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PART A

PART 5:12-83

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PART A

1984 BUDGET
REPRESENTATIONS TRADE
UNION CONGRESS

D's 25 years

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PART A

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

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Mr Hart *Ask* *Letter*

Please would you take this over from Mr

Monger?

MUS 9/12

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1

EXCHEQUER	
REC.	- 8 DEC 1983
ACTION	Mr Monger
COPIES TO	CST, FST, MST, EST
	Mr Middleton
	Mr Bailey, Mr Anson, Mr Wilding
	Mr T. Burns, Mr Buttshill

YOUR REFERENCE

OUR REFERENCE LM/DL/JA

DEPARTMENT Secretary's

December 5 1983

MURRAY
→
CH/CA
5/12

Dear Mr Lawson

Public Expenditure to 1990

Mr Scholar

The General Council have noted press reports that there have been internal studies in the Government on the role of public expenditure in the economy.

They have also noted that some commentators outside Government have challenged some of the conclusions of the internal study on such issues as the relationship between public expenditure and economic growth and the impact of fiscal policy.

The General Council accept that it is important to consider public expenditure on a medium term basis but they have asked me to express concern at the lack of any proper means for conducting such a debate.

One approach which the TUC would support would be to publish the internal study on 1990 as the basis for public consultation but if, as we understand, the Government do not believe this is the appropriate basis for consultation then the General Council wish to ascertain how the Government intend to ensure that the debate, to which the TUC would like to make a constructive contribution, is as open and objective as possible.

I look forward to your response.

Yours sincerely

General Secretary

TUC Budget Representations: Economic Prospects(i) TUC Comments

The TUC claim that an analysis of independent forecasts for 1984 suggests, inter alia, that: (a) output growth will slow to 2 per cent in 1984; (b) registered unemployment will grow by around 10,000 a month to 3.3 million; and (c) inflation will remain at about 6 per cent through 1984. They also think that the recovery so far has been patchy and mainly based on a borrowing-financed consumer spending boom that cannot be sustained. They question whether borrowing by the personal sector is more more disadvantageous to the economy than borrowing by the public sector because import propensities are higher and the spending tends to be concentrated on the better-off. A misunderstanding of the coverage of the GDP(E) estimate leads them to believe that the slower growth in the GDP(O) measure highlights the failure of output to respond to higher demand. They are gloomy on net trade.

(ii) Points to make

(a) Recovery has been stronger than they say - GDP on the average measure was above the 1979 level in 1983; services output up 2½ per cent on 1979; employed labour force showing signs of expansion.

(b) Misleading summary of outside forecasts of GDP: lowest outside forecast shows 1.8 per cent rise for 1984, majority some way above 2 per cent. Most (major exception NIESR) show inflation below 6 per cent at the end of this year.

(c) No reason to expect consumption growth to slow dramatically or some sudden "bound" to be reached on consumer borrowing or saving ratio. Retail sales up 2½ per cent in last quarter of 1983, 6 per cent above same time last year. Consumption increase not just associated with abolition of HP control (would have expected effect to have faded away early in 1983) but with higher confidence reflecting - as they say - falling inflation and with improvements in real take-home pay.

(d) Good investment prospects for next year: DoI intentions surveys suggest 9 per cent rise in manufacturing, 6 per cent elsewhere; strong recent rise in profits.

(e) Exports already recovering: non-oil volumes up 4 per cent in last three months.

(f) Recent small rise in RPI inflation just temporary as predicted in the March 1983 Budget. Underlying trend still firmly downwards.

REAL WAGES AND EMPLOYMENT

POINTS TO MAKE

Burden of proof is surely on those who think that real wages do not matter. Empirical studies from a number of countries - either of the whole economy or of a particular group of workers - suggest they do. No one is saying that pay is the only determinant of employment (eg, there is also world trade), but it is the element which is easiest for employees themselves to affect.

DEFENSIVE

1. DEPARTMENT OF EMPLOYMENT STUDIES OF YOUTH LABOUR MARKET

Now that TUC have had a chance to study it, do not they agree that the latest DEM research^{*} is an extremely thorough study of the effect of youth wages on employment. This work includes more recent data than the early DEM study⁺ and uses different techniques of analysis and rather better data. It concludes that the employment of under 18s has been reduced by increases in their earnings relative to adult earnings - this is especially apparent for boys (where an elasticity of 2 was found). This is not an isolated result - similar academic studies have found the same sort of relationship.

The DEM work suggests that out of every 5 new youth jobs created by lower youth pay, 1 would be additional to the economy as a whole (the rest would be at the expense of adults).

2. A NATIONAL MINIMUM WAGE

A national minimum wage would raise employers' costs and threaten jobs - including the jobs of those it was designed to help.

3. LOW WAGES AND POVERTY

Little overlap between low pay and poverty. Main beneficiaries of rise in wages for the relatively low paid would not be poor. DHSS analysis of 1981 Family Expenditure survey showed only 12% of families whose head was in full-time work had income below supplementary benefit level. And only 14 per cent of families with incomes at or below SB level had head of household in work.

*"The relative pay and employment of young people" by William Wells
DE Research Paper No.42

+ "Youth Unemployment" by P.Makeham, DE Research Paper No.10

SOCIAL SECURITY PROPOSALS

The TUC have proposed improvements in benefits to the unemployed, increases in Child Benefits, and in the basic State Retirement Pension. The TUC measures if implemented would cost around £5 billion in a full year - more, however, if the improvements in the pension were matched by improvements in linked benefits. £5 billion is equivalent to an increase of between 4 and 5 percentage points in either employees' National Insurance contributions or Income Tax.

The TUC proposals, in more detail, are:-

Unemployed

- i. A commitment to continue to index increases in unemployment benefit.
- ii. extend longterm rate of supplementary benefit to longterm unemployed.

There is no Government pledge to maintain the value of unemployment benefit, such price protection is, however, required by statute and primary legislation will be needed to give less. The abatement of the benefit made in 1980, partly in lieu of taxation, was restored in 1983 after the benefit was brought into tax from July 1982. The benefit is now worth marginally more in real terms than when the Government came into office in 1979.

To extend the longterm rate of supplementary benefit to the longterm unemployed would cost around £500M in a full year. The Government understands and sympathizes with the problems of the longterm unemployed but does not think that this would be the best use of the resources. More constructive are the Government plans to spend over £2 billion in 1983-84 on full range employment and training schemes, bringing direct help to $\frac{1}{4}$ of a million, and raising skill levels.

Child Benefit

- i. Increase Child Benefit by £3 a week from £6.50 to £9.50.
- ii. Increase one parent benefit by £2 a week from £4.05 to £6.05.

The uprating of Child Benefit and one parent benefit last November brought both benefits to their highest ever level in real terms. The increases proposed would cost more than £1.5 billion in a full year. Child Benefit is not intended to meet the full cost of raising children and as it is paid in respect of all children, irrespective of family income, an increase on the scale proposed would be an indiscriminate use of limited resources. For those in genuine need, other benefits, family income supplement and Supplementary Benefit can provide substantial and additional income.

The current Health and Social Security Bill provides for the abolition of child dependancy additions to short term benefits to take account of spouses' earnings. On the short term additions, it has been the Government's policy to shift the emphasis of child support to Child Benefit and these additions have been reduced as Child Benefit has increased, they are now worth 15 pence a week. There is no longer a social case for continuing these small additions. On the long term additions, they are unaffected until the spouse is earning £80 a week and the proposal will have no effect on families who have an overall income of less than about £190 a week. It is not unreasonable to assume that the spouse with significant earnings becomes the major breadwinner in a household and should provide for the support of children.

Retirement Pension

- increase the single persons pension by £8.40 to £42.45 and married couples by £13.75 to £68.25.

This is a 25 per cent increase in both pensions. The TUC have given only a part-year cost, which they estimate at £750 million. We would expect the part-year cost to be nearer £1 billion and the more relevant full-year cost ~~to~~ £3 billion. If the link^{ed} rate of supplementary pension were similarly increased the cost would be around £3.75 billion and there will be further costs for other benefit rates.

Additional expenditure on this scale is not feasible. And it is not obvious that an across the board increase of this sort is desirable. Many retired people have occupational pensions to supplement the basic State provision and those whose income is insufficient to meet their needs will receive help through Supplementary Benefit and Housing Benefit. The specific direction of resources to those in genuine need is fairer than the indiscriminate re-distribution of resources from the working population to the retired population that this proposal implies. The Government is pledged to ensure that the basic State retirement pension and linked long-term benefits will maintain their real value and this undertaking has been more than fulfilled. Pensions are now worth more than they were when the Government came into office.

Housing Benefit

- restore the cuts in housing benefit.

The proposed changes will save £230 million overall - £170 million from housing benefit and £60 million from withdrawing the supplementary benefit of non-householders' housing addition from 18-20 year olds. The housing benefit changes amount to less than 5 per cent of the total of nearly £4 billion that will be spent on housing costs in 1984-85. Housing benefit now

goes to around ~~£~~7 million (about one in three households, or some 40 per cent of the population). Even after the changes, about 6½ million will still be getting help. Most pensioners and all supplementary benefit recipients will not be affected. For most beneficiaries these changes will be small, reductions resulting from the change in housing benefit tapers average only 96 pence. It is perfectly reasonable to expect households with high overall incomes or with one or more working non-dependants to meet more of their housing costs.

Removal of the non-householder housing addition will affect mostly those living at home benefitting from parental support, often with comfortably-off homes. The poorest homes will not lose because change will be offset by increase in benefits going to the householder.

PAY

The Budget proposals mention more for low paid, reductions in working hours. Background note attached covers these, also wages councils, civil service and public service pay, and progress in pay round to date.

Line to take

You will wish to steer away from discussion of particular pay negotiations or arrangements for Civil Service pay post-Cheltenham - not for meeting on TUC budget views.

Points to make

- General:
- Continuing the past downward trend in pay settlements vital: improves competitiveness, output, jobs.
 - Inflation has fallen, will fall further by end of this year reaching about $4\frac{1}{2}$ per cent.
 - Those in work continuing to benefit. Average earnings up $7\frac{1}{4}$ per cent underlying rate in 12 months to November; manufacturing $9\frac{3}{4}$ per cent. Real take home pay has grown sharply in last year. Unemployed bearing brunt of recession.
 - High profits needed as incentive for more output, more investment; not signal for rising wage settlements.

IF RAISEDLow paid, Minimum Wages, Wages Councils:

- Commonsense and evidence that wage-fixing, if effective, costs jobs. Real answer for low pay is economic recovery, which requires responsible settlements.
- Government unhappy with Wages Councils, Ag Wages Boards, because minimum wage-fixing machinery. But no decisions have been taken on their future.

Shorter hours, longer holidays: if add to costs do not create but destroy jobs.

IF RAISED, AND CANNOT BE RULED OUT OF DISCUSSIONCivil Service pay

- Data/^{collection is} to inform but not constrain non-industrial negotiations.

3 per cent pay factor

- Allowance for pay increases from due dates, not norm or to pre-determine individual settlements.
- Applies only to central government. LA offer of 3 per cent to their manuals their own judgement of what they can afford.

CONFIDENTIAL

PAY - Background.

General

Pay settlements fell from 17 per cent in 1979-80 to $5\frac{1}{2}$ per cent in 1982-83 pay round. In this round to date, DE monitoring shows settlements are slightly lower, running at little over 5 per cent. Manufacturing settlements are running at about same level as last year. (CBI says $\frac{1}{2}$ per cent lower).

2. Average earnings in whole economy increased at underlying rate of $7\frac{3}{4}$ per cent in year to November (unchanged since August). In manufacturing underlying rate has been rising for some months, reaching $9\frac{3}{4}$ per cent for year to November - accounted for largely by recovery leading to longer hours worked. Those in work better off over last 12 months, take home pay up by 3-4 per cent on average.

3. In three months to November manufacturing unit wage and salary costs $3\frac{3}{4}$ per cent higher than twelve months earlier, ($1\frac{1}{2}$ -2 per cent below comparable figure for second half 1982). But some major competitors (US, Germany, Japan) recently doing better. These figures exclude other important factors affecting competitiveness; exchange rate movements, quality and delivery dates, etc.