion of the Commission's proposals on fiscal frontiers.

The Council discussed proposals for three company tax measures to encourage cross-border cooperation.

The Council heard a progress report on the latest proposals for anti-fraud measures, supported the useful progress made since the March ECOFIN, and endorsed the need to continue progress.

chex.ps/ds2/139

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 June 1989

Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON SW1

MP

Dear Lord President,

PROCEDURE COMMITTEE ENQUIRY INTO WORK OF THE SELECT COMMITTEES

You sent me a copy of your letter of 26 May to Geoffrey Howe.

... I attach a note of the Treasury Ministers' views on the questions on the working of the Select Committee system posed by Sir Peter Emery.

I am copying this letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

Yours sincerely,

Duncan Sparkes

pp. **NIGEL LAWSON**

[Approved by the Chancellor and signed in his absence]

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Wicks
Dame A Mueller
Mr Lankester
Mr Monck
Mr H Phillips
Mr Scholar
Mr Hardcastle
Mr Odling-Smee
Mr R I G Allen
Mr Peretz
Mrs Lomax
Mr Moore
Mr Culpin
Mr H P Evans
Mr Mountfield
Mr C W Kelly
Mr Riley
Mr Sedgwick
Mr Beastall
Mr Harris
Mr T R H Luce
Ms Simpson
Mrs Chaplin
Mr Tyrie

PS/IR
Mr McNicol - IR

PS/C&E
Mr Warr - C&E

PROCEDURE COMMITTEE ENQUIRY INTO WORKING OF SELECT COMMITTEES

1. Value to the House and to Ministers

There is clearly value to Ministers in the opportunity to explain the background to policy decisions and to discuss issues at greater length and depth than is possible in debates on the Floor of the House. It is also possible for outside evidence given to a Select Committee to influence the formulation of Government policy. One example where a Select Committee enquiry provided valuable background to inform later policy decisions was a 1986 Transport Select Committee enquiry into the UK shipping industry, which produced factual evidence which enabled the general taxation regime for UK seamen working abroad to be considered on a more informed basis. Departmental Select Committee examinations of spending plans have sometimes been a useful reinforcement of the pressure to ensure value for money in public spending.

2. Effectiveness of the committees in carrying out their remit

The TCSC undertakes a wide range of enquiries covering all aspects of its remit. They are all legitimate in that they relate to areas of major Treasury policy concern, although the value of some of them is doubtful especially when, as has happened, the enquiry is so prolonged that the underlying circumstances have changed substantially in the meantime. In recent years, the main 'baseload' of the TCSC has been annual enquiries into the Autumn Statement and Budget. This also reflects the annual cycle in the Treasury's own work. The Committee then builds more detailed enquiries around this framework. Short reports responding to particular circumstances have on the whole we believe proved more valuable, and less costly in Ministers' and officials' time, than the more protracted enquiries.

The <u>influence</u> of the committee can be seen in the introduction of the Autumn Statement combining the Industry Act Forecast and the main public expenditure decisions, first as an oral statement and then as a printed document. Other amendments and improvements to the presentation of financial documents to Parliament have also resulted from the TCSC's work. It is not always easy to know whether or not the Committee has been the decisive influence; for example, the TCSC pursued enquiries on a number of measures to deal with the problem of staff losses in the Inland Revenue which were in fact already in hand. Much the same situation arose with the recent enquiry into the condition of official statistics where the TCSC's recommendation for an enquiry coincided with the Government's conclusion that such an exercise was necessary.

3. Impact on departmental resources

Some enquiries can make enormous demands on departmental resources. Those that have done so in the past include the TCSC's enquiry into monetary control and monetary policy (1979-1980) and the financial consequences of membership of the EC (1983-85).

In a number of cases (a large part of the enquiry into the consequences of EC membership, some of the Committee's enquiries into international monetary arrangements, their enquiry into long term trends in resources and public expenditure and the enquiry into staff losses in the revenue departments) no report was ever produced. There are, of course, sometimes benefits from the simple publication of evidence but this is most likely to be the case in single, one-off enquiries such as the TCSC occasionally mounts into aspects of the EC Budget.

In recent years, the main burden of work for the Departmental Treasury has been dealing with routine enquiries into the Budget, Autumn Statement and PEWP. Because they are routine and because the Committee's work to that extent follows that of the Department rather than vice versa, the demands imposed by the TCSC on the Treasury may well be less than those made by other select committees on their departments. But they do impose an additional strain on resources and involve a substantial amount of effort for the senior officials involved, often at times when such effort is hard to spare. Non-routine enquiries can mean even more work: the

Inland Revenue put in 360 man-hours in two weeks (during the run-up to the Budget) preparing for an oral hearing into staff losses in the department and Customs and Excise's preparation for their hearing in the same enquiry involved 32 man-days.

4. Process of consideration of reports

TCSC reports on Treasury business are normally considered only within the Department and the Government's reply takes the form either of a memorandum or a response during debates on the floor of the House. The replies are not normally very lengthy.

5. Possible changes in the select committees practice or procedure

We have identified none of general application.

6. Overlap

On the question of overlap between the work of various Parliamentary committees, the Treasury has found no problem with the terms of reference as between the different departmental select committees. But the provision for the select committees to investigate expenditure does mean that a number of them feel they should be entitled to demand memoranda or even oral evidence from the Treasury on matters which are the responsibility of other departments. Other Departments sometimes do less than they might to discourage this. It would be helpful if Select Committees could explicitly accept that the Treasury does not give evidence on matters that are the responsibility of other departments.

A particular area where subject matter can overlap is on Europe. For example, since 1983-84, the TCSC has carried out ten enquiries on EC matters and both it and the Scrutiny Committee have recently considered the Delors Committee report.

On the specific question which Sir Peter raised of overlap with the work of the NAO/PAC, this has not on the whole been a problem with the Departmental Treasury. The only recent examples have been financial reporting to Parliament, on which the TCSC and the PAC both have a legitimate interest, and the present enquiries into developments on 'Next Steps'. The OMCS is in the lead on the latter, although there is a large amount of Treasury involvement. The problem occurs more often with the Revenue Departments. Overlapping enquiries into staff losses in the Revenue Departments resulted in the Inland Revenue having to give evidence to the PAC in July 1988 and the TCSC in January 1989, while Customs and Excise ended up giving evidence to both Committees on the same day in January 1989. We are also concerned at the evidence from some other Departments that they are suffering from a considerable overlap with the consequent duplication of effort involved.

7. The impact of Committees on work of House as a whole

This is a matter for the House to judge. But the work of the Committees should enable subsequent debates to be better informed.

SECRETARY OF STATE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

D/S OF S/PS/22/29S

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

2nd June 1989

CH/EXCHEQUER
REC. 22 JUN1989
ACTION FST
COPIES TO

✓22/6

PMG

Dear John,

Thank you for sending me a copy of your letter of 26 May to Geoffrey Howe about the Procedure Committee's forthcoming Inquiry into the overall working of the present Parliamentary Committee system.

As you know, there are problems in this area which have exercised me for some time, and I am delighted that the Government now has the opportunity, as part of a balanced and constructive presentation, to explain their nature and extent. I attach a memorandum on which you might like to draw in assembling the Government's formal evidence to the Procedure Committee. We stand ready to provide any further information.

You will see that our memorandum is marked "management in confidence" at this stage. This is a reflection of the fact that, in making some points, we have been a trifle sharper in our

The Rt Hon John Wakeham MP

SECRETARY OF STATE

criticisms of the Defence Committee than we would perhaps wish to be in an open paper. Only minor amendments would be required however to remove the caveat and my officials would be quite happy to discuss how this might be done. In any case, I note that the draft Government wide memorandum, to which the attached is a contribution, will be circulated for comment in due course.

Given the heavy load which my Department bears in terms of work for Parliamentary Committees and the particular experience we have of some of the resulting difficulties, I would myself be happy to give evidence to the Procedure Committee if you think this would be helpful.

I am copying this letter to the Prime Minister, other Cabinet colleagues, David Waddington, Richard Luce and Sir Robin Butler.

Yours ever,

George

George Younger

SELECT COMMITTEE ON PROCEDURE: INQUIRY INTO THE OVERALL WORKING OF SELECT COMMITTEES

Memorandum

i) The value to the House and to Ministers of a system of Departmentally related committees?

MOD Ministers believe that the present structure of Select Committees is broadly right and that, provided the system is sensibly operated, it serves the interests of Parliamentary scrutiny well. The MOD is responsible for a wide range of increasingly complex issues, which require a careful balancing of political, financial, industrial, technological and operational considerations. We value the existence of a Committee which can dedicate itself to these issues and can establish itself as a body of considerable knowledge within Parliament.

MOD Ministers welcome in-depth study of particular areas of the defence programme and take the view that the Defence Committee can in principle play a valuable part in testing policy by informed scrutiny and in the formulation of public understanding of defence policy and the defence programme, thus making a significant contribution to the level and quality of informed debate which the Government is keen to sustain.

The MOD will continue to do its utmost to co-operate with the Defence Committee in the discharge of the Committee's responsibilities.

ii) The effectiveness with which the Committees have carried out their task?

In a normal year's programme, the HCDC's attention will be divided between those Inquiries involving subjects which are examined annually and those covering one-off special subjects. The analysis below concentrates on these one-off studies.

The Reports are normally sizeable documents, because of the large volume of written and oral evidence which the Committee now seems to take as a matter of course. The 'original' element in the reports runs to anything between 100 and 300 paragraphs, most of them taken up with setting the background. Comments, conclusions or recommendations are offered throughout the Reports as the Committee feels necessary. The bulk of the Committee's evidence is taken from the MOD and other Government Departments, although industrialists, academics and representatives of other 'outside' interested bodies are also looked to.

It is difficult to come to anything but the broadest judgement on the influence of the HCDC work on Government policy - there are no clear yardsticks. In three major recent one-off studies undertaken by the HCDC - into Business Appointments, the Surface Fleet and the Gurkhas - the Government felt obliged to reject most of the

Committee's principal recommendations. However, in the case of the Gurkhas, we believe that the Committee's and the Department's thinking shared much common ground. This case tends to lend support to the view that the Committee's main contribution lies more in the area of an indirect contribution to the wider public debate.

iii) The impact on the Government of Committee activities?

The impact of Committee activities on the MOD has increased enormously over the last 5 years - perhaps more than on any other Department.

This impact takes two forms. First, there has been an increase in the workload generated by the HCDC; this is illustrated in a number of ways discussed below. Second, there is an increasing overlap of work between the HCDC and the PAC - this is considered in more detail under Section (vi).

That the Defence Committee's demands have increased over the last 5 years is not in dispute; the Chairman, Mr Michael Mates, acknowledged as much during a discussion with the Secretary of State in January. The following table, covering the years 1984 to 1988, illustrates the point:

Analysis of HCDC demands

	1984/85	1985/86	1986/87	1987/88
No of Reports	6	7*	7*	11*

		*4 special	*2 special	*2 special
No of Memoranda	5	7	20	53
No of evidence sessions	8	12	13	16

In the present session the Committee has already published 3 reports, leaving another 9 Inquiries "on the books".

The memoranda referred to in the table comprise only those documents of formal evidence provided in response to specific Committee questions; they do not include, for example, the regular updates of information on a number of subjects now provided to the Committee as a matter of routine (many are standard Departmental documents rather than special productions; they do not generate additional work as such but do illustrate the Committee's growing thirst for information).

The memoranda themselves have tended to become bulkier over the years, a direct reflection of the increased number of questions being asked by the Committee; for example, in the course of the Committee's current Inquiries into Major Defence Procurement projects, over 200 substantial questions have been put to the Department. This affects both the work involved in the initial preparation of evidence and the extra effort required subsequently to process it through the Inquiry procedure (i.e. the likely generation of additional oral evidence and the associated briefing of witnesses and the increased volume of material to "screen" for publication). These increased demands are being placed on the Department at a time when it is experiencing greater pressure than ever before on resources. Particular problems arise when areas are subject to almost continuous investigation by Parliamentary Committees, e.g. the EH 101 helicopter and, prospectively, the European Fighter Aircraft. MOD staffing problems are well known and, especially in some of the smaller specialised areas, servicing the requirements of the Committee must exacerbate them.

The table also shows an increase over the last 4 years in the number of oral evidence sessions, and our research suggests that the number of witnesses on average per session has increased, as has the demand on very senior officers and officials (see also Section v). This is a further reflection of the increasing scope and detail of the Committee's Inquiries.

The impact on the Department is apparent from the figures. So far as the Committee itself is concerned:

a. We are not aware of any significant enhancement of Committee resources over the period; there are indications that with a programme of its present size, the Committee is working at the limit of its capabilities, arguably with implications for the quality of its output.

b. Consequently, we find ourselves wondering whether the

Committee is able to devote sufficient resources either to establishing a minimum requirement for evidence or to analysing what has been received. This is not necessarily a question only of quantity. The Committee have from time to time demanded a great range of detailed data (e.g. the Surface Fleet enquiry) which they are not obviously able to evaluate.

There is also an increasing overlap between the work of the HCDC and the value-for-money activities of the PAC (see vi below). The selection of certain subjects by the HCDC leads us to suspect that the HCDC may be undertaking some investigations in order to avoid the risk of seeming to abandon by default parts of its area of competence.

iv) The process by which the Select Committee's recommendations are considered by the Government?

The MOD would expect to be sent the Confidential Final Revise version of an HCDC report up to 48 hours ahead of the planned publication date. On receipt in the Secretary of State's office, the CFR is sent as quickly as possible to those MOD Divisions and other Government Departments with a direct interest.

Within the MOD, the formulation of a response to a report is governed by the guidelines contained in paragraphs 56 to 66 of

"The Memorandum of Guidance for Officials Appearing before Select Committees" ("Osmotherley")

The first step is to prepare Ministers and the Press Office for any enquiries which may be received on publication of the report but, in accordance with "Osmotherley" and since the Government's considered response will be given direct to the Committee in due course, no comments are made which would risk a breach of Parliamentary privilege.

MOD Divisions, or more usually one lead Division, then prepare a considered Government response. This normally entails the circulation of drafts at various official levels, other Government Departments being consulted as necessary. The aim is to bring forward a draft response for (MOD and OGD) Ministerial consideration in time for publication within the two months suggested by the guidelines.

The Government's main concern in this area, however, is not that a particular timetable for response should be adhered to, but that the fullest and most careful consideration should be given to Committee reports. This means that we often overrun the two-month deadline, and this is more likely the greater the volume and complexity of the report. In these circumstances, we seek to keep the Committee informed of the likely length of and reason for the delay.

Of the two main forms of response - Command Paper and letter to the Committee Chairman - the latter is used slightly more often by the MOD (as the following table shows):

		Response	
Parliamentary Session	No of Reports	By letter	By Comm Paper
1985/86	4	2	2
1986/87	5	4	1
1987/88	9	5	4
1988/89	3*		1

* a reply is outstanding on two reports.

There is nothing significant in this pattern of response.

v) Aspects of Select Committee work over the last ten years which suggest that changes in practice or procedure may be desirable?

Over the last 5 years some disquieting trends may be discerned. The more important are discussed below.

The first concerns the marked increase in the volume of the Committee's work, as discussed under Section (iii). It is in no way our view that servicing the Committee is for us an unwanted extra, or of low priority; it is a proper and important part of our mainstream business. But we believe the Committee, the Department and Parliament would all benefit from a less ambitious programme. There also appears to be a reduced inclination on the part of the Committee to give the Department notice of its intention to undertake (sometimes major) Inquiries. The effects of this can be offset to some extent by the maintenance of close day-to-day contact with the Committee but we would welcome an arrangement under which the Committee, as a matter of course, provided the Department with a copy of its forward programme. This would enable those most directly affected to be given ample warning and allow them to plan their work better.

A number of difficulties have arisen from the increasing tendency of the Committee to challenge the conventions of "The Memorandum of Guidance for Officials appearing before Select Committees"
A case in point is the practice of the HCDC of summoning very senior officers and officials by name; this represents a departure from the conventions laid down in "Osmotherley", under which it falls to Ministers to nominate those who will give evidence on their behalf. Earlier this year, before the intervention of the Secretary of State, the Chief of Defence Procurement, Sir Peter Levene, had been requested to appear before the Committee on no less than 6 occasions between February and May. The MOD does not object in principle to appearances by senior officials, or indeed Ministers. However, apart from our wish to preserve the "Osmotherley" principles, there is also the practical matter of the demands which Committee appearances place on individuals' time. The Secretary of State has

made clear to the Chairman of the Defence Committee that in his view it is more sensible to leave it to the Department to nominate lower-level officials to give evidence first (in the normal way), leaving more senior officials, or Ministers, to appear later if required to deal with particularly difficult issues. This will remain the basis of the Department's approach towards the Committee.

The Department is worried that difficulties will continue to arise if the Defence Committee seeks virtually to insert itself into the Government's decision-taking. This was a major problem in the Inquiry into the Gurkhas. We accept that it is not unprecedented for a Committee to conduct an Inquiry into matters which the Government is simultaneously considering; and that "Osmotherley" does not rule out a general dialogue on possible policy options suggested by the Committee or emerging in discussion (although such dialogue may often be best conducted by Ministers rather than officials). We do not accept however that Departments have an obligation to put Committees <u>in the same position as Ministers</u> in advance of policy decisions being taken. The Defence Committee came close to suggesting this in the opening section of its report on the Gurkhas. The Government's view on all this was made clear in its response to that report when it said that it would continue to be as helpful as possible to departmental Select Committees but warned that Ministers and officials may continue to have difficulties in providing full answers to questions which seek access to departmental consideration of policy issues in advance of collective

Ministerial decisions. We believe that the opportunity should be taken, in giving evidence to the Select Committee on Procedure, to underline that view.

vi) An assessment of the problems posed by the existing demarcation between Select Committees and the PAC?

The increased work generated by the HCDC and the problems this has caused for the Department are discussed under Section iii). Our concerns have however been heightened by the growing tendency on the PAC's part to wish to become involved, under the heading of "value-for-money" interest (which is not difficult to attach to virtually any topic), in matters of policy - and the tendency, we suspect, as noted earlier, for the HCDC to undertake Inquiries so as not to leave the field exclusively to the PAC. The result has been a serious duplication of effort in some areas and the placing of an unreasonable burden of work on the Department. PE Divisions suffering above-average manpower shortages have been particularly hard hit. Clearly, this convergence of activity on the part of the Committees was not foreseen when the present system of Committees was set up, and it is, we believe, a problem primarily for the Chairmen of the Committees themselves to resolve. The Secretary of State has already made clear to Cabinet colleagues his view that a formal mechanism should be established, involving the Liaison Committee, to decide clear priorities between Committees in prospective areas of enquiry. As a first step, a much closer liaison than seems to exist at present might be apt between the

Chairmen of the Select Committees and the PAC. Until the House can solve this problem, the MOD has told the HCDC that it cannot support the "servicing" of two Committees engaged in the same area of work at the same time. We will provide the necessary information to one Committee and then give evidence to the other if required once the first Inquiry has been completed. It would be for the Committees to decide between them which had the prior claim.

It has been suggested from time to time (for example during the passage of the National Audit Act 1983) that Departmental Select Committees should be able to look for support to the NAO. We believe that the Government should continue to reject this proposal.

Our objections do not rest primarily on a judgement about the extent to which the NAO and PAC do or do not address policy issues, though it remains the Department's firm aim to ensure that the NAO does not stray into the area of "questioning policy objectives". Departmental relations with the NAO/PAC are moreover governed by statute and subject to separate conventions and procedures which enable Departments to influence the terms of reference for NAO studies, the papers seen by the NAO and the terms of NAO reports, as is essential to complement the NAO's privileged powers of access to Departmental files and the special role of the PAC in relation to Accounting Officers. These special powers and roles are designed to support the particular functions customarily attached to PAO/NAC; their use for the wider "policy" purposes of Departmental Select Committees would be a major constitutional change with wide practical implications.

vii) Impact of the work of Select Committees on the House as a whole?

(Not attempted at this stage, except as covered in (i) above. Best dealt with from the perspective of the Lord President's office and Cabinet Office.)

CHANCELLOR

CABINET OFFICE
OFFICE of the MINISTER
for the CIVIL SERVICE

The Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Horse Guards Road
London SW1P 3AL
Telephone: 01 -270 5929

CH/EXCHEQUER

REC.	23 JUN 1989
ACTION	FST
COPIES TO	

✓23/6

C89/3071

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

23 June 1989

PWP

Dear Lord President

PROCEDURE COMMITTEE ENQUIRY INTO THE WORKING OF SELECT COMMITTEES

Thank you for copying to me your letter of 26 May to Geoffrey Howe about this.

I was a member of the original select committee on procedure which recommended the establishment of departmental select committees. I am still convinced that in principle they represent an important step forward.

Leaving aside the wider question of Parliamentary scrutiny, departmental responses to select committee reports ought to be regarded as useful platforms for the Government to state its case reasonably but vigorously. A critical report will always attract publicity: but select committees are in my experience usually ready to take on board our point of view, especially if good relations have been fostered with the Chairmen and colleagues who serve on committees.

That said, Sir Peter Emery himself raises matters of concern. Select committees have tended to concentrate their activities on rapid investigations of newsworthy issues, increasing the burden on already hard-pressed areas. I hope, indeed, that in the paper the Government now puts to the Procedure Committee we can draw attention delicately to the sheer cost, in terms of money and manpower, of the select committee system, and make the point that while we do not grudge this in a good cause, we do see quite a lot of effort and expenditure which is in the end wasted.

Broader reviews of long-term policy can be helpful. The Select Committee on Education and Arts has carried out one constructive long-term review of the arts. The Select Committee on the Treasury and Civil Service has been helpful on the Next Steps policy.

However, this year, investigations have been mounted on the Next Steps initiative both by the PAC and by the Treasury and Civil Service Committee. The duplication of effort involved in dealing with the two committees is difficult to justify. I imagine that some colleagues have had the same experience.

I am sure that you are right: this is not the time for a row over the future of select committees. But if we can use this opportunity to draw attention to the problems caused by duplication and waste, so much the better.

I am copying this letter to recipients of yours.

Yours sincerely

Martin Lejeune

pp RICHARD LUCE
(Approved by the Minister and
signed in his absence)

psec.lb/ch.4

UNCLASSIFIED

PMP

Told APC 26/6. DJS

FROM: Assistant Parliamentary Clerk
DATE: 23 June 1989
EXTN: 5008

Ch/ Any changes you wish made? DJS

CHANCELLOR

TREASURY FIRST ORDER QUESTIONS - THURSDAY 6 JULY 1989

I attach for your consideration a proposed allocation of the Questions tabled for Oral answer on Thursday 6 July between yourself, the Chief Secretary, the Financial Secretary and the Economic Secretary.

2. Out of the first sixteen and the first twenty Questions the allocation of each Minister is:

	1st 16	1st 20
Chancellor	4	4
Chief Secretary	4	6
Financial Secretary	4	5
Economic Secretary	4	5

Thanks. A few changes marked.

Colin Hutson

COLIN HUTSON

[NB of top 20 Lab 11 Con 7 Dem 2]

UNCLASSIFIED

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

1	La	RT HON Mr Denzil Davies (Llanelli): To ask Mr Chancellor of the Exchequer, whether it is the policy of Her Majesty's Government to resist a devaluation of the pound sterling.	MISS O'MARA MG1	C/EX
2	C	Mr David Amess (Basildon): To ask Mr Chancellor of the Exchequer, what representations he has received about zero rating of value-added tax for hospital radio broadcasting equipment.	C+E	EST
3	La	Mr Martyn Jones (Clwyd South West): To ask Mr Chancellor of the Exchequer, what representations he has received from institutions in the City of London about United Kingdom economic policy.	MR HIBBERD EA1	+18 CST
4	C	Mr Hugo Summerson (Walthamstow): To ask Mr Chancellor of the Exchequer, what is his estimate of the extra yield of income tax if the basic rate were raised to 33 per cent.	IR	FST ~~C/EX~~
5	DEM	Mr Simon Hughes (Southwark and Bermondsey): To ask Mr Chancellor of the Exchequer, what is the latest figure that he has for the rate of inflation in the United Kingdom; and what is the average inflation rate for countries who are full members of the European Monetary System.	MR MELLISS IF2	~~EST~~ C/EX
6	C	Mr James Couchman (Gillingham): To ask Mr Chancellor of the Exchequer, what is his estimate of the number of people who would face a higher marginal rate of tax and national insurance if the top rate of income tax were raised to 50 per cent. and the employees' national insurance limit were abolished.	IR	FST
7	C	Mr Michael Colvin (Romsey and Waterside): To ask Mr Chancellor of the Exchequer, what representations he has received on the basic rate of corporation tax.	IR	FST
8	C	Mr Robin Squire (Hornchurch): To ask Mr Chancellor of the Exchequer, what influence the entry of Spain has had on Her Majesty's Government's policy on membership of the European Monetary System.	MISS O'MARA MG1	C/EX
9	La	Mr Bill Michie (Sheffield, Heeley): To ask Mr Chancellor of the Exchequer, what proportion of gross earnings a one-earner family with two children on average earnings paid in value-added tax in: (a) 1979, and (b) 1989.	MR MATTHEWS ETS	+19 EST
10	La	Ms Joyce Quin (Gateshead East): To ask Mr Chancellor of the Exchequer, what representations he has received from small businesses on the current level of interest rates.	MISS O'MARA MG1	CST
11	La	Mr Pat Wall (Bradford North): To ask Mr Chancellor of the Exchequer, if he will list his economic advisors at the Treasury.	MR STANNARD EOG2	+20 CST
12	C	Mr David Curry (Skipton and Ripon): To ask Mr Chancellor of the Exchequer, what was the percentage increase in the real take-home pay of a married man on male average earnings with two children between 1978-79 and 1989-90.	MR MATTHEWS ETS	FST
13	DEM	Mr Malcolm Bruce (Gordon): To ask Mr Chancellor of the Exchequer, if he will make a statement on what deutschmark/sterling exchange rate he would consider appropriate to join the exchange rate mechanism of the European Monetary Systems and as to what other considerations would affect his decision.	MISS O'MARA MG1	C/EX ~~CST~~
14	La	Mr Henry McLeish (Fife Central): To ask Mr Chancellor of the Exchequer, what has been the monthly increase in mortgage repayments for the average mortgage holder as a result of increases in interest rates over the last 12 months.	MR GRICE MG2	EST ~~FST~~
15	La	Mr Allan Rogers (Rhondda): To ask Mr Chancellor of the Exchequer, what is the most recent figure for the tax and prices index.	MR HIBBERD EA1	EST
16	C	Mr Jeremy Hanley (Richmond and Barnes): To ask Mr Chancellor of the Exchequer, what has been the increase in self employment since 1979.	MR PICKFORD EB	CST ~~C/EX~~
17	La	Mr Allan Roberts (Bootle): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the blance of trade in visible goods in 1989 and 1990.	MR O'DONNELL EA2	CST ~~EST~~
18	La	Mr Win Griffiths (Bridgend): To ask Mr Chancellor of the Exchequer, what representations he has received from institutions in the City of London about United Kingdom economic policy.	MR HIBBERD EA1	+3 CST

TREASURY 1ST ORDER QUESTIONS : THURSDAY 6 JULY 1988

19	La	**Mr Alun Michael** (Cardiff South and Penarth): To ask Mr Chancellor of the Exchequer, what proportion of gross earnings a one-earner family with two children on average earnings paid in value-added tax in: (a) 1979 and (b) 1989.	MR MATTHEWS ETS	+9 EST
20	La	**Mr Gareth Wardell** (Gower): To ask Mr Chancellor of the Exchequer, if he will list his economic advisors at the Treasury.	MR STANNARD EOG2	+1 CST
21	C	**Mr Jacques Arnold** (Gravesham): To ask Mr Chancellor of the Exchequer, what is his estimate of the number of people who would face a higher marginal rate of tax and national insurance if the top rate of income tax were raised to 50 per cent. and the employees' national insurance limit were abolished.	IR	FST
22	La	**Mr Tam Dalyell** (Linlithgow): To ask Mr Chancellor of the Exchequer, if he will make a statement on the most recent discussion of the International Monetary Fund on help to: (a) Guyana, (b) Cameroon, (c) Malaysia and (d) Sri Lanka.	MR WALSH IF1	EST
23	C	**Mr Harry Greenway** (Ealing North): To ask Mr Chancellor the Exchequer, what steps he proposes to take to monitor the future development of the European Monetary System; and if he will make a statement.	MISS O'MARA MG1	C/EX ~~EST~~
24	C	**Mr Charles Wardle** (Bexhill and Battle): To ask Mr Chancellor of the Exchequer, what was the annual rate of growth of manufacturing output over the last two years.	MR PICKFORD EB	CST
25	C	**Mr David Evans** (Welwyn, Hatfield): To ask Mr Chancellor of the Exchequer, what estimate he has as to the likely direct effect on investment intentions of a one per cent. change in interest rates over a period of 12 months.	MR GRICE MG2	EST
26	La	**Mr Greville Janner** (Leicester West): To ask Mr Chancellor of the Exchequer, what is the current underlying rate of inflation.	MR HIBBERD EA1	EST
27	La	**Mr Chris Mullin** (Sunderland South): To ask Mr Chancellor of the Exchequer, what representations he has received from small businesses on the current level of interest rates.	MISS O'MARA MG1	EST
28	C	**Mr James Arbuthnot** (Wanstead and Woodford): To ask Mr Chancellor of the Exchequer, what has been the increase in self employment since 1979.	MR PICKFORD EB	CST
29	C	**Mr Derek Conway** (Shrewsbury and Atcham): To ask Mr Chancellor of the Exchequer, what is his latest estimate for economic growth in 1989-90.	MR HIBBERD EA1	FST
30	DEM	**Mr Ronnie Fearn** (Southport): To ask Mr Chancellor of the Exchequer, whether he now expects to seek full United Kingdom membership of the European Monetary System.	MISS O'MARA MG1	EST
31	C	**Sir George Young** (Ealing, Acton): To ask Mr Chancellor of the Exchequer, what was the percentage increase in the real take-home pay of a married man on male average earnings with two children between 1978–79 and 1989–90.	MR MATTHEWS ETS	FST
32	La	**Mr Max Madden** (Bradford West): To ask Mr Chancellor of the Exchequer, what is the present level of interest rates in: (a) the United Kingdom and (b) West Germany.	MR MELLISS IF2	EST
33	C	**Mr Matthew Carrington** (Fulham): To ask Mr Chancellor of the Exchequer, what would be the effect on a person with a taxable income of £40,000 of raising the highest rate of income tax to 50 pence in the pound.	IR	FST
34	C	**Mr Tony Speller** (North Devon): To ask Mr Chancellor of the Exchequer, if he will relieve village and parish halls of liability to value-added tax; and if he will make a statement.	C+E	EST
35	La	**Mr Doug Henderson** (Newcastle upon Tyne North): To ask Mr Chancellor of the Exchequer, what is the current underlying rate of inflation.	MR HIBBERD EA1	EST
36	La	**Mr John P. Smith** (Vale of Glamorgan): To ask Mr Chancellor of the Exchequer, how many people are employed at the Treasury to advise him on exchange rate policy.	MR ALLAN EOG1	PMG
37	C	**Mr John Watts** (Slough): To ask Mr Chancellor of the Exchequer, what has been the total increase in employment in the United Kingdom economy and in each of the other major European countries since 1983.	MR MELLISS IF2	CST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

38	L	**Mr Tom Pendry** (Stalybridge and Hyde): To ask Mr Chancellor of the Exchequer, what mechanisms exist for medium or long-term alteration of the exchange rate.	MR GRICE MG2	EST
39	La	**Mr Dennis Skinner** (Bolsover): To ask Mr Chancellor of the Exchequer, what representations he has received regarding the level of interest rates; and if he will make a statement.	MISS O'MARA MG1	EST
40	DEM	**Mr A. J. Beith** (Berwick upon Tweed): To ask Mr Chancellor of the Exchequer, whether, following the Madrid summit and the decision of Spain to join the exchange rate mechanism, he will make a statement as to any new factors which he considers relevant to deciding whether the time is right for Britain to join the European Monetary System.	MISS O'MARA MG1	EST
41	C	**Mr Robert Adley** (Christchurch): To ask Mr Chancellor of the Excheuer, when he next intends to meet his EC counterparts; and what he intends to discuss.	MRS BROWN EC1	PMG
42	C	**Mr Douglas French** (Gloucester): To ask Mr Chancellor of the Exchequer, what representations he has received on his decision to introduce a minimum £100 purchase of premium bonds.	DNS	EST
43	C	**Dr Charles Goodson-Wickes** (Wimbledon): To ask Mr Chancellor of the Exchequer, what was the annual rate of growth of manufacturing output over the last two years.	MR PICKFORD EB	CST
44	La	**Mr Graham Allen** (Nottingham North): To ask Mr Chancellor of the Exchequer, what he is doing to improve the savings ratio.	MR DAVIES MP1	EST
45	La	**Mrs Ann Taylor** (Dewsbury): To ask Mr Chancellor of the Exchequer, if he will list his economic advisors in the Treasury.	MR STANNARD EOG2	PMG
46	La	**Mr Robert Parry** (Liverpool, Riverside): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation; and what it was 12 months ago.	MR HIBBERD EA1	EST
47	La	**Mr Terry Field** (Liverpool, Broadgreen): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation in the European Community.	MR MELLISS IF2	EST
48	C	**Mr Alistair Burt** (Bury North): To ask Mr Chancellor of the Exchequer, what share of gross domestic product was accounted for by business investment in 1988.	MR HIBBERD EA1	CST
49	La	**Mr** RT HON **Stanley Orme** (Salford East): To ask Mr Chancellor of the Exchequer, when he last met the Governor of the Bank of England to discuss the balance of trade deficit.	MR O'DONNELL EA2	CST
50	C	**Mr James Cran** (Beverley): To ask Mr Chancellor of the Exchequer, what is the highest level of inflation recorded this century; when it was recorded; and what is the current rate of inflation.	MR HIBBERD EA1	EST
51	C	**Mr Ian Gow** (Eastbourne): To ask Mr Chancellor of the Exchequer, when he next expects to meet the Managing Director of the International Monetary Fund; and what matters he expects to discuss.	MR WALSH IF1	EST
52	La	**Mr David Nellist** (Coventry South East): To ask Mr Chancellor of the Exchequer, what proportion of gross earnings a one-earner family with two children on average earnings paid in value-added tax: (a) 1979 and (b) 1989.	MR MATTHEWS ETS	EST
53	La	**Mr Eric Martlew** (Carlisle): To ask Mr Chancellor of the Exchequer, what is the present level of interest rates in: (a) the United Kingdom and (b) West Germany.	MR MELLISS IF2	EST
54	La	**Mr Dennis Turner** (Wolverhampton South East): To ask Mr Chancellor of the Exchequer; if he plans to meet representatives from small businesses to discuss the present level of interest rates.	MISS O'MARA MG1	EST
55	C	**Mr Greg Knight** (Derby North): To ask Mr Chancellor of the Exchequer, if he has any plans to restore the investment income surcharge.	IR	FST
56	La	**Mr Geoffrey Robinson** (Coventry North West): To ask Mr Chancellor of the Exchequer, with which members of the European Community the United Kingdom enjoyed a surplus in manufacturing trade in 1988.	MR O'DONNELL EA2	CST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

57	La	**Mr Bruce Grocott** (The Wrekin): To ask Mr Chancellor of the Exchequer, what is his latest estimate for the United Kingdom's balance of trade in manufactured goods for 1989.	MR O'DONNELL EA2	CST
58	C	**Mr John Browne** (Winchester): To ask Mr Chancellor of the Exchequer, what has been the growth of manufacturing productivity in the United Kingdom since 1980; and what were the comparable figures in the other major industrial countries.	MR HIBBERD EA1	CST
59	La	**Mr Nigel Griffiths** (Edinburgh South): To ask Mr Chancellor of the Exchequer, if he will list his economic advisers.	MR STANNARD EOG2	PMG
60	La	**Mr Eddie Loyden** (Liverpool, Garston): To ask Mr Chancellor of the Exchequer, what representations he has received from small businesses on the current level of interest rates.	MISS O'MARA MG1	EST
61	C	**Mrs Teresa Gorman** (Billericay): To ask Mr Chancellor of the Exchequer, if he will make a statement on the public sector debt repayment in 1988-89.	MR MOWL PSF	EST
62	La	**Mr Ron Davies** (Caerphilly): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in manufacturing in 1989 and 1990.	MR O'DONNELL EA2	CST
63	C	**Mr Andrew Mackay** (East Berkshire): To ask Mr Chancellor of the Exchequer, what are his latest figures for output per hour worked in the United Kingdom, West Germany and Japan.	MR HIBBERD EA1	CST
64	La	**Mr Ken Eastham** (Manchester, Blackley): To ask Mr Chancellor of the Exchequer, if he will revise his latest forecast for the United Kingdom rate of inflation.	MR HIBBERD EA1	EST
65	C	**Mrs Maureen Hicks** (Wolverhampton North East): To ask Mr Chancellor of the Exchequer, what is the total tax yield of tourism from United Kingdom and overseas visitors.		
66	C	**Mr James Pawsey** (Rugby and Kenilworth): To ask Mr Chancellor of the Exchequer, what was the annual rate of growth of manufacturing output over the last two years.	MR PICKFORD EB	CST
67	C	**Mr Robert McCrindle** (Brentwood and Ongar): To ask Mr Chancellor of the Exchequer, if he has received recent representations on the tax differential on lead-free petrol.	C+E	EST
68	C	**Mr Tim Yeo** (South Suffolk): To ask Mr Chancellor of the Exchequer, what is his estimate of the number of people who would face a higher marginal rate of tax and national insurance if the top rate of income tax were raised to 50 per cent. and the employees' national insurance limit were abolished.	MR MATTHEWS ETS	FST
69	La	**Mr Jimmy Dunnachie** (Glasgow, Pollok): To ask Mr Chancellor of the Exchequer, if he will revise his latest forecast for the United Kingdom rate of inflation.	MR HIBBERD EA1	EST
70	La	**Mr Frank Haynes** (Ashfield): To ask Mr Chancellor of the Exchequer, what was the sterling/deutschmark exchange rate 12 months ago; and what is it now.	MISS O'MARA MG1	EST
71	C	**Mr Julian Brazier** (Canterbury): To ask Mr Chancellor of the Exchequer, what was the number of business start-ups per week in net terms in 1988–89; and what were the comparable figures in 1987–88.	MR BURR IAE3	CST
72	La	**Mr Allen McKay** (Barnsley West and Penistone): To ask Mr Chancellor of the Exchequer, what has been the monthly increase in mortgage repayments for the average mortgage holder as a result of increases in interest rates over the last 12 months.	MR GRICE MG2	EST
73	La	**Mr George Robertson** (Hamilton): To ask Mr Chancellor of the Exchequer, with which members of the European Community the United Kingdom enjoyed a surplus in manufacturing trade in 1988.	MR O'DONNELL EA2	CST
74	La	**Mr** Rt Hon **Merlyn Rees** (Morley and Leeds South): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	C/EX

TREASURY 1ST ORDER QUESTIONS : THURSDAY 6 JULY 1988

75	La	**Mr Andrew F. Bennett** (Denton and Reddish): To ask Mr Chancellor of the Exchequer, when he next intends to revise the medium term financial strategy's assumption about future inflation.	MR DAVIES MP1	EST
76	C	**Mr Martin Brandon-Bravo** (Nottingham South): To ask Mr Chancellor of the Exchequer, how much of the public debt will have been repaid by the end of the financial year 1989–90.	MR MOWL PSF	EST
77	La	**Mr Ian McCartney** (Makerfield): To ask Mr Chancellor of the Exchequer, what assessment he has made of the impact of high interest rates on mortgage holders; and what steps he is taking to ameliorate this.	MR GRICE MG2	EST
78	La	**Audrey Wise** (Preston): To ask Mr Chancellor of the Exchequer, what assessment he has made on the impact of high interest rates on mortgage holders; and what steps he is taking to ameliorate this.	MR GRICE MG2	EST
79	La	**Mr D. N. Campbell-Savours** (Workington): To ask Mr Chancellor of the Exchequer, with which members of the European Community the United Kingdom enjoyed a surplus in manufacturing trade in 1988.	MR O'DONNELL EA2	CST
80	La	**Mr Terry Lewis** (Worsley): To ask Mr Chancellor of the Exchequer, what was the £ sterling-Deutschemark exchange rate 12 months ago; and what is it at present.	MISS O'MARA MG1	EST
81	C	**Mr Richard Tracey** (Surbiton): To ask Mr Chancellor of the Exchequer, what was the increase in profitability for non–North Sea industrial and commercial companies over the last year for which figures are available.	MR HIBBERD EA1	CST
82	C	**Mr Colin Shepherd** (Hereford): To ask Mr Chancellor of the Exchequer, if he has any plans to restore the investment income surcharge.	IR	FST
83	La	**Mr Rhodri Morgan** (Cardiff West): To ask Mr Chancellor of the Exchequer, what steps Her Majesty's Government is taking to stabilise the exchange rate; and if he will make a statement.	MISS O'MARA MG1	EST
84	C	**Mr Phillip Oppenheim** (Amber Valley): To ask Mr Chancellor of the Exchequer, when he last met the Governor of the Bank of England; and what matters were discussed.	MR PIRIE FIM1	EST
85	La	**Mr Giles Radice** (North Durham): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for growth in the current year in: (a) non-oil imports and (b) non-oil exports.	MR O'DONNELL EA2	CST
86	La	**Mr David Winnick** (Walsall North): To ask Mr Chancellor of the Exchequer, what representations he has received from small businesses about the present level of interest rates.	MISS O'MARA MG1	EST
87	C	**Ann Widdecombe** (Maidstone): To ask Mr Chancellor of the Exchequer, what would be the effect on a person with a taxable income of £40,000 of raising the highest rate of income tax to 50 pence in the pound.	IR	FST
88	La	**Dr John Reid** (Motherwell North): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in manufacturing in 1989 and 1990.	MR O'DONNELL EA2	CST
89	La	**Mr Frank Doran** (Aberdeen South): To ask Mr Chancellor of the Exchequer, if he will list his economic advisers.	MR STANNARD EOG2	PMG
90	La	**Mr William O'Brien** (Normanton): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation; and what it was 12 months ago.	MR HIBBERD EA1	EST
91	La	**Mr Robert N. Wareing** (Liverpool, West Derby): To ask Mr Chancellor of the Exchequer, what was the revised figure for the balance of payments in the last quarter of 1989.	MR O'DONNELL EA2	CST
92	C	**Mr Michael Brown** (Briggs and Cleethorpes): To ask Mr Chancellor of the Exchequer, what has been the increase in self employment since 1979.	MR PICKFORD EB	CST
93	La	**Mr John McFall** (Dumbarton): To ask Mr Chancellor of the Exchequer, what has been the monthly increase in mortgage repayments for the average mortgage holder as a result of increases in interest rates over the last 12 months.	MR GRICE MG2	EST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

94	La	Mr Ronnie Campbell (Blyth Valley): To ask Mr Chancellor of the Exchequer, what representations he has received from the Confederation of British Industry about the current level of interest rates.	MISS O'MARA MG1	EST
95	La	Mr Paul Murphy (Torfaen): To ask Mr Chancellor of the Exchequer, what representations he has received from the Confederation of British Industry about the current level of interest rates.	MISS O'MARA MG1	EST
96	La	Mr Bob Clay (Sunderland North): To ask Mr Chancellor of the Exchequer, what representations he has received from the Confederation of British Industry about the current level of interest rates.	MISS O'MARA MG1	EST
97	C	Mr David Davis (Boothferry): To ask Mr Chancellor of the Exchequer, what was the number of business start-ups per week in net terms in 1988-89; and what were the comparable figures in 1987-88.	MR BURR IAE3	CST
98	C	Mr Roger King (Birmingham, Northfield): To ask Mr Chancellor of the Exchequer, what was the percentage increase in the real take-home pay of a married man on three quarters of male average earnings with two children between 1978-79 and 1989-90.	MR MATTHEWS ETS	FST
99	C	Mr John Marshall (Hendon South): To ask Mr Chancellor of the Exchequer, what has been the fall in general government expenditure, excluding privatisation proceeds, as a proportion of gross domestic product since 1982-83.	MRS BUTLER GEP3	CST
100	La	Mr David Clelland (Tyne Bridge): To ask Mr Chancellor of the Exchequer, what representations he has received from the Confederation of British Industry about the current level of interest rates.	MISS O'MARA MG1	EST
101	La	Mr Rt Hon Gordon Oakes (Hatton): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation; and what it was 12 months ago.	MR HIBBERD EA1	C/EX
102	La	Mr Jim Callaghan (Heywood and Middleton): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in manufacturing in 1989 and 1990.	MR O'DONNELL EA2	CST
103	La	Mr Sam Galbraith (Strathkelvin and Bearsden): To ask Mr Chancellor of the Exchequer, if he will list his economic advisers.	MR STANNARD EOG2	PMG
104	La	Mr William McKelvey (Kilmarnock and Loudoun): To ask Mr Chancellor of the Exchequer, what is the current underlying rate of inflation.	MR HIBBERD EA1	EST
105	La	Mr Barry Sheerman (Huddersfield): To ask Mr Chancellor of the Exchequer, if he will list his economic advisors at the Treasury.	MR STANNARD EOG2	PMG
106	C	Mr Conal Gregory (York): To ask Mr Chancellor of the Exchequer, what representations he has received on the basic rate of income tax.	IR	FST
107	C	Mr Jonathan Sayeed (Bristol East): To ask Mr Chancellor of the Exchequer, what has been the fall in general government expenditure, excluding privatisation proceeds, as a proportion of gross domestic product since 1982-83.	MRS BUTLER GEP3	CST
108	La	Mr Tom Clarke (Monklands West): To ask Mr Chancellor of the Exchequer, what representations he has had from the Child Poverty Action Group on the number of children living in poverty.	MR MCINTYRE ST1	CST
109	La	Mr Geoffrey Lofthouse (Pontefract and Castleford): To ask Mr Chancellor of the Exchequer, if he will list his economic advisers.	MR STANNARD EOG2	PMG
110	La	Clare Short (Birmingham, Ladywood): To ask Mr Chancellor of the Exchequer, what proportion of gross earnings a one-earner family with two children on average earnings paid in value, added tax in: (a) 1979 and (b) 1989.	MR MATTHEWS ETS	FST
111	C	Mr Chris Butler (Warrington South): To ask Mr Chancellor of the Exchequer, what are his latest figures for output per hour worked in the United Kingdom, Germany and Japan.	MR HIBBERD EA1	CST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

112	C	**Mr Robert B. Hughes** (Harrow West): To ask Mr Chancellor of the Exchequer, what has been the growth of manufacturing productivity in the United Kingdom since 1980; and what were the comparable figures in the other major industrial countries.	MR HIBBERD EA1	CST
113	C	**Mr Keith Mans** (Wyre): To ask Mr Chancellor of the Exchequer, what was the increase in profitability for non-North Sea industrial and commercial companies over the last year for which figures are available.	MR HIBBERD EA1	CST
114	La	**Mr Peter Snape** (West Bromwich East): To ask Mr Chancellor of the Exchequer, how many people are employed at the Treasury to advise him on exchange rate policy.	MR ALLAN EOG1	PMG
115	C	**Mr David Sumberg** (Bury South): To ask Mr Chancellor of the Exchequer, what is the latest figure for the number of shareholders in the United Kingdom; and what information he has on comparable figures in other major E.C. countries.	MR ILETT FIM2	FST
116	La	**Mr Tom Cox** (Tooting): To ask Mr Chancellor of the Exchequer, when he last met the European Community to discuss zero-rating of value added tax.	C+E	EST
117	La	**Mr Alistair Darling** (Edinburgh Central): To ask Mr Chancellor of the Exchequer, what steps Her Majesty's Government is taking to stabilise the exchange rate; and if he will make a statement.	MISS O'MARA MG1	EST
118	La	**Dr Lewis Moonie** (Kirkcaldy): To ask Mr Chancellor of the Exchequer, what mechanisms exist for medium or long-term alteration of the exchange rate.	MR GRICE MG2	EST
119	La	**Mr Richard Caborn** (Sheffield Central): To ask Mr Chancellor of the Exchequer, if he will revise his latest forecast for the United Kingdom rate of inflation.	MR HIBBERD EA1	EST
120	C	**Mr Graham Riddick** (Colne Valley): To ask Mr Chancellor of the Exchequer, what has been the effect on public expenditure of the fall in the level of unemployment over the last two and half years; and if he will make a statement.	MR DAVIES MP1	CST
121	La	**Mr Marjorie Mowlam** (Redcar): To ask Mr Chancellor of the Exchequer, what steps Her Majesty's Government is taking to stabilise the exchange rate; and if he will make a statement.	MISS O'MARA MG1	EST
122	La	**Mr Peter Pike** (Burnley): To ask Mr Chancellor of the Exchequer, what mechanisms exist for medium or long-term alteration of the exchange rate.	MR GRICE MG2	EST
123	C	**Mr Hugh Dykes** (Harrow East): To ask Mr Chancellor of the Exchequer, whether he has had recent discussions with the Spanish Minister of Finance on questions affecting membership of the European Monetary Systems.	MISS O'MARA MG1	EST
124	La	**Mr Brian Sedgemore** (Hackney South and Shoreditch): To ask Mr Chancellor of the Exchequer, how many people are employed at the Treasury to advise him on exchange rate policy.	MR ALLAN EOG1	PMG
125	La	**Mr Ken Livingston** (Brent East): To ask Mr Chancellor of the Exchequer, when he will next provide a forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
126	La	**Mr Andrew Smith** (Oxford East): To ask Mr Chancellor of the Exchequer, how many peole are employed at the Treasury to advise him on exchange rate policy.	MR ALLAN EOG1	PMG
127	La	**Alice Mahon** (Halifax): To ask Mr Chancellor of the Exchequer, what representations he has had from Child Poverty Action Group on the number of children living in poverty.	MR MCINTYRE ST1	CST
128	La	**Mr John McAllion** (Dundee East): To ask Mr Chancellor of the Exchequer, what is the present level of interest rates in: (a) the United Kingdom and (b) West Germany.	MR MELLISS IF2	EST
129	La	**Mr Jeremy Corbyn** (Islington North): To ask Mr Chancellor of the Exchequer, what representations he has had from the Child Poverty Action Group on the number of children living in poverty.	MR MCINTYRE ST1	CST
130	C	**Mr Andy Stewart** (Sherwood): To ask Mr Chancellor of the Exchequer, what representations he has received on the married man's tax allowance.	IR	FST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

131	La	**Mr Tony Lloyd** (Stretford): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in manufacturing in 1989 and 1990.	MR O'DONNELL EA2	CST
132	C	**Mrs Elizabeth Peacock** (Batley and Spen): To ask Mr Chancellor of the Exchequer, what are the latest projections for the growth of manufacturing investment in 1989.	MR HIBBERD EA1	CST
133	C	**Teddy Taylor** (Southend East): To ask Mr Chancellor of the Exchequer, what has been the average annual increase in the money supply on an M O basis over the past two years; and what estimate he has made of the increase in the current year.	MISS O'MARA MG1	EST
134	La	**Mr Ted Leadbitter** (Hartlepool): To ask Mr Chancellor of the Exchequer, what was the £ sterling/Deutschemark exchange rate 12 months ago, and is it what at present.	MISS O'MARA MG1	EST
135	C	**Mr David Evennett** (Erith and Crayford): To ask Mr Chancellor of the Exchequer, how much of the public debt will have been repaid by the end of the financial year 1989-90.	MR MOWL PSF	EST
136	La	**Mr Jimmy Hood** (Clydesdale): To ask Mr Chancellor of the Exchequer, what was the sterling deutschemark rate 12 months ago; and what it is now.	MISS O'MARA MG1	EST
137	La	**Mr Lawrence Cunliffe** (Leigh): To ask Mr Chancellor of the Exchequer, when he will next provide a forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
138	La	**Mr Bob Cryer** (Bradford South): To ask Mr Chancellor of the Exchequer, if he will make a statement on the effect of the current level of interest rates on manufacturing firms employing less than 200 employees.	MR GRICE MG2	EST
139	La	**Mr Ray Powell** (Ogmore): To ask Mr Chancellor of the Exchequer, what mechanisms exist for medium or long-term alteration of the exchange rate.	MR GRICE MG2	EST
140	C	**Dr Ian Twinn** (Edmonton): To ask Mr Chancellor of the Exchequer, what has been the growth of manufacturing productivity in the United Kingdom since 1980; and what were the comparable figures in the other major industrial countries.	MR HIBBERD EA1	CST
141	La	**Mr Martin Redmond** (Don Valley): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
142	C	**Mr Terry Davis** (Birmingham, Hodge Hill): To ask Mr Chancellor of the Exchequer, if he will revise his latest forecast for the United Kingdom rate of inflation.	MR HIBBERD EA1	EST
143	C	**Mr Irvine Patnick** (Sheffield, Hallam): To ask Mr Chancellor of the Exchequer, what proportion of investment in United Kingdom industry over the past ten years can be accounted for by internally-generated funds.	MR HIBBERD EA1	CST
144	C	**Mr Andrew Hunter** (Basingstoke): To ask Mr Chancellor of the Exchequer, what is his latest estimate of the growth of manufacturing productivity since 1980.	MR HIBBERD EA1	CST
145	C	**Mr James Paice** (South East Cambridgeshire): To ask Mr Chancellor of the Exchequer, what was the number of new value-added tax registrations for businesses with registered addresses in South East Cambridgeshire for the calender years 1985, 1986, 1987, 1988 and 1989 to date.	C+E	EST
146	C	**Mr Tim Devlin** (Stockton South): To ask Mr Chancellor of the Exchequer, what has been the fall in general Government expenditure, excluding privatisation proceeds, as a proportion of gross domestic product since 1982-83.	MRS BUTLER GEP3	CST
147	La	**Mr Tony Worthington** (Clydebank and Milngavie): To ask Mr Chancellor of the Exchequer, with which members of the European Community the United Kingdom enjoyed a surplus in manufacturing trade in 1988.	MR O'DONNELL EA2	CST
148	C	**Mrs Marion Roe** (Brobpourne): To ask Mr Chancellor of the Exchequer, what representations he has received on the married man's tax allowance.	IR	FST
149	DEM	**Mr Matthew Taylor** (Truro): To ask Mr Chancellor of the Exchequer, what is the Government's funding policy on the national debt; and if he will make a statement.	MR MOWL PSF	EST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

168		**Mr Thomas McAvoy** (Glasgow, Rutherglen): To ask Mr Chancellor of the Exchequer, what assessment he has made on the impact of high interest rates on mortgage holders; and what steps he is taking to ameliorate this.	MR GRICE MG2	EST
169	La	**Joan Ruddock** (Lewisham, Deptford): To ask Mr Chancellor of the Exchequer, what information he has on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
170	La	**Mildred Gordon** (Bow and Poplar): To ask Mr Chancellor of the Exchequer, what meetings he has attended since the Budget in the City of London on matters concerning: (a) United Kingdom's economic policy in general, and (b) the level of interest rates in particular.	MISS O'MARA MG1	EST
171	La	**Mr Frank Cook** (Stockton North): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for the United Kingdom's balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
172	La	**Mr Harry Cohen** (Leyton): To ask Mr Chancellor of the Exchequer, when he last met the European Community to discuss zero-rating of value-added tax.	C+E	EST
173	C	**Mr Ian Taylor** (Esher): To ask Mr Chancellor of the Exchequer, what is his estimate of the extra yield of income tax if the basic rate were raised to 33 per cent.	IR	FST
174	C	**Mr Peter Thurnham** (Bolton North East): To ask Mr Chancellor of the Exchequer, what is his latest estimate for economic growth in 1989-90.	MR HIBBERD EA1	CST
175	La	**Mr Dennis Canavan** (Falkirk West): To ask Mr Chancellor of the Exchequer, what estimate he has of the number of pounds sterling coins and notes which are in circulation: (a) in Scotland and (b) in the United Kingdom.	MR PIRIE FIM1	EST
176	La	**Mr Robert Hughes** (Aberdeen North): To ask Mr Chancellor of the Exchequer, what meetings he has attended since the Budget in the City of London on matters concerning: (a) United Kingdom economic policy in general, and (b) the level of interest rates in particular.	MISS O'MARA MG1	EST
177	La	**Mr Elliott Morley** (Glanford and Scunthorpe): To ask Mr Chancellor of the Exchequer, what information he has on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
178	C	**Mr Simon Coombs** (Swindon): To ask the Chancellor of Mr Exchequer, what share of gross domestic product was accounted for by business investment in 1988.	MR HIBBERD EA1	CST
179	La	**Mr** Rt Hon **Jack Ashley** (Stoke on Trent South): To ask Mr Chancellor of the Exchequer, what proportion of civil servants above the level of principal are women; and what was the proportion in 1979.	MRS HAWORTH PS	C/EX
180	C	**Mr Stephen Day** (Cheadle): To ask Mr Chancellor of the Exchequer, what has been the total increase in employment in the United Kingdom economy and in each of the other major European countries since 1983.	MR MELLISS IF2	CST
181	C	**Mr Steve Norris** (Epping Forest): To ask Mr Chancellor of the Exchequer, what has been the total increase in employment in the United Kingdom economy and in each of the other major European countries since 1983.	MR MELLISS IF2	CST
182	La	**Mr Thomas Graham** (Renfrew West and Inverclyde): To ask Mr Chancellor of the Exchequer, when he will next provide a forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
183	La	**Mr Martin Flannery** (Sheffield, Hillsborough): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation in the European Community.	MR MELLISS IF2	EST
184	La	**Mr Roy Hughes** (Newport East): To ask Mr Chancellor of the Exchequer, what meetings he has attended since the Budget in the City of London on matters concerning: (a) United Kingdom economic policy in general, and (b) the level of interest rates in particular.	MISS O'MARA MG1	EST

TREASURY 1ST ORDER QUESTIONS : THURSDAY 6 JULY 1988

150	La	**Mr Terry Patchett** (Barnsley East): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation; and what it was 12 months ago.	MR HIBBERD EA1	EST
151	La	**Mr Allen Adams** (Paisley North): To ask Mr Chancellor of the Exchequer, what was the revised figure for the balance of payments in the first quarter of 1989.	MR O'DONNELL EA2	CST
152	C	**Mr Nicholas Winterton** (Macclesfield): To ask Mr Chancellor of the Exchequer, what share of gross domestic product was accounted for by Business Investment in 1988.	MR HIBBERD EA1	CST
153	C	**Mr Gary Waller** (Keighley): To ask Mr Chancellor of the Exchequer, what was the increase in profitability for non-North Sea industrial and commercial companies over the last year for which figures are available.	MR HIBBERD EA1	CST
154	C	**Mr Barry Field** (Isle of Wight): To ask Mr Chancellor of the Exchequer, if he will set out the minimum time taken for a United Kingdom customs cutter in hot pursuit of a suspect vessel to obtain clearance to enter: (a) French, (b) Belgian and (c) German territorial waters; and if he will make a statement on these arrangements.	C+E	EST
155	La	**Dr Alan Williams** (Carmarthen): To ask Mr Chancellor of the Exchequer, what representations he has received on the range of interest rates charged by credit card companies.	MR ILETT FIM2	EST
156	C	**Mr David Tredinnick** (Bosworth): To ask Mr Chancellor of the Exchequer, what is the current level of British investment overseas; what was the level in 1979; and what impact it has on the balance of payments.	MR O'DONNELL EA2	CST
157	La	**Mr Ted Rowlands** (Merthyr Tydfil and Rhymney): To ask Mr Chancellor of the Exchequer, what representations he has received on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
158	La	**Mrs Llin Golding** (Newcastle under Lyne): To ask Mr Chancellor of the Exchequer, what is the most recent figure for the tax and prices index.	MR HIBBERD EA1	EST
159	La	**Dr Norman A. Godman** (Greenock and Port Glasgow): To ask Mr Chancellor of the Exchequer, what steps Her Majesty's Government is taking to stabilise the exchange rate; and if he will make a statement.	MISS O'MARA MG1	EST
160	La	**Mr Gerry Steinberg** (City of Durham): To ask Mr Chancellor of the Exchequer, what information he has on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
161	La	**Mr** Rt Hon **Denis Howell** (Birmingham, Small Heath): To ask Mr Chancellor of the Exchequer, what meetings he has attended since the budget in the City of London on matters concerning: (a) United Kingdom economic policy in general and (b) the level of interest rates in particular.	MISS O'MARA MG1	C/EX
162	La	**Mr Tony Banks** (Newham North West): To ask Mr Chancellor of the Exchequer, what information he has on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
163	La	**Mr Roger Stott** (Wigan): To ask Mr Chancellor of the Exchequer, what representations he has received on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
164	C	**Mr Tony Baldry** (Banbury): To ask Mr Chancellor of the Exchequer, what was the percentage increase in the real take-home pay of a married man on half average earnings with two children between 1987-79 and 1989-90.	MR MATTHEWS ETS	FST
165	La	**Mr John Maxton** (Glasgow, Cathcart): To ask Mr Chancellor of the Exchequer, what is the present level of interest rates in: (a) the United Kingdom and (b) West Germany.	MR MELLISS IF2	EST
166	C	**Mr Timothy Wood** (Stevenage): To ask Mr Chancellor of the Exchequer, if he will make a further statement on his plans for public expenditure in 1990-91.	MR MACAUSLAN GEP1	CST
167	La	**Mr Derek Fatchett** (Leeds Central): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation in the European Community.	MR MELLISS IF2	EST

TREASURY 1ST ORDER QUESTIONS : THURSDAY 6 JULY 1988

185	La	**Mr Gavin Strang** (Edinburgh East): To ask Mr Chancellor of the Exchequer, what information he has on the range of interest rates currently charged by credit card companies.	MR ILETT FIM2	EST
186	La	**Mr Eric Illsley** (Barnsley Central): To ask Mr Chancellor of the Exchequer, when he will next provide a forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
187	La	**Mr Stuart Bell** (Middlesbrough): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for growth in 1989 in: (a) non-oil imports, and (b) non-oil exports.	MR O'DONNELL EA2	CST
188	C	**Mr John Bowis** (Battersea): To ask Mr Chancellor of the Exchequer, what representations he has received on the basic rate of income tax.	IR	FST
189	C	**Mr Bob Dunn** (Dartford): To ask Mr Chancellor of the Exchequer, what was the number of busines start-ups per week in net terms in 1988–89; and what were the comparable figures in 1987–88.	MR BURR IAE3	CST
190	La	**Mr Frank Field** (Birkenhead): To ask Mr Chancellor of the Exchequer, what is the current rate of inflation in the European Community.	MR MELLISS IF2	EST
191	La	**Mr James Lamond** (Oldham Central and Royton): To ask Mr Chancellor of the Exchequer, what representations he has received from institutions in the City of London about United Kingdom economic policy.	MR HIBBERD EA1	CST
192	C	**Mr Graham Bright** (Luton South): To ask Mr Chancellor of the Exchequer, by how much the volume of consumer goods exported in the first quarter of 1989 grew; and by how much the volume of consumer goods imported changed.	MR O'DONNELL EA2	CST
193	C	**Sir David Price** (Eastleigh): To ask Mr Chancellor of the Exchequer, what is his latest estimate of the growth of manufacturing productivity in the United Kingdom since 1979 and in the previous decades.	MR HIBBERD EA1	CST
194	C	**Mr Tim Boswell** (Daventry): To ask Mr Chancellor of the Exchequer, if he will set out in tabular form the growth of total investment in the United Kingdom in the 1980's, together with the comparable figures for each of the other major European countries.	MR MELLISS IF2	CST
195	La	RT HON **Mr Peter Archer** (Warley West): To ask Mr Chancellor of the Exchequer, what was the revised figure for the balance of payments in the first quarter of 1989.	MR O'DONNELL EA2	C/EX
196	La	**Mr Kevin Barron** (Rother Valley): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in visible goods in 1989 and 1990.	MR O'DONNELL EA2	CST
197	La	**Mr David Blunkett** (Sheffield, Brightside): To ask Mr Chancellor of the Exchequer, what representations he has had from the Child Poverty Action Group on the number of children living in poverty.	MR McINTYRE ST1	CST
198	C	**Mr David Shaw** (Dover): To ask Mr Chancellor of the Exchequer, what was the percentage increase in the real take-home pay of a married man on three quarters of male average earnings with two children between 1978-79 and 1989-90.	MR MATTHEWS ETS	FST
199	La	**Mr Michael Welsh** (Doncaster North): To ask Mr Chancellor of the Exchequer, if he plans to meet representatives from small businesses to discuss the present level of interest rates.	MISS O'MARA MG1	EST
200	La	**Mr Mark Fisher** (Stoke on Trent Central): To ask Mr Chancellor of the Exchequer, when he last met European Community to discuss zero-rating of value-added tax.	C+E	EST
201	La	**Mr Paul Flynn** (Newport West): To ask Mr Chancellor of the Exchequer, what is the current average rate of inflation in the Group of Seven countries.	MR MELLISS IF2	EST
202	La	**Mr Roland Boyes** (Houghton and Washington): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for growth in the current year in: (a) non-oil imports, and (b) non-oil exports.	MR O'DONNELL EA2	CST

TREASURY 1ST ORDER QUESTIONS : THURSDAY 6 JULY 1988

203	La	**Maria Fyfe** (Glasgow, Maryhill): To ask Mr Chancellor of the Exchequer, what is the current underlying rate of inflation.	MR HIBBERD EA1	EST
204	La	**Mrs Ann Clwyd** (Cynon Valley): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for growth in 1989 in: (a) non-oil imports, and (b) non-oil exports.	MR O'DONNELL EA2	CST
205	La	**Mr Bruce George** (Walsall South): To ask Mr Chancellor of the Exchequer, what is the most recent figure for the tax and prices index.	MR HIBBERD EA1	EST
206	La	**Mr Brian Wilson** (Cunninghame North): To ask Mr Chancellor of the Exchequer, how many people are employed at the Treasury to advise him on exchange rate policy.	MR ALLAN EOG1	PMG
207	C	**Mr Kenneth Hind** (West Lancashire): To ask Mr Chancellor of the Exchequer, if he will set out in tabular form the growth of total investment in the United Kingdom in the 1980's, together with the comparable figures for each of the other major European countries.	MR MELLISS IF2	CST
208	C	**Mr Dudley Fishburn** (Kensington): To ask Mr Chancellor of the Exchequer, what would be the effect on a person with a taxable income of £40,000 of raising the highest rate of income tax to 50 pence in the pound.	IR	FST
209	La	**Mr Harry Barnes** (Derbyshire North East): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in visible goods in 1989 and 1990.	MR O'DONNELL EA2	CST
210	La	**Ms Harriet Harman** (Peckham): To ask Mr Chancellor of the Exchequer, what representations he has received from institutions in the City of London about United Kingdom economic policy.	MR HIBBERD EA1	CST
211	La	**Mr John Battle** (Leeds West): To ask Mr Chancellor of the Exchequer, what assessment he has made on the impact of high interest rates on mortgage holders; and what steps he is taking to ameliorate this.	MR GRICE MG2	EST
212	La	**Margaret Beckett** (Derby South): To ask Mr Chancellor of the Exchequer, when he last met the European Community to discuss zero-rating of value-added tax.	C+E	EST
213	La	**Ms Diane Abbott** (Hackney North and Stoke Newington): To ask Mr Chancellor of the Exchequer, if he will revise his forecast for the United Kingdom balance of payments in 1989 and 1990.	MR O'DONNELL EA2	CST
214	C	**Mr David Knox** (Staffordshire Moorlands): To ask Mr Chancellor of the Exchequer, if he will make a statement about the current level of interest rates.	MISS O'MARA MG1	EST
215	La	**Mr Sydney Bidwell** (Ealing, Southall): To ask Mr Chancellor of the Exchequer, what is his latest forecast of the balance of trade in visible goods in 1989 and 1990.	MR O'DONNELL EA2	CST
216	C	**Mr David Martin** (Portsmouth South): To ask Mr Chancellor of the Exchequer, what was the percentage increase in the real take-home pay of a married man on male average earnings with two children between 1978–79 and 1989–90.	MR MATTHEWS ETS	FST
217	C	**Mr Timothy Kirkhope** (Leeds North East): To ask Mr Chancellor of the Exchequer, what are his latest figures for output per hour worked in the United Kingdom, West Germany and Japan.	MR HIBBERD EA1	CST
218	C	**Mr Michael Latham** (Rutland and Melton): To ask Mr Chancellor of the Exchequer, if he will make a statement on the public sector debt repayment in 1988–89.	MR MOWL PSF	EST
219	La	**Mr George J. Buckley** (Hemsworth): To ask Mr Chancellor of the Exchequer, with which members of the European Community the United Kingdom enjoyed a surplus in manufacturing trade in 1988.	MR O'DONNELL EA2	CST
220	C	**Mr Robert Key** (Salisbury): To ask Mr Chancellor of the Exchequer, what is his estimate of the extra yield of income tax if the basic rate were raised to 33 per cent.	IR	FST

TREASURY 1ST ORDER QUESTIONS :THURSDAY 6 JULY 1988

221		**Mr Malcolm Moss** (North East Cambridgeshire): To ask Mr Chancellor of the Exchequer, what are the latest projections for the growth of manufacturing investment in 1989.	MR HIBBERD EA1	CST
222	La	**Hilary Armstrong** (North West Durham): To ask Mr Chancellor of the Exchequer, what was the revised figure for the balance of payments in the first quarter of 1989.	MR O'DONNELL EA2	CST
223	La	**Mr George Foulkes** (Carrick, Cumnock and Doon Valley): To ask Mr Chancellor of the Exchequer, what is the current average rate of inflation in the Group of Seven countries.	MR MELLISS IF2	EST
224	C	**Mr Michael Jack** (Fylde): To ask Mr Chancellor of the Exchequer, what are the latest projections for the growth of manufacturing investment in 1989.	MR HIBBERD EA1	CST
225	La	**Mr Stuart Randall** (Kingston upon Hull West): To ask Mr Chancellor of the Exchequer, what representations he has received from small businesses on the current level of interest rates.	MISS O'MARA MG1	EST
226	La	**Mr George Galloway** (Glasgow, Hillhead): To ask Mr Chancellor of the Exchequer, what is the most recent figure for the tax and prices index.	MR HIBBERD EA1	EST
227	C	**Mr Lewis Stevens** (Nuneaton): To ask Mr Chancellor of the Exchequer, what is his latest estimate of the growth of manufacturing productivity since 1980.	MR HIBBERD EA1	CST
228	La	**Mr** RT HON **Michael Foot** (Blaenau Gwent): To ask Mr Chancellor of the Exchequer, what is the current average rate of inflation in the Group of Seven countries.	MR MELLISS IF2	
229	La	**Mr John Fraser** (Norwood): To ask Mr Chancellor of the Exchequer, what is the current average rate of inflation in the Group of Seven countries.	MR MELLISS IF2	EST
230	C	**Mr Andrew Mitchell** (Gedling): To ask Mr Chancellor of the Exchequer, if he will make a further statement on his plans for public expenditure in 1990-91.	MR MACAUSLAN GEP1	CST
231	La	**Mr John McWilliam** (Blaydon): To ask Mr Chancellor of the Exchequer, what has been the monthly increase in mortgage repayments for the average mortgage holder as a result of increases in interest rates over the last 12 months.	MR GRICE MG2	EST
232	C	**Mr Christopher Gill** (Ludlow): To ask Mr Chancellor of the Exchequer, what representations he has received on the basic rate of corporation tax.	IR	FST

psec.lb/mr.4 Lords

UNCLASSIFIED

FROM: Assistant Parliamentary Clerk
DATE: 23 June 1989
EXTN: 5007

PS/CHANCELLOR

BF 6/7

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/C&E
PS/IR
Mr Davis - AEF1
Mr Illett - FIM1
Mr Mercer - EC2
Miss O'Mara - MG
Mr Saunders - ST2
Mr White - ST3
Mr Wood - LG2
Mr Gieve - IDT
Mr Dyer

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

ORAL QUESTIONS

Wednesday 28 June The Lord Ezra - To ask Her Majesty's Government whether ,in view of Spain's adhesion to the exchange rate mechanism of the European Monetary System, the time is now ripe for the United Kingdom to join.

Government Spokesman: To be confirmed. MG1 in the lead

Wednesday 12 July The Lord Bruce-Gardyne - To ask Her Majesty's Government when they expect the narrow money supply (MO) to return within its target band.

Government Spokesman: To be confirmed. MG1 in the lead

UNCLASSIFIED

TREASURY INTEREST QUESTIONS

Thursday 29 June The Baroness Burton of Coventry - To ask Her Majesty's Government whether they will state those items discussed at the meeting of the European Consumer Affairs Council held on the 1st June indicating both the decisions reached and progress made thereon, with particular reference to product safety, consumer credit and future priorities for relaunching consumer protection policy.

Government Spokesman: Lord Strathclyde. DTI in the lead.

Tuesday 4 July The Lord Ironside - To ask Her Majesty's Government whether the £250 million soft loan facility introduced in 1986 for 5 years to supplement the Aid and Trade Provision has been a success, and whether they will extend the facility for 1991-1996 and increase it to match the schemes of competing countries to support their own industries.

Government Spokesman: To be confirmed. ODA in the lead.

Wednesday 5 July The Lord Jenkin of Roding - To ask Her Majesty's Government whether they have assessed the impact on forestry planting of the new forestry tax and grant regime introduced in the 1988 Budget.

Government Spokesman: To be confirmed. Scottish Office in the lead.

Tuesday 11 July The Lord Bruce-Gardyne -To ask Her Majesty's Government what progress has been made to date on the negotiation of clearance for the United Kingdom taxpayers' subsidies provided to Short Brothers for the purpose of acquisition by the Bombardier Corporation.

Government Spokesman : To be confirmed. NI office in the lead.

Mari Rogerson

MARI ROGERSON