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aef2.jb/bottrill/minute/estecgd

BRIEF 4

FROM: A R H BOTTRILL
DATE: 3 OCTOBER 1989
EXT: 4720

ECONOMIC SECRETARY

cc PS/Chancellor
PS/CST
Mr Anson
Mr Wicks
Mr H P Evans
Mr Mountfield
Mr Halligan

ECGD LEGISLATION

You are attending QL tomorrow at which ECGD's bid for a place in the 1989-90 legislative programme will be discussed. The Treasury has an interest in retaining at least part of ECGD's proposed Bill in order to achieve public expenditure savings - although Mr Ridley is now prepared to abandon the whole Bill this session in return for a promise to a wider ECGD Bill in the 1990-91 session.

2. The Lord President agreed in June that ECGD could introduce in the next session a short uncontroversial Bill to amend the Export Guarantees and overseas Investment Act 1978. The main purpose of the Bill would be to allow ECGD among other things to refinance in the capital markets guaranteed fixed rate export loans which are currently financed by commercial banks. This would achieve significant public expenditure savings amounting ultimately to an estimated £40 million a year. Treasury Ministers supported strongly this aspect of ECGD's bid.

3. The draft Bill also contains provisions to allow ECGD to undertake certain types of narrowly defined borrowing, to pay fees and to give and take reinsurance. These latter powers were designed partly to meet ECGD's existing business needs but also to anticipate at least some of the powers that ECGD might need in the light of the Kemp Review of the future status and structure of ECGD. They were included against the advice of Treasury officials

who pointed out that they risked jeopardising acceptance of the whole bid. The Chancellor wrote to the previous Lord President on 15 February to support cutting down the ECGD Bill if necessary to a single clause to secure refinancing powers. (Attached).

4. In the event, however, ECGD was given authority for the whole Bill and the Chief Secretary agreed its terms on 11 August.

5. Lord Trefgarne's office however wrote to the Lord President on 12 September seeking authority to amend the scope of the proposed Bill substantially to take account of any legislative changes required to implement Ministers' decisions on the future status of ECGD. (Attached). The official working party on this review is due to report to Ministers shortly but further detailed discussions are likely to be needed before decisions can be taken, and the legislative implications are not likely to be clear until the start of next year at the very earliest. Your office wrote to the Lord President on 25 September reasserting the priority of the public expenditure savings clauses and opposing DTI Ministers' wish to insert additional clauses which would make the Bill controversial. (Attached).

6. The Lord President has now recommended that the Bill should be postponed in view of the uncertainties surrounding some of the policy aspects. We understand that Mr Ridley is prepared to accept this in return for a firm promise of a legislative slot next year. If QL accepts this, it will delay ECGD's refinancing programme by at least a further year with an estimated loss of £4 million in public expenditure saving in 1990-91. This would be particularly regrettable since this Bill was proposed for the last legislative session but denied a slot.

7. I recommend therefore that you accept that most of current Bill can better be handled in a wider Bill next year but revert to the Chancellor's original suggestion and urge QL to accept a single clause uncontroversial Bill limited solely to giving ECGD refinancing powers and hence to achieve public expenditure savings. You should remind QL that the Exchequer is already foregoing similar savings in the current year as a result of the

lack of a legislative slot in the 1988-89 session. There must always be a risk that negotiations on a new status and structure for ECGD will prove complex protracted particularly if clearance from the EC Commission is needed - and legislation may not be possible even in 1990-91. We should therefore not wait to achieve the public expenditure savings.

A R H Bottrill

A R H BOTTRILL

CONFIDENTIAL

PMG 3 OCT 1989

FROM: S M A JAMES (EB)
DATE: 3 October 1989
X5211

ECONOMIC SECRETARY

PS/Chief Secretary*
PS/Financial Secretary*
PS/Paymaster General*
Sir P Middleton*
Sir T Burns
Mr Anson*
Mr Wicks
Mr Monck
Mr Phillips
Mr Scholar
Mr H P Evans
Mr Mountfield
Mrs Case
Mr Peretz*
Mr A J C Edwards
Mr Bottrill
Mr Mortimer
Mr S Wood
Mr Parkinson
Mrs Flynn
Mr Fray

*with attachments

Ch.

Apparently the Highways + Transport (P.F. Bill) - "X" below, + brief 2 - was dropped at QL this am. Mr Parkinson may try to resurrect it at Cabinet tomorrow: if so, you may like to support.

4/10

(See also Sir G Howe's and Mr Rifkind's minutes, flagged behind, which post-date this briefing)

1989-90 LEGISLATIVE PROGRAMME; QL(89)7

QL is to meet at 9.00am tomorrow to review and finalise next session's legislative programme. The Lord President circulated a paper yesterday containing a number of recommendations for QL to consider.

2. The Lord President's chief concern is to ease the pressure on the new session which will be very full. As a result he proposes that QL should agree to:

(i) Postpone the Town and Country Planning Bill until the 1990-91 session;

(ii) Postpone the Highways and Transport (Private Finance) Bill. As a sweetener, he suggests the Government should be prepared to bring forward separate short Bills on one or more of the elements of this Bill, if an opportunity should arise;

(iii) **Delete** one or other of the **Scottish Bills** (the Scottish Enterprise and New Towns (Scotland) Bill and the Law Reform (Miscellaneous Provisions) (Scotland) Bill) depending on the outcome of the Secretary of State for Scotland's further consideration;

See Mr Rifkind's letter (behind)

(iv) **Postpone** the Bills on **Export Credit and Investment Guarantees** and on **Computer Misuse** since there are still some uncertainties surrounding them.

3. The Lord President has two suggested additions to the programme:

(i) **Add** a short Bill extending to **licensed tenants** the protection of the Landlord and Tenant Act 1954;

(ii) **Widen** the **Crown Suppliers Bill** to enable preparations for the privatisation of the PSA (although doing so may delay the passage of the Bill).

4. The attached individual briefs explain the Treasury's interest in these proposals and what your objectives should be at QL tomorrow.

(i) **Town and Country Planning Bill**

You should try to resist the postponement of this Bill, which would bring a worthwhile simplification and improvement of the planning system, and is needed to introduce charges for planning appeals. However, retention of this Bill is not a Treasury priority and you can be prepared to accept postponement as the Lord President suggests.

(ii) **Highways and Transport (Private Finance) Bill.**

You are familiar with the background to this (Mr Mortimer's submission of 29 September, attached to Brief 2). Retaining the Bill in the legislative programme is a high priority. If the Bill is included, you should press for it to include provisions to toll new publicly financed roads and (less important) existing roads.

(iii) **Scottish Bills**

The Secretary of State for Scotland is considering further the two Scottish Bills in the programme. The Lord President suggests one or other should be dropped. You should seek to retain the Scottish Enterprise and New Towns Bill in the 1989-90 programme. The most important Treasury interest here is ensuring that legislation is enacted as soon as possible in regard to the wind-up of the Scottish New Towns, which would allow the satisfactory treatment of their NLF debt. The New Towns are technically insolvent. Further NLF advances were made only on condition that the debt was put on a proper basis as soon as possible. The Treasury's interest is the Accounting Officer responsibility for the NLF.

(iv) **Export Credit and Investment Guarantees**

Mr Bottrill's minute (attached, Brief 4) explains the background. You should resist strongly the proposal to postpone this Bill. The main purpose of the Bill would be to allow ECGD to refinance in the capital markets guaranteed fixed rate export loans which are currently financed by commercial banks. This would achieve significant public expenditure savings which would be lost to us if the Bill is postponed. There are other more controversial aspects of the Bill which were added ~~to the Bill~~ at a later stage and which are discussed in detail in Brief 4, attached. You should accept that most of the current Bill can better be handled in a wider Bill next year but urge QL to accept an uncontroversial single clause Bill limited solely to giving ECGD its refinancing powers.

(v) **Licensed Tenants**

You should support strongly the proposed Bill to extend to licensed tenants the protection which the Landlord and Tenant Act 1954 already gives to business tenants generally. This will be a short Bill and is an important part of the Government's response to the MMC's recommendations on the brewing industry.

(vi) **The Crown Suppliers Bill**

You can welcome the Lord President's agreement to the PSA being added to the coverage of this Bill. You should stress the importance of getting this Bill through as soon as possible in the new session.

S M A JAMES

BRIEF 1

CONFIDENTIAL

TOWN AND COUNTRY PLANNING BILL

Objectives

This Bill has Treasury Ministers' support. However, if colleagues generally wish to drop it from the 1989-90 Programme, agree that it could be held over until 1990-91.

Line to Take

- This Bill would bring a worthwhile simplification and improvement of the planning system.
- Bill needed to introduce charges for planning appeals, which colleagues have agreed.
- However, if colleagues believe it cannot be accommodated, would be prepared to accept postponement to 1990-91.

Background

The Town and Country Planning Bill would follow consultation on a reform of the planning system. The intention would be to replace detailed county structure plans and to encourage the preparation of local development plans. The Secretary of State would issue regional planning guidance, counties would issue statements of planning policies, and the local plans should be consistent with those. At present, a great deal of effort goes into the preparation of detailed county structure plans, but many district planning authorities have not prepared detailed local plans. Moreover, although planning applications are at present charged for, there is no charge for planning appeals. We suspect this is a distortion which contributes to the troublesome upsurge in planning appeals. This is causing pressure for running costs increase in the Department of the Environment, and the delays in hearing the appeals are a source of embarrassment to the Government.

HIGHWAYS AND TRANSPORT (PRIVATE FINANCE) BILL

Objectives

(i) Retain the Bill in the legislative programme (high priority for Treasury).

(ii) If the Bill is retained, include provisions to toll new publicly financed roads (high priority) and existing roads (could drop if absolutely necessary).

Points to make

- Treasury attaches high priority to this Bill, and hopes very much it can be retained in the programme.

- The private financing of roads will in the longer term make it easier to contain public spending on roads. Should also mean that more roads will be built than would otherwise be the case.

- In addition, private finance schemes offer the possibility of improved efficiency in road construction by giving greater scope to the entrepreneurial, financial and management skills at the private sector.

- The private finance initiative is now so well advanced, postponement of the Bill would cause serious political problems. The Birmingham Northern Relief Road and the Birmingham to Manchester corridor have already been announced as private finance candidates on the assumption that the Bill will be presented this Autumn. Other schemes in Scotland are well advanced as Malcolm Rifkind has pointed out. Postponement of the Bill would represent a political climb down, cause delay and give rise to the need for a succession of unpopular and time-consuming hybrid Bills.

- If Bill is retained, there may be scope for cutting out some controversial aspects, but provision to enable tolling of new publicly financed roads should be retained (for reasons spelt out in my letter of 3 October).

- Treasury would also like to see a provision for tolling existing (as well as new) roads, but would be prepared to let this drop if that were a condition of letting the Bill go forward.

- The provisions in the Bill for charging public utilities for street works should help tackle congestion and should be retained if possible.

Relevant papers

- HE submission of 29 September (Flag A);

- Mr Parkinson's letter of 26 September outlining ways in which the Bill could be shortened (Flag B);

- Mr Rifkind's letter of 29 September outlining how damaging it would be for Scotland if the Bill were not taken forward (Flag C).

Background

The Treasury has pressed hard for this Bill (for all the reasons set out in the points to make) which sets out new arrangements to facilitate the private financing (and tolling) of roads. We hope therefore you will argue strongly for the Bill's retention. We also support the other main element in the Bill - provisions to enable public utilities to be charged for road works - since this should help reduce congestion.

It is clear from the correspondence relating to this Bill that a lot of Ministers (including Mr Parkinson and Mr Rifkind) would be extremely disappointed if the Bill were left out of the legislative programme. This view is also shared by HE's official contact in the No.10 Policy Unit. Mr Parkinson has not been invited to this meeting, so you may have to take a lead in arguing for the Bill's retention.

LORD PRESIDENT OF THE COUNCIL

PRIME MINISTER

4/10/89.

CABINET

LEGISLATIVE PROGRAMME 1989-90

I reported at Cabinet last week the severe pressures we are under in relation to next session's legislative programme.

2. QL discussed this morning what adjustments are needed to the programme provisionally agreed by colleagues in March (a copy of which is annexed). That programme was acknowledged at the time to be very heavy and colleagues agreed that any additions to it would have to be matched by offsetting savings. We also agreed that it was highly desirable that we should begin the fourth session of this Parliament as close to the conventional time as possible.

LORD PRES → PM 4/10

3. Since March a number of fresh priority candidates for places in the programme have emerged:

a. War Crimes - legislation to enable the prosecution in this country of war crimes committed during the Second World War be people who are now British citizens or resident in this country;

b. Hong Kong - possible legislation to extend rights of residence in the UK to categories of Hong Kong residents.

c. the Detention of Terrorist Suspects - legislation to introduce a system for the judicial oversight of the extended detention of terrorist suspects in Great Britain following the ECHR judgement in the Brogan case;

d. Licensed Tenants - increased protection for licensed tenants as part of the Government's response to the recent Monopolies and Mergers Commission report on beer.

Although uncertainties at present surround some of these issues, we have to plan on the basis that the first three will each require a Bill next session of up to 10 clauses in length. Each will be controversial, requiring a fair amount of prime Parliamentary time. And as well as these possible additions to the programme, some Bills already in it are certain to be extended as a result of policy decisions we have taken, eg on industrial relations law and privatisation of the Property Services Agency.

4. These developments mean that we cannot proceed next session with the Planning Bill which we had originally marked as first reserve. They also make savings in the programme essential. Hard choices between competing objectives, each of them desirable, are unavoidable. The field of choice is inevitably limited: some Bills are essential for political or other reasons, others are too minor to make their postponement worthwhile.

5. Nick Ridley has eased our task over the Licensed Tenants Bill. He is prepared to postpone legislation on Export Credits and Investment Guarantees to 1990-91, which will enable any resulting Bill to take account of forthcoming policy decisions on the status of the Export Credit and Guarantee Department as well as of the report of the Select Committee inquiry expected next session. He is also prepared, at a pinch, to postpone

legislation on Computer Misuse to 1990-91, although QL agreed that we should try to interest a Private Member in a Bill next session on this topic if we can. I intend to explain the position to Emma Nicholson, but suggest that meanwhile preparations for a Private Members Bill proceed. With these adjustments, QL agreed that a very short Bill on licensed tenants could be accommodated in the programme.

6. Much more substantial savings are required, however. QL agreed that we must look for these in the direction of the Law Reform (Miscellaneous Provisions) (Scotland) Bill and the Highways and Transport (Private Finance) Bill.

SCOTTISH BILLS

7. I know that Malcolm Rifkind would strongly prefer to keep both Scottish Bills - the Law Reform Bill and the Scottish Enterprise and New Towns (Scotland) Bill - in the programme. Given the pressures we face, however, some sacrifice is required. The inclusion of only one Scottish Bill would also substantially ease the problems for the business managers of handling Scottish legislation in the Commons. Although a measure of 50-70 clauses, the most important and controversial element in the Law Reform Bill is the reform of the Scottish legal profession. We should not want to delay that if doing so would jeopardise the passage of James Mackay's Courts and Legal Services Bill. While James would understandably like both Bills in the same session, he does not believe that his English Bill would be jeopardised by postponement of the Scottish Bill provided that there is a clear commitment to bring forward the Scottish Bill in the fourth session. Peter Fraser argued forcefully at QL that postponing the Scottish Bill would present political difficulties in Scotland and that the Bill was not good material for the fourth session. The business managers believe however that postponement to 1990-91 would probably ease rather than make more difficult the passage of the Scottish Bill.

8. If faced with a choice between the two Scottish measures, I understand that Malcolm Rifkind would give priority to the Scottish Enterprise and New Towns (Scotland) Bill. QL therefore decided that the Law Reform (Miscellaneous Provisions) (Scotland) Bill should be postponed, subject to a clear commitment to bring forward legislation on the reform of the Scottish legal profession in the 1990-91 session. The Scottish Enterprise Bill, including its New Town provisions, should be retained in the programme.

HIGHWAYS AND TRANSPORT (PRIVATE FINANCE) BILL

9. This Bill contains two main elements:

i. provisions to give effect to the proposals for private financing of roads in the Green Paper "New Roads by New Means" (Cmnd 698);

ii. reform of the Public Utilities Streetworks Act 1950 (PUSWA) on lines recommended by the Horne Committee in 1985.

Cecil Parkinson has offered to drop three policy provisions from the private finance part of the Bill (although Treasury colleagues are unhappy about this), but presses for the inclusion of the rest of the Bill in the programme.

10. The reform of PUSWA is no doubt desirable, but QL judged that it could be postponed without unacceptable loss. On the private finance provisions, QL recognised the political and practical commitments which have been made in relation to particular road schemes, in Scotland as well as in England. Postponement of general legislation on private finance to the 1990-91 session will undoubtedly present difficulties. However, QL believed that these should not present insuperable problems

for the individual projects involved. A Bill on private finance will be substantial (even excluding the PUSWA provisions) and controversial. QL therefore concluded that the Highways and Transport (Private Finance) Bill should be withdrawn from the provisional programme.

CONCLUSION

11. I realise that these decisions will be disappointing to colleagues involved and will pose them handling difficulties. Nevertheless, hard decisions are unavoidable if we are to put ourselves on course to start the 1990-91 session of this Parliament as close to the conventional time as possible. I am sure that all colleagues will accept, not only the desirability of this objective, but that those colleagues who have Bills from next session's programme will have a particularly strong claim when we come to consider bids for places in the programme for the 1990-91 session.

12. I am copying this minute to all members of Cabinet, members of QL, Sir Robin Butler and First Parliamentary Counsel.

GEOFFREY HOWE
4 October 1989

ANNEX

THE LEGISLATIVE PROGRAMME 1989/90

	Special Royal Assent Requirement
*Aviation and Marine Security	
Broadcasting	
Caldey Island	February 1990 (if possible) (to ensure that residents of the Island are not disfranchised).
Civil Aviation Authority (Borrowing Limits)	Easter 1990
*Computer Hacking	
*Contracts	
*Courts and Legal Services	
Crown Suppliers (? including PSA paving provision)	March 1990 (needed to avoid adverse effects of loss of business on sale)
Employment	
Environmental Protection	
*Export Credit and Investment Guarantees	31 March 1990 (to enable financial savings to be maximised)
*Food	

Government Trading Funds	Summer 1990
*Greenwich Hospital	
Health Service	April/May 1990
*Human Fertilisation and Embryology	
*Law Reform (Misc Provisions) Scotland	
*Mutual Assistance	
Parliamentary Pensions	
Pensions (Miscellaneous Provisions)	
*Protocols Additional to the Geneva Convention	
Social Security	Summer Recess
Student Support	1 April 1990 (needed in order to bring loan scheme into effect from 1/9/90)

Contingent Bills

Coal Industry	April/May 1990 (needed before BCC's accounts for 89/90 are prepared in April/May 1990
Fiji	Earliest possible date after meeting of Commonwealth Heads
Pakistan	

Possible

Beer: Landlord and Tenants Act

The Detention of Terrorist Suspects

Hong Kong

War Crimes

* = possible candidate for introduction in the House of Lords.

SECRETARY OF STATE FOR SCOTLAND

CH/EXCHEQUER
REC. 4 OCT 1989
ACTION EST 4/10
COPIES TO

Prime Minister

4/10/89.

LEGISLATIVE PROGRAMME 1989-90

Geoffrey Howe is minuting to you today to record the recommendations of QL on next session's legislative programme. I was not present at the discussion, but I understand that QL concluded that the Law Reform (Miscellaneous Provisions) (Scotland) Bill should not be included, and that the only Scottish Bill would therefore be the Scottish Enterprise Bill. That would put the Scottish Office in a quite unprecedented position.

As you realise, Scottish Office functions equate to those of half a dozen Whitehall Departments. So the Scottish legislative programme has never been comparable to that of any one Whitehall Department, as it has to cover the full range of Scottish activities. Indeed the Scottish legislative programme has for many years contained 3 or more Bills: in every year since 1979 the Government have promoted at least 3 Scottish Programme Bills, and this reflects a practice that has been followed by all post-war governments. In the current year, recognising the pressures on colleagues, I was content that there would be 2 Bills: and that provision to privatise the Scottish Electricity Board, which could have formed a separate Bill, should be contained in the Electricity Act 1989. Next session, I have been prepared to make do with 2 again. But a Scottish programme consisting of only one Bill would give rise to great political controversy.

RIFKIND → PM 4/10

My Law Reform (Miscellaneous Provisions) (Scotland) Bill would give effect to our policy on the legal profession, and it would be impossible to defend proceeding more slowly with that reform in Scotland than in England and Wales. Additionally, the Bill contains reforms on liquor licensing, charities supervision, fines payment, arbitration, prison administration, offender service funding and a wide range of other matters. For the most part, these reforms will be welcomed, and to the extent that any generate controversy this is unlikely to be partisan.

ICH277L3

There is an additional consideration. The argument that there is insufficient Parliamentary time for such measures will lack conviction, standing the arrangements for dealing with most of the Commons stages of Scottish Bills in Scottish Standing Committee and often the Scottish Grand Committee.

To limit the Scottish programme, unprecedentedly, to one Bill will also provide powerful ammunition for those who argue that there should be a separate, devolved, procedure for dealing with Scottish legislation, especially of a reformist non-controversial nature. Our stated position that no separate Scottish legislature is needed as Parliament can deal adequately with Scots law issues, in particular reforms arising from Law Commission recommendations, is inconsistent with dropping this Bill and having a Scottish programme of only one Bill. I would, therefore, strongly recommend that we should instead take credit for the introduction of the Law Reform (Miscellaneous Provisions) (Scotland) Bill in the coming Session.

I am copying this to Cabinet colleagues and Peter Fraser.

Jamieson

MALCOLM RIFKIND

4 October 1989

Approved by the Secretary of State
and signed in his absence

ICH277L3

SECOND PERMANENT SECRETARY

MP

Miss Wallace 13/2

Could you please make sure that this reply is cleared with the Cabinet Office.

JA

18/10

C2227

'Mr Anason. 20/2

PCC(c) 1988/89/2-0754

Chancellor of the Exchequer

Parliamentary Question

Priority written question for answer on 19/10/89

Date first appeared 6 OCT 1989

Party La

P. M. ADVISE

DAVID WINNICK WALSALL NORTH

To ask the Prime Minister which Departments have been involved in asking civil servants to cost the Labour Party's policies which ones have actually undertaken the costing; and if she will make a statement.

To be returned to Treasury Parliamentary Section by NOON 18/10/89.

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13/10/89.

Ask PUM
to consider this.

CHANCELLOR OF THE EXCHEQUER
HONI SOIT QUI MAL Y PENSE

MISC.

Mr. Allan

Ch

X is a very good idea! (?)

AA

Chiltern Hundreds: Insertion of notice in the London Gazette

Payment of the attached invoice from your (the Chancellor's) cost centre rather than mine would seem the more appropriate?

If you agree, I will forward to Mr. Edwards, EOG3, for the appropriate action.

B. Tyer
17/7

PS Until 1840 the Chancellor charged a fee of £16.15s for granting such appointments; perhaps this should be reinstated to meet admin. costs!

X

B.

psec.lb/mr.4 Lords

UNCLASSIFIED

Duncan

pmp

FROM: Assistant Parliamentary Clerk
DATE: 13 October 1989
EXTN: 5007

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/C & E
PS/IR
Miss M O'Mara - MG1
Mr Gilhooly - FP
Mr Hibberd - EA1
Mr Pirie - FIM1
Mr O'Donnell - 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

Thursday 19 October The Lord Boyd-Carpenter - To ask Her Majesty's Government why the Inland Revenue places difficulties in the way of individuals whose total income is below the level involving liability to income tax and who seek to recover income tax deducted at source on interest due to them on bank deposits.

Government Spokesman: Paymaster General. IR in the lead.

Tuesday 24 October The Lord Ezra - To ask Her Majesty's Government whether they are contemplating early membership of the Exchange Rate Mechanism of the European Monetary System.

Government Spokesman: Paymaster General. MG1 in the lead.

UNCLASSIFIED

TREASURY INTEREST QUESTIONS

Monday 16 October The Lord Carter - To ask Her Majesty's Government whether they agree with the report by the Institute of Fiscal Studies which concludes that their revised method of calculating the number of people with below half average income reduces previous figures by approximately one million.

Government Spokesman : Lord Henley. DSS in the lead.

Wednesday 18 October The Lord Dean of Beswick - To ask Her Majesty's Government what was the total amount of mortgage interest paid by owner occupiers for each quarter during 1988, and what are the comparative amounts for the first three quarters of this year.

Government Spokesman: Lord Hesketh. DoE in the lead.

Thursday 19 October The Lord Baroness Ewart-Biggs - To ask Her Majesty's Government whether they are satisfied with the action they are taking to deter drug couriers from entering the United Kingdom.

Government Spokesman: Earl Ferrers. Home Office in the lead.

Mari Rogerson

MARI ROGERSON

96.2 eb.ph/sj/pqs

UNCLASSIFIED

FROM: S M A JAMES (EB)
DATE: 13 OCTOBER 1989
X5211

1. MR RITCHIE

2. CHANCELLOR

Aim to stop @ 14

Run: 3, [6], 8, 13, 14.

(5/10 relevant ...)

? ... for ... attack.

see Brown & Banks ... 13/10

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr O'Donnell
Miss Wallace
Mr Dyer
Mr Deane
Mr Roaf
Mr Hutson (+ 5 copies)
Mrs Chaplin
Mr Tyrie
Mr Lightfoot

Mr N Forman MP
Mr J Maples MP
Mr T Boswell MP
Mr Dorrell MP

TREASURY FIRST ORDER QUESTIONS: THURSDAY 19 OCTOBER
EB DRAFT CENTRAL BRIEF

I attach EB's central brief.

2. The brief contains:

(i) Bull points;

(ii) Checklist of main indicators published recently and to be published by 19 October;

(iii) General briefing on topical issues;

(iv) Note on 'Neglect into the Nineties' Campaign.

3. There are five questions in the first twenty from Conservative MPs, fourteen from Labour and one from the Scottish Nationalists. They cover a range of topics. There are two dealing with interest rates (Messrs Worthington and Lambie); four on international debt (Messrs Grant, Griffiths and Graham and Mrs Taylor); and two on next year's planning total (Messrs Robinson and Smith). The rest cover business investment,

the balance of payments, privatisation revenue, income tax receipts, income tax rates, IMF quotas, child poverty, spending on health and education, the PSDR, UK productivity, value for money and net business start-ups.

4. With only five questions from Conservative Members in the first twenty (and only two in the first ten) you will wish to make the most of the opportunities each of these provides. The questions from Messrs Moss (business investment), Bowis (income tax revenue) and Hague (PSDR) are positive. The questions from Messrs Stevens (UK productivity relative to Japan and Germany) and Brandon-Bravo (net new business start-ups) ought to provide good stories.

5. The first stopping zone is questions 10 and 12; Mr Williams (IMF quotas) and Ms Beckett (child poverty). Neither of these questions would present particular problems, and stopping here would mean not reaching Mr Sillars' question on the balance of payments. An alternative stopping zone is questions 14 and 15; Messrs Hague (PSDR) and Stevens (UK productivity). Stopping here would allow you to end on a good note and would avoid running into two Labour questions: Messrs Snape (health and education spending), and Caborn (value for money).

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

- interest rates (MG1)

- international debt (IF1)

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

7. There are figures on Monday for retail sales (September, provisional), Index of Production (August) and the CBI/FT survey of distributive trades (September); on Tuesday for the PSBR (September) and on Thursday morning for labour market statistics and the monetary aggregates (September, provisional).

Sma James

S M A JAMES

eb.rl/docs/bullpoints

BULL POINTS

1. Investment

<u>Business investment</u> grew by 17½ per cent in 1988 to reach highest proportion of GDP ever recorded.

<u>Total investment</u> grew by 13 per cent in 1988; now higher proportion of GDP than in any year under last Labour Government.

[illegible]

Over past 7 years <u>total investment</u> grown more than twice as fast as <u>total consumption</u> 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 <u>total investment</u> grown faster than in any other EC country.

2. Output

<u>GDP</u> up 4.3 per cent in 1988 following growth of 4.5 per cent in 1987.

Seven years to 1988 have seen combination of <u>strong and steady growth</u> not matched since the war.

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

<u>Manufacturing output</u> at highest ever level, buoyant growth since 1986 unmatched since 1950s. Fell between 1974H1 and 1979H1.

<u>Profitability</u> in 1988 at level not seen since 1960s.

3. Productivity and jobs

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

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

[illegible]

Adult <u>unemployment</u> (seasonally adjusted) well below 2 million. Lowest level since November 1980. Continuous fall for 37 months in a row, by almost 1½ million in total. Fall in unemployment longest and largest since War.

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

<u>Employment</u> risen by 2¾ million since 1983; performance over last five years best since War. Now at highest ever level.

4. Public finances

<u>PSDR</u> 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. Further large surplus forecast for this year.

RECENT MAIN ECONOMIC INDICATORS

13 September — UK National Accounts

14 September — Balance of Payments (Q2)

- current account deficit of £4.9 billion in 1989 Q2.

22 September — GDP (Q2 provisional)

GDP(A) in 1989 Q2 fell 0.2 per cent from 1989 Q1, up 2.2 per cent on 1988 Q2.

26 September — Balance of payments current account and overseas trade figures (August)

- August current account deficit of £1,997 million.
- In 3 months to August, **export volumes** (excl. oil and erratics) up 1 per cent on previous 3 months and down ½ per cent on a year earlier.
- in 3 months to August, **import volumes** (excl. oil and erratics) up 4 per cent on previous 3 months and up 8½ per cent on a year earlier.

29 September — Monetary statistics (August - final)

2 October — Retail sales (August - final)

3 October — UK official reserves (September)

- underlying fall of $142 million.

5 October | Personal income expenditure and saving (Q2)

- **real personal disposable income (RPDI)** in 1989 Q2 fell by 0.6 per cent from 1989 Q1, up 4.1 per cent on 1988 Q2.

- **savings ratio** of 3.2 per cent in 1989 Q2.

Industrial and commercial companies (Q2)

- **Gross trading profits of non-North Sea ICCs (net of stock appreciation)** fell by 3.5 per cent from 1989 Q1, but up 20.5 per cent on 1988 Q2.

9 October | Producer prices (September - provisional)

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

- Annual rate of **input** prices 5.3 per cent.

13 October | Retail prices index (September)

- Annual rate 7.6 per cent, excl. **mortgage interest payments (MIPs) annual rate 5.8 per cent.**

Tax and price index (September)

- Annual rate 7.6 per cent.

16 October | CBI/ft Survey of distribution trades

Retail sales (September - provisional)

- In latest 3 months up [ ] per cent on previous 3 months and up [ ] per cent on a year earlier.

16 October (contd)

Index of output of the production industries (August)

- **Industrial production** in 3 months to August up [ ] per cent on previous 3 months, and up [...] per cent on a year earlier.

- **Manufacturing output** in 3 months to August up [ ] per cent on previous 3 months, and up [ ] per cent on a year earlier.

17 October

Public Sector Borrowing Requirement (September)

- Provisionally estimated to have been [ ] in September. **Cumulative** total of minus [ ] in first six months 1989-90.

- **Excl. privatisation proceeds**, cumulative [ ] billion in first six months of 1989-90.

19 October

Labour market statistics

- **Unemployment** (s.a., claimants aged 18 and over only) (September) down [ ] to [ ]. 'Headline' total down [ ] to [ ].

- **Workforce in employment** in 1989 Q2 [ ] on 1989 Q1 to level [ ] higher than a year earlier.

- **Manufacturing employees** (August) down [ ] from July to [ ].

- **Vacancies** (September) down [ ] from August to [ ].

- **Average earnings** (August) underlying increase of [ ] per cent for whole economy.

19 October (contd)

- **Whole economy productivity** in 1989 Q2 up [ ] per cent on a year earlier.

- **Whole economy unit wage costs** in 1989 Q2 up [ ] per cent on a year earlier.

- **Manufacturing productivity** in 3 months to August up [ ] per cent on year earlier.

- **Manufacturing unit wage costs** in 3 months to August up [ ] per cent on year earlier.

<u>Provisional estimates of monetary aggregates (September)</u>

- **MO** annual growth rate [ ] per cent (s.a.).

- **M3** annual growth rate [ ] per cent.

- **M4** annual growth rate [ ] per cent.

- **M5** annual growth rate [ ] per cent.

- Bank and building society **lending** [ ] billion (s.a.).

GENERAL BRIEFING: TOPICAL ISSUES

1. Why raise interest rates again?

- High interest rates ~~a~~ necessary ~~evil~~ in the fight against inflation.

  savers

- taking no risks with inflation ~~better to err on the side of caution.~~

- recent rise in interest rates part of a general move throughout Europe (not just Germany), all for the same purpose, in order to make sure no risks taken with inflation.

- have made it clear that interest rates will stay as high as necessary, for as long as necessary, in order to bring down inflation.

2. Is interest rate policy working?

  spend

- Economy fundamentally sound, much stronger than ten years ago, but rapid demand growth had produced build-up of inflationary pressures. Needed to slow ~~economy~~ down.

- demand growth has now slowed. Housing market has cooled in all areas of the country. Retail sales increased by only [1¼] per cent over past year.

- Inflation has peaked and started to come down.

- but more to do. Inflation still far too high.

3. Are we heading for a recession?

  no need for

- Never promised a "soft landing", but ~~talk of a~~ recession ~~is far-fetched~~.

- as long as industry keeps a firm grip on its costs, there ~~will~~ be no recession.

- excessive pay settlements are one possible danger. Firms should be in no doubt that government will not bail them out through allowing a significant fall in the exchange rate, should they fail to control their wage costs as a result of conceding excessive wage increases which are not justified by business conditions.

4. Wrong to reply on single instrument of short-term interest rates to fight inflation? Use credit controls and/or fiscal policy as well?

- 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.

- 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.~~

NB tail & dog

- 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.

5. Interest rate policy having no impact on inflation?

- High interest rates are working. Inflation peaked in May, ~~since when the trend has been downward.~~

- RPI inflation peaked at 8.3 per cent in May, and has come down to 7.6 per cent in September.
  since then. Now.

- RPI excluding mortgage interest payments (a better indicator of underlying inflation) also peaked in May, at 6.0 per cent and has come down to 5.8 per cent in September.

- producer price inflation (excluding food, drink and tobacco) has been stable in a range of 5¼ to 5½ per cent for the past six months.

- although inflation has started to turn down, there is still a long way to go, which is why monetary policy remains tight. Interest rates will stay as high as necessary for as long as necessary to get inflation down.

6. If government wants to get inflation down, why push up the RPI through higher mortgage rates?

- ~~Will have intended effect on underlying inflation.~~

- I/my RHF have always made clear, that effect on RPI is perverse, because, unlike most other countries, we choose to include mortgage interest payments in our measure of consumer prices. Short-term fluctuations in the RPI which derive from mortgage rate changes are of no significance as an indicator of underlying inflation.

7. <u>Rising wage settlements mean inflation likely to go up, not down?</u>

- Tight monetary policy will maintain downward pressure on inflation.

- with firm financial policies in place (which they are), excessive wage settlements will lead to higher unemployment, not higher inflation.

- but no need for this to happen. Up to companies to keep a firm grip of their costs, which means not paying excessive wage increases not justified by business conditions.

- companies which fail to control their costs will suffer a loss of competitiveness, market share and lower profits and output.

- Government will not accommodate rising costs through allowing a significant fall in the exchange rate.

Want 'no undue' formula

8. <u>Recent monthly current account deficits mean balance of payments crisis imminent, FSBR forecast for 1989 unrealistic</u>

- FSBR forecast of worst current account deficit this year of £14½ billion ~~likely to~~ be exceeded. ~~But no balance of payments crisis.~~ When f'cast with AS will not.

- deficit reflects rapid rise in investment unmatched by increase in savings, so UK has been importing capital from abroad. Counterpart has been rise in current account deficit.

NB Heseltine (& Howe?)

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

See IEA lecture (Feb 1988)

- current account deficit which reflects excess of private sector investment over savings not a cause for concern, provided firm financial framework in place, as it <u>is</u>. Will turn around in time. Underlying strength of economy and high level of overseas assets mean that should be able to finance temporary deficit with no real problems.

Also IMF Economist

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

2 points:- deficit will come down as domestic demand slows & exports pick up (this will take time)

- Government has taken appropriate action to slow demand growth. Deficit will correct itself in time. Envisaging quite marked slowdown in growth of domestic demand at time when world trade still rising very rapidly. But have always said that current account would be among last indicators to turn round.

9. __Current account deficit being financed by 'hot money', not long-term investment? Sterling at mercy of whims of world capital markets?__

- In modern world, dependent on world capital markets whether current account in deficit or not. An excellent discipline for Governments, which encourages pursuit of sound anti-inflationary policies.

- not really possible to distinguish between 'hot money' and other types of capital inflow. Wrong to single out bank finance as being more volatile than other inflows. Investment in equities and corporate debt just as easy to liquidate. Not all bank deposits represent short-term funds.

- large balancing item (£7.8 billion in first half of 1989) means recorded composition of capital account is anyway totally unreliable.

10. __Cannot hope to turn around current account deficit without a substantial fall in the exchange rate?__

- Lower demand growth will reduce imports growth, and encourage exports. Deficit will be reduced, but will take time. Have always said current account will be one of last indicators to turn around.

- key to improved competitiveness is restraint of unit costs, which is industry's own hands.

- devaluation was ~~has been~~ tried and has failed in the past. All it does is raise import prices and boost inflation.

11. __Now is the time to join ERM? Would haver been better able to cope with recent pressures on sterling inside ERM?__

- Joining ERM is __not__ a soft option. Would not have meant that we could have somehow avoided raising interest rates to combat rising inflationary pressures. Countries inside ERM use interest rate policy to fight inflation, too (recent rises in Germany, France, Belgium, Holland).

- ~~have always said will join ERM when the time is right. Decision on timing will need to be judged against progress in a number of areas; in particular, towards lower inflation,~~ free movement of capital in the Community, and ~~real progress towards~~ completion of single market.

PM has made clear that [illegible] to join ERM as p2 of Stage 1 [illegible] will want to see real progress on

- not committed to any date, but will clearly be within course of so-called Stage 1 of ~~Delors~~ EMU.

12. <u>Changes in national insurance contributions badly timed? Fiscal relaxation when what is needed is fiscal tightening?</u>

- Reform of national insurance contributions a measure designed to improve the supply side of the economy. Will improve work incentives for many people on modest incomes.

- abolishes "steps" which meant that, in certain cases, people could find themselves actually worse off after working overtime or taking a better paid job.

- fiscal policy not suitable for fine tuning of the economy. Lags in system mean tax changes take longer to have effect on activity than interest rates do.

- fiscal stance set at Budget time. Effects of October changes to national insurance contributions fully taken into account then in setting PSDR for 1989-90.

13. <u>Government's claims on investment misleading? For public investment, bottom of the European league?</u>

- Opposition claims (Gordon Brown, 20 September) that UK at bottom of EC league for public investment use figures for investment net of asset sales. Totally Misleading for UK, because of substantial asset sales by local authorities.

- gross of asset sales, public investment was 2.4 per cent of GDP; net of asset sales [the Labour measure] only 1.2 per cent. Thus using figures net of asset sales produces significant distortion.

- figures for <u>total</u> investment more emphatic, as not distorted by asset sales.

- growth in total investment in 1980s higher than in any other European country. Near bottom of league in 1960s and 1970s.

14. <u>No "economic miracle"? Same old story of boom, balance of payments deficit, sterling crisis, slump?</u>

- Underlying position of UK economy ~~much~~ Profoundly stronger than it was 10 years ago.

- evidence in figures for productivity and investment. Manufacturing productivity has grown faster than in any other major country in 1980s. Bottom of league in 1960s and 1970s.

- business investment at record level as percentage of GDP in 1988. Total investment growth in 1980s higher than any other European country. Investment of today provides exports of tomorrow.

- seven years to 1988 have seen combination of strong <u>and steady</u> growth not matched since the war.

- inflation, at underlying rate of 5.8 per cent, too high, but below lowest figure achieved by last Labour government.

- need period of slower growth ~~over next year or two~~ of that sort to reduce inflationary pressures. But no need for a recession.

A W Ritchie
EB Division

Ext 4549

"NEGLECT INTO THE NINETIES" CAMPAIGN

Background Gordon Brown (20 September) claimed that UK bottom of EC public investment league and that public investment in key areas had fallen

Where is league table on a gross basis?

i) UK bottom of EC league for public investment?

Mr Brown's figures misleading. Opposition quote general government investment figures net of asset sales. High level of asset sales in UK pushes down UK figure. Gross of asset sales public investment in 1988 was 2.4 per cent of GDP, twice Opposition figure (1.2 per cent of GDP net of asset sales)

? growth

Figures for total investment not distorted by asset sales. UK top of EC growth league for total investment in 1980s. Near bottom in 1960s and 1970s. Total investment now a higher share of GDP than in any year under last Labour government.

ii) Value of public investment fell by 18.5 per cent last year?

Again Mr Brown's claim is misleading, based upon figures net of asset sales. Gross of asset sales public investment increased by 6.7 per cent. It is the creation of new assets which is important, not whether old assets are sold to the private sector.

iii) Investment in education, transport, and health has fallen?

Government has better record than Labour in all three areas:

Gross LA capital spending on education per pupil up since 1978-79 in real terms, compared with fall of over 60 per cent under Labour

Spending on motorways and trunk roads up 30 per cent in real terms, compared with 30 per cent fall under Labour

NHS gross capital spending in England risen by 31 per cent in real terms under present Government, compared with 30 per cent fall under Labour

18/10

Mr. Sparkes
– we spoke. You may wish to consult the Chancellor. If content, I will condense into a brief note for Sir G. Howe's H.W. Question folder today. 16/10

FROM: N J KROLL (FIM1)
DATE: 16 OCTOBER 1989
EXT: 4478

1. MR WALSH
2. MR DYER - PARLIAMENTARY CLERK

Brian Dyer 17/10

cc Miss Noble

MP

PRIME MINISTER'S QUESTIONS: BRADFORD INVESTMENTS

I mentioned to you that we and the Bank have recently received a number of letters from MPs about Bradford Investments, a small authorised deposit-taker engaged in rental purchase. We are in touch with the Bank of England about this and shall supply full briefing for Treasury Questions on 19 October. As agreed, this minute provides summary background and a line to take for PM's questions tomorrow (to be taken by Sir G Howe).

Background

2. An investigation of Bradford Investments in 1988 by a firm of chartered accountants revealed that it had inadequate capital for its continuing operations. The Bank took immediate steps to protect the interests of depositors. A new Board and management team were appointed; the main shareholders who previously ran the business were precluded from participating in the day to day management of the company, although they remained as non-executive directors. Bradford Investment's banking licence was withdrawn in September 1988 and the business has been run under the close supervision of the Bank since then.

3. The latest development is that the main shareholders have now written to all depositors criticising the new management team and the Bank and encouraging depositors to take the matter up with the Bank and MPs. A copy of this letter is attached.

4. In replying to queries, the Bank are taking the line that they cannot discuss the details of the case, essentially because of banking confidentiality; that Bradford Investments ceased to be

9/238

authorised in September 1988 and has been managed under the supervision of the Bank since then; and that deposits are all covered by the Deposit Protection Scheme, which guarantees three-quarters of deposits up to £20,000.

Line to take

5. If this issue is raised at PM's questions, and Sir G Howe wishes to do more than say that it is a matter for the Chancellor and the Bank, I suggest the following line to take -

> "Understand that Bradford Investments ceased to be authorised in September 1988 and has been managed under the continuing supervision of the Bank of England since then; details of case are subject to banking confidentiality. Depositors are safeguarded by Deposit Protection Scheme which, subject to certain criteria, safeguards three-quarters of deposits up to total deposits of £20,000."

6. This line has been cleared with the Bank of England.

NJKroll

N J KROLL

H & R D Hall
78 Heaton Park Drive
Bradford 9, West Yorks

September 1989

Dear Sir or Madam

re Bradford Investments plc

By way of introduction, we tell you that we are two of the major shareholders in the above Company, holding between us 50% of the Ordinary Shares, and that prior to June 1988 we were two of its executive directors. Since that time neither we nor the other shareholders have had control of the Company. We are extremely angry at what has been happening, and it is likely that after reading our Report, which is enclosed, you will share this anger.

The Bank of England last year took control of the Company out of the hands of its owners, and since that time an imposed management has reduced the Company to a state where management accounts for May this year showed the Company to be then insolvent by some £200,000. The imposed management has been consistently selling the Company's properties on the basis of false valuations, and has caused the Company to lose very large sums of money. All of the £2.3 Million of capital the Company possessed at the time the Bank interfered has disappeared, together with £200,000 of Depositors funds. In addition to this, the large sums which should have come to the Company with the increases in property values during the recent property boom have also been allowed to go elsewhere. It is true that the Company has been repaying some Depositors during the past year, but every pound repaid has been matched by another pound which has been lost to the Company. The ultimate result of this must be the serious endangerment of Depositors' funds. Unless some other immediate resolution of the Company's problem can be found, the shareholders intend to embark on the legal battle that is now apparently necessary in order that they can put the Company into voluntary liquidation. The Shareholders are certain that Depositors' funds would be much safer in the care of a receiver than with the present management.

Some consolation for Depositors lies in the fact that in May this year the Company still apparently had sufficient assets (if handled properly) to meet almost full repayment to Depositors. But even if nothing further has disappeared since then (and later management accounts are being withheld from the shareholders), it cannot be denied that there is likely to be some shortfall. In such an event, Depositors will be obliged to rely to some extent upon the security given by the Company for 'Standard Terms' accounts (there are relatively few of these) or upon the Deposit Protection Fund for 'High Yield' accounts. These forms of protection are described in the introduction to the Report and in the Company's literature already in your possession.

We strongly believe it will be quite wrong if Depositors are made to suffer loss because of what has happened within the Company. The responsibility for this lies with the Bank of England, or with individuals there, and with the management imposed by the Bank. It is conceivable, but not likely, that the mere fact that you and almost 2000 other Depositors are being made aware of what has happened may induce the Bank to indemnify you against loss. It is more likely that you will need to use your influence as a Depositor, either through your MP or directly with the Bank or elsewhere, to ensure that you lose no part of your deposit.

The Shareholders have already approached the Fraud Squad of the West Yorkshire Police which, after contacting the Bank, has put off the decision as to its own action until an investigation commissioned by the Bank itself is completed. It is hoped that the influence of Depositors will help persuade the Fraud Squad to go ahead with its own investigation independently of the results of the one commissioned by the Bank.

We feel it necessary to give you a warning. The enclosed Report is highly critical of the Bank and of the management, and it is to be expected that what we say will be denied. In particular you are warned that, in order to defend its support of the management it imposed, the Bank may well rely on the false valuations used by that management when selling Company assets at well below true value. Indeed, the Bank has already done this (see page 102 of the Report). But the practice of the Company was not to buy property unless it could do so at 15 - 20% below its market value at the time of purchase. And every house owned by the Company was bought before August 1987. When the Bank accepts the valuations used by the management, it would have you believe that houses bought by the Company before August 1987 (that is, before the recent property boom) came to have a value in 1988 and 1989 (during and after the property boom) either equal to or lower than their cost in 1987, and before 1987. It should be easy for the Reader to set aside any such claim: he has only to ask himself whether he knows of any house owner in the North of England whose house has not dramatically increased in value over the past two years. Well, the Bank may attempt to have you believe, not only that the Company's housing stock costing £3.7 Million before August 1987 did not go up in value, but that some £2 Million of it actually slumped in value to about half its cost. No such claim can stand up to serious examination.

It is very much regretted that all the years of work, and cooperation between the Shareholders and yourselves, have been brought to nothing by the incredible actions of the Bank of England which are described in the enclosed Report. We would very much like to have your views on what has happened: they may help. Although, because of the numbers involved, we will probably not be able to reply, we will be very pleased if you write to us.

Yours sincerely

H & R D Hall

est.jo/ghaskins/1.16.10

ECONOMIC SECRETARY TO THE TREASURY

pmp

FROM: GINA HASKINS

DATE: 16 OCTOBER 1989

MR A C S ALLAN

cc: PS/Chancellor
Mr Ritchie
Mr Pickering
Mr Savage
Mr Kilpatrick

PQ FROM MR BERNIE GRANT

At the briefing meeting on First Order PQs, it was agreed that the reply to the questions put by Mr Grant and Mr Graham should be amended to assume that the resource flows referred to were those between the IMF/World Bank and the 17 most heavily indebted countries. The reply could then point out that in the usual course of events debt and interest do have to be repaid and mention the generous terms of the Paris Club.

2. The Economic Secretary would also like a couple of bullpoints on the fact that developing countries are increasingly recognising the value of market forces in their economies.

3. I should be grateful if a revised reply could reach me by close tomorrow (with copies to Parliamentary section).

Gina Haskins

GINA HASKINS
PRIVATE SECRETARY

psec.lb/bd.1 cab CONFIDENTIAL

FROM: B O DYER (Parly Clerk)
DATE: 18 October 1989
EXTN: 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr A T O'Donnell
Mrs J Chaplin
Mrs J Thorpe

No cabinet tomorrow; nevertheless, details of business may be of interest.
B.D.

CABINET : THURSDAY 19 OCTOBER 1989
PARLIAMENTARY AFFAIRS

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

Monday 23 October

2.30pm: Social Security Questions

3.30pm: **Children Bill - remaining stages (1st day)**

Tuesday 24 October

2.30pm: Defence Questions

3.15pm: PMs Questions

3.30pm: Ten Minute Rule Bill - Mr Fishburn: London Square Preservation

3.40pm: **Opposition 19th Allotted Day - Economy**
(John Smith to open for the Opposition with Gordon Brown winding up; for the Government, the Chancellor and Chief Secretary)

10.00pm: **Children Bill - continuation of remaining states**

Wednesday 25 October

2.30pm: FCO Questions

3.30pm: Ten Minute Rule Bill - Mr Lofthouse: Emphysema Compensation

3.40pm: **Companies Bill - remaining stages (1st day)**

P.T.O

<u>**Thursday** 26 October</u>

2.30pm: Home Office Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: **Companies Bill - continuation of remaining states**

<u>**Friday** 27 October</u>

9.30am: **EC docs debate: trade relations with Japan**

Ways and Means Resolution relating to the Football Spectators Bill

<u>**Monday** 30 October</u>

2.30pm: Transport Questions

3.20pm: Civil Service Questions

3.30pm: **Football Spectators Bill - remaining stages**

B. Dyer

B O DYER

eb.ph/sj.Tsy F.O.Q

UNCLASSIFIED

FROM: S M A JAMES (EB)
DATE: 18 October 1989
X5211

AMB

1. MR RITCHIE

2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr O'Donnell
Miss Wallace
Mr Dyer
Mr Deane
Mr Roaf
Mr Hutson (+ 5 copies)
Mrs Chaplin
Mr Tyrie
Mr Lightfoot

Mr N Forman MP
Mr J Maples MP
Mr T Boswell MP
Mr S Dorrell MP

TREASURY FIRST ORDER QUESTIONS : THURSDAY 19 OCTOBER : EB CENTRAL BRIEF

I attach EB's central brief.

2. The brief contains:

(i) Bullpoints;
(ii) Checklist of main indicators published recently;
(iii) General briefing on topical issues;
(iv) Note on 'Neglect into the Nineties' Campaign.
(v) Note on 'Heseltine Claims on Current Account'.

Changes from the draft brief have been sidelined. (no they haven't - grrr...)

3. You agreed that supplementaries should be encouraged on the questions from Mr Moss, (investment) Mr Bowis, (tax) Mr Hague (debt interest) and Mr Stevens, (output/hr) although we could also run on the questions from Mr Worthington (mortgages) and Mr McFall (privatisation) to draw attention to the Labour party's confusion in these areas of policy. You agreed that we should try to stop at Mr Stevens' question on productivity.

UNCLASSIFIED

4. Subject briefs have been prepared on:

(i) interest rates (MG1) — to follow
(ii) international debt (IF1).

S M A JAMES

eb.jr/pqs/bullpoints

BULL POINTS

1. Investment

Business investment grew by 17½ per cent in 1988 to reach highest proportion of GDP ever recorded.

Total investment grew by 13 per cent in 1988; now higher proportion of GDP than in any year under last Labour Government. In 1980s has grown faster than in any other EC country.

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].

Not only larger quantity of investment, but better quality, too. Rate of return (for industrial and commercial companies) has risen to level not seen since 1960s.

2. Output

GDP up 4.3 per cent in 1988 following growth of 4.5 per cent in 1987.

Seven years to 1988 have seen combination of strong and steady growth not matched since the war.

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

Manufacturing output at highest ever level, buoyant growth since 1986 unmatched since 1950s. Fell between 1974H1 and 1979H1.

Profitability in 1988 at level not seen since 1960s.

3. 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) well below 2 million. Lowest level since November 1980. Fall in unemployment longest and largest since War. UK unemployment rate well below EC average.

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

Employment risen by 2¾ million since 1983; performance over last five years best since War. Now at highest ever level.

4. 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. Further large surplus forecast for this year.

RECENT MAIN ECONOMIC INDICATORS

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14 September — Balance of Payments (Q2)

- **current account** deficit of £4.9 billion in 1989 Q2.

22 September — GDP (Q2 provisional)

GDP(A) in 1989 Q2 fell 0.2 per cent from 1989 Q1, up 2.2 per cent on 1988 Q2.

26 September — Balance of payments current account and overseas trade figures (August)

- August **current account** deficit of £1,997 million.

- In 3 months to August, **export volumes** (excl. oil and erratics) up 1 per cent on previous 3 months and down ½ per cent on a year earlier.

- in 3 months to August, **import volumes** (excl. oil and erratics) up 4 per cent on previous 3 months and up 8½ per cent on a year earlier.

29 September — Monetary statistics (August - final)

2 October — Retail sales (August - final)

3 October — UK official reserves (September)

- underlying fall of $142 million.

5 October | Personal income expenditure and saving (Q2)

- **real personal disposable income (RPDI)** in 1989 Q2 fell by 0.6 per cent from 1989 Q1, up 4.1 per cent in 1988 Q2.

- **savings ratio** of 3.2 per cent in 1989 Q2.

Industrial and commercial companies (Q2)

- **Gross trading profits of non-North Sea ICCs (net of stock appreciation)** fell by 3.5 per cent from 1989 Q1, but up 20.5 per cent on 1988 Q2.

9 October | Producer prices (September - provisional)

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

- Annual rate of **input** prices 5.3 per cent.

13 October | Retail prices index (September)

- Annual rate 7.6 per cent, excl. **mortgage interest payments (MIPs)** annual rate 5.8 per cent.

Tax and price index (September)

- Annual rate 7.6 per cent.

16 October | CBI/FT Survey of distributive trades

Retail sales (September - provisional)

- In latest 3 months down 0.6 per cent on previous 3 months and up 1.2 per cent on a year earlier.

16 October (contd)

Index of output of the production industries (August)

- **Industrial production** in 3 months to August up 0.6 per cent on previous 3 months, and down 0.6 per cent on a year earlier.

- **Manufacturing output** in 3 months to August up 0.8 per cent on previous 3 months, and up 4.0 per cent on a year earlier.

17 October

Public Sector Borrowing Requirement (September)

- Provisionally estimated to have been £0.2 billion in September. **Cumulative** total of minus £0.5 billion in first six months 1989-90.

- **Excl. privatisation proceeds,** cumulative £2.5 billion in first six months of 1989-90.

19 October

Labour market statistics

revise tomorrow

- **Unemployment** (s.a., claimants aged 18 and over only) (September) down [ ] to [ ]. 'Headline' total down [ ] to [ ].

- **Workforce in employment** in 1989 Q2 [ ] on 1989 Q1 to level [ ] higher than a year earlier.

- **Manufacturing employees** (August) down [ ] from July to [ ].

- **Vacancies** (September) down [ ] from August to [ ].

- **Average earnings** (August) underlying increase of [ ] per cent for whole economy.

19 October (contd)

ditto

- **Whole economy productivity** in 1989 Q2 up [ ] per cent on a year earlier.

- **Whole economy unit wage costs** in 1989 Q2 up [ ] per cent on a year earlier.

- **Manufacturing productivity** in 3 months to August up [ ] per cent on year earlier.

- **Manufacturing unit wage costs** in 3 months to August up [ ] per cent on year earlier.

Provisional estimates of monetary aggregates (September)

- **MO** annual growth rate [ ] per cent (s.a.).

- **M3** annual growth rate [ ] per cent.

- **M4** annual growth rate [ ] per cent.

- **M5** annual growth rate [ ] per cent.

- Bank and building society **lending** [ ] billion (s.a.).

GENERAL BRIEFING: TOPICAL ISSUES

1. <u>Why raise interest rates again?</u>

- High interest rates necessary in fight against inflation. Taking no risks with inflation.

- recent rise in interest rates part of a general move throughout Europe (not just Germany), all for the same purpose, in order to make sure no risks taken with inflation.

- have made it clear that interest rates will stay as high as necessary, for as long as necessary, in order to bring down inflation.

- appreciate problems high interest rates cause to homeowners with large mortgages, and to many small businesses. But those with savings will benefit - includes many pensioners.

2. <u>Is interest rate policy working</u>?

- Economy fundamentally sound, much stronger than ten years ago, but rapid demand growth had produced build-up of inflationary pressures. Needed to slow spending down.

- demand growth has now slowed. Housing market has cooled in all areas of the country. Retail sales increased by only 1¼ per cent over past year.

- Inflation has peaked and started to come down.

- but more to do. Inflation still far too high.

3. <u>Are we heading for a recession?</u>

- Never promised a "soft landing", but no need for a recession.

- as long as industry keeps a firm grip on its costs, including pay, there should be no recession.

- do not want to see people pricing themselves out of jobs. But firms which do not control costs will not be bailed out through allowing higher inflation. Government will not permit exchange rate depreciation to undermine firm anti-inflationary stance.

4. <u>Wrong to reply on single instrument of short-term interest rates to fight inflation? Use credit controls and/or fiscal policy as well?</u>

- 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.

- 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. Nor would they encourage savings .

- no less than 85 per cent of household borrowing is on mortgages. Trying to reduce borrowing through controls on other forms of consumer credit would be vain attempt to get tail to wag the dog.

5. Interest rate policy having no impact on inflation?

- High interest rates are working. Inflation peaked in May.

- RPI inflation peaked at 8.3 per cent in May, and has come down to 7.6 per cent in September.

- RPI excluding mortgage interest payments (a better indicator of underlying inflation) also peaked in May, at 6.0 per cent and has come down to 5.8 per cent in September.

- peak in underlying inflation was at lower rate than Labour ever achieved, even in their very best month.

- producer price inflation (excluding food, drink and tobacco) has been stable in a range of 5¼ to 5½ per cent for the past six months.

- although inflation has started to turn down, there is still a long way to go, which is why monetary policy remains tight. Interest rates will stay as high as necessary for as long as necessary to get inflation down.

6. If government wants to get inflation down, why push up the RPI through higher mortgage rates?

- Will have intended effect on underlying inflation.

- I/my RHF have always made clear, that effect on RPI is perverse, because, unlike most other countries, we choose to include mortgage interest payments in our measure of consumer prices. Short-term fluctuations in the RPI which derive from mortgage rate changes are of no significance as an indicator of underlying inflation.

- Is (rt) hon Member suggesting monetary relaxation as a means of getting inflation down?

7. <u>Rising wage settlements mean inflation likely to go up, not down?</u>

- Tight monetary policy will maintain downward pressure on inflation.

- with firm financial policies in place (which they are), excessive wage settlements will lead to higher unemployment, not higher inflation.

- but no need for this to happen. Up to companies to keep a firm grip of their costs, which means not paying excessive wage increases not justified by business conditions.

- companies which fail to control their costs will suffer a loss of competitiveness, and lower profits and output.

- Government will not permit exchange rate depreciation to undermine firm anti-inflationary stance.

8. <u>Recent monthly current account deficits mean balance of payments crisis imminent, FSBR forecast for 1989 unrealistic</u>

[See also one-page briefing sheet on "Heseltine claims on Current Account"]

- FSBR forecast of current account deficit this year of £14½ billion will be exceeded. New forecast with Autumn Statement next month.

- present deficit reflects excess of private investment over private saving. As IMF say (in latest <u>World Economic Outlook</u>) such a deficit is "efficient and self-correcting". Circumstances very different from those surrounding deficits of 1960s and 1970s, or US deficit of today.

- not a case of "Britain in the red". Current account deficit not at all like a company running at a loss. Rather like a profitable company raising funds overseas. A company with greater investment opportunities than it could finance from <u>returned</u> profits would look for additional funds from outside. A country in a similar position will draw on the savings of the world, through the global markets.

* retained (passed on to EB)

- deficit has been boosted by very rapid growth in investment, particularly in manufacturing. Three quarters of imports of manufactures are for production or investment. Strong growth in investment will in time produce additional capacity and enable British industry to meet more of demands on it.

- to extent that deficit reflects over-rapid demand growth, will correct itself in time. Government has taken appropriate action to slow demand growth. But have always said that current account would be among last indicators to turn round.

9. <u>Current account deficit being financed by 'hot money', not long-term investment? Sterling at mercy of whims of world capital markets?</u>

- In modern world, dependent on world capital markets whether current account in deficit or not. An excellent discipline for Governments, which encourages pursuit of sound anti-inflationary policies.

- not really possible to distinguish between 'hot money' and other types of capital inflow. Wrong to single out bank finance as being more volatile than other inflows. Investment in equities and corporate debt just as easy to liquidate. Not all bank deposits represent short-term funds.

- large balancing item (£7.8 billion in first half of 1989) means recorded composition of capital account is anyway totally unreliable.

10. <u>Cannot hope to turn around current account deficit without a substantial fall in the exchange rate?</u>

- Lower demand growth will reduce imports growth, and encourage exports. Deficit will be reduced, but will take time. Have always said current account will be one of last indicators to turn around.

- key to improved competitiveness is restraint of unit costs, which is industry's own hands.

- Government will not take risks with inflation. Cannot permit firm anti-inflationary stance to be undermined by exchange rate depreciation.

11. <u>Now is the time to join ERM? Would haver been better able to cope with recent pressures on sterling inside ERM?</u>

- Joining ERM is <u>not</u> a soft option. Would not have meant that we could have somehow avoided raising interest rates to combat rising inflationary pressures. Countries inside ERM use interest rate policy to fight inflation, too (recent rises in Germany, France, Belgium, Holland).

- Prime Minister has made clear that will join ERM during course of Stage One of EMU. In that context, will want to see progress in a number of areas; in particular, towards lower inflation, free movement of capital in the Community, and real progress towards completion of single market.

- not committed to any date, but will clearly be within course of Stage One of EMU, which starts on 1 July, 1990.

12. Changes in national insurance contributions badly timed? Fiscal relaxation when what is needed is fiscal tightening?

- Reform of national insurance contributions a measure designed to improve the supply side of the economy. Will improve work incentives for many people on modest incomes.

- abolishes "steps" which meant that, in certain cases, people could find themselves actually worse off after working overtime or taking a better paid job.

- fiscal policy not suitable for fine tuning of the economy. Lags in system mean tax changes take longer to have effect on activity than interest rates do.

- fiscal stance set at Budget time. Effects of October changes to national insurance contributions fully taken into account then in setting PSDR for 1989-90.

13. Government's claims on investment misleading? For public investment, bottom of the European league?

[See also one-page briefing sheet on "Neglect into the Nineties" campaign].

- Opposition claims (Gordon Brown, 20 September) that UK at bottom of EC league for public investment use figures for investment net of asset sales. Misleading for UK, because of substantial asset sales by local authorities.

- gross of asset sales, public investment was 2.4 per cent of GDP; net of asset sales [the Labour measure] only 1.2 per cent. Thus using figures net of asset sales produces significant distortion.

- much more important to look at total investment, where figures not distorted by asset sales.

- growth in total investment in 1980s higher than in any other European country. Near bottom of league in 1960s and 1970s.

14. No "economic miracle"? Same old story of boom, balance of payments deficit, sterling crisis, slump?

- Underlying position of UK economy much stronger than it was 10 years ago.

- evidence in figures for productivity and investment. Manufacturing productivity has grown faster than in any other major country in 1980s. Bottom of league in 1960s and 1970s.

- business investment at record level as percentage of GDP in 1988. Total investment growth in 1980s higher than any other European country. Investment of today provides exports of tomorrow.

- seven years to 1988 have seen combination of strong and steady growth not matched since the war.

- inflation, at underlying rate of 5.8 per cent, too high, but below lowest figure achieved by last Labour government.

- need period of slower growth of total spending over next year or two to reduce inflationary pressures. But no need for a recession.

A W Ritchie
EB Division

Ext 4549

"NEGLECT INTO THE NINETIES" CAMPAIGN

Background Gordon Brown (20 September) claimed that UK bottom of EC public investment league and that public investment in key areas had fallen

i) UK bottom of EC league for public investment?

Mr Brown's figures misleading. Opposition quote general government investment figures net of asset sales. High level of asset sales in UK pushes down UK figure. Gross of asset sales public investment in 1988 was 2.4 per cent of GDP, twice Opposition figure (1.2 per cent of GDP net of asset sales)

Figures for total investment not distorted by asset sales. UK top of EC growth league for total investment in 1980s. Near bottom in 1960s and 1970s. Total investment now a higher share of GDP than in any year under last Labour government.

ii) Value of public investment fell by 18.5 per cent last year?

Again Mr Brown's claim is misleading, based upon figures net of asset sales. Gross of asset sales public investment increased by 6.7 per cent. It is the creation of new assets which is important, not whether old assets are sold to the private sector.

iii) Investment in education, transport, and health has fallen?

Government has better record than Labour in all three areas:

Gross LA capital spending on education per pupil up since 1978-79 in real terms, compared with fall of over 60 per cent under Labour

Spending on motorways and trunk roads up 30 per cent in real terms, compared with 30 per cent fall under Labour

NHS gross capital spending in England risen by 31 per cent in real terms under present Government, compared with 30 per cent fall under Labour

HESELTINE CLAIMS ON CURRENT ACCOUNT

1. <u>Nonsense to say deficit does not matter</u>? Circumstances surrounding deficit far different from those of US deficit or UK deficits in 60s and 70s. Present deficit reflects excess of private investment over private saving. As IMF say (in latest <u>World Economic Outlook</u>) such a deficit is "efficient and self-correcting".

2. <u>Why have you tightened policy then</u>? Monetary policy was tightened in response to inflationary pressures arising from excessive growth in demand. Obviously as demand slows, import growth will also slow down and this will help to correct deficit.

3. <u>Lack of investment, particularly manufacturing, is cause of deficit</u>? No. In fact, reverse is true. Very rapid growth in investment, not just manufacturing, has boosted deficit in short-term. But in long-term will help to expand capacity, and so help correct the deficit.

4. <u>Manufacturing weakness at heart of deficit</u>? Manufacturing now stronger than for many years. Output is at all-time high. Productivity in 1980s has grown faster than in all other major seven countries - unlike in 1960s and 1970s when UK at bottom of growth league. Manufacturing export volumes (less erratics) doing well: in latest 3 months 7½ per cent higher than in previous 3 months.

pso.jt/Evans/2.19.10.89

RESTRICTED

MP

FROM: R J EVANS
DATE: 19 October 1989
EXT: 4360

MRS M WALLACE

cc Mr Anson

PQ FROM DAVID WINNICK MP

Sir Peter Middleton has seen your minute of 18 October to Mr Anson. He has proposed the following redraft:

> "Officials stand ready to estimate the cost of specific proposals for expenditure if asked to do so by their Ministers. Many Ministers in charge of Departments will have specified proposals endorsed by the Labour Party, and asked their officials to cost them. The provision of factual material of this sort by civil servants is consistent with the practice of previous governments and with the Cabinet Office rules on propriety."

R J Evans.

R J EVANS
Private Secretary

RESTRICTED

psec.lb/mr.4 Lords

UNCLASSIFIED

pmp

FROM: Assistant Parliamentary Clerk
DATE: 20 October 1989
EXTN: 5007

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Miss M O'Mara - MG1
Mr Jordan - Pay 1
Mr O'Donnell - 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

Tuesday 24 October The Lord Ezra - To ask Her Majesty's Government whether they are contemplating early membership of the Exchange Rate Mechanism of the European Monetary System.

Government Spokesman: Paymaster General. MG1 in the lead.

TREASURY INTEREST QUESTIONS

Monday 30 October The Lord Beloff - To ask Her Majesty's Government in what capacity, for what purposes, and under what terms, Professor Sir Alan Walters is employed at No. 10 Downing Street.

Government Spokesman : Lord Belstead. Cabinet Office in the lead.

UNCLASSIFIED

UNCLASSIFIED

__Thursday 2 November__ The Lord Orr-Ewing - To ask Her Majesty's Government what are the current regulations concerning the release of information about past Cabinet proceedings.

Government Spokesman: Lord Belstead. Cabinet Office in the lead.

Mari Rogerson

MARI ROGERSON

FROM: S M A JAMES (EB)
DATE: 23 OCTOBER 1989
X5211

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/Sir P Middleton
Sir T Burns
Mr I Wilson
Mr Revolta
Mr MacAuslan
Mr Ritchie
Mr O'Donnell
Mr Deane
Mr Romberg
Mrs Chaplin
Mr Tyrie
Mr Lightfoot

Thanks. Hansard (at X) I wd like 1987 as the base year.

INVESTMENT IN THE REGIONS

In a supplementary to Mr Moss' PQ on business investment last week, Peter Pike alleged that in the North West, investment in manufacturing is 36 per cent below its level in 1979 in real terms. EB and IAE have looked into this claim. I am grateful to Mr Romberg and Mr Deane for their research.

2. The latest information available for manufacturing investment broken down by region is for 1986. Using this data, at first sight Mr Pike's figure looks substantially correct. Only two regions have apparently achieved the levels of investment of 1979 (the South East reaching 96 per cent of its 1979 level; the South West 102 per cent). Using 1980 as the base year shows that in 1986 investment in five out of eight regions was higher than the levels in 1980. The North West however had in 1986 still reached only 74 per cent of the level of investment in 1980.

3. However these figures exclude leased assets (for which no regional breakdown is available). In 1986 leased assets made up 11½ per cent of total manufacturing investment (a higher proportion than in 1979); thus growth rates of investment will be under-stated, although it is not possible to say which regions are

most affected by this distortion. In addition, total manufacturing investment in the UK rose by 16¼ per cent between 1986 and 1988, and continues to rise (in the first half of 1989 it was 6 per cent higher than the first half of 1988).

4. Points to make on regional investment include the following:

X (i) Already by 1986, manufacturing investment in all regions of Great Britain was above 1981 levels in real terms, with the biggest growth in Yorkshire and Humberside (up by over 50 per cent). Total manufacturing investment in the UK increased by a further 16¼ per cent from 1986 to 1988. Manufacturing investment in the UK as a whole is now at an all time high.

(ii) By 1986, real level of manufacturing investment had exceeded 1980 levels in five of eight English regions.

(iii) North West continues to have second highest percentage of UK's manufacturing investment after South East.

S M A JAMES

psec.lb/bd.1 cab

CONFIDENTIAL

FROM: B O DYER (Parly Clerk)
DATE: 25 October 1989
EXTN: 4520

CHANCELLOR

NS. EMU debate would be on the adjournment.

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr A T O'Donnell
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 26 OCTOBER 1989
PARLIAMENTARY AFFAIRS

Following is the business, currently, proposed for the Commons next week (subject to Shadow Cabinet representations tonight):

Monday 30 October

2.30pm: Transport Questions

3.20pm: Civil Service Questions (Mr Luce)

3.30pm: **Football Spectators Bill - remaining stages**

Tuesday 31 October

2.30pm: Employment Questions

3.15pm: PMs Questions

3.30pm: Ten Minute Rule Bill - Ms Gordon: Employment of Children

3.40pm: **[Opposition 20th Allotted Day** - subject to be announced]

Wednesday 1 November

2.30pm: Trade and Industry Questions

3.30pm: Ten Minute Rule Bill - Mr Brazier: Termination of Tenancy

3.40pm: **[Debate on General Practitioners Contracts]**

7.00pm: **Opposed Private Business**

P.T.O

CONFIDENTIAL

Thursday 2 November (**Memo:** Treasury 1st Order questions tabled)

2.30pm: Northern Ireland Questions

3.15pm: PMs Questions

3.30pm: **Debate on EMU** [Chancellor - FCO Minister]

Friday 3 November

9.30am: **Debate on a motion for the Adjournment** - subject to be decided but **NOT** for HMT

—

B O DYER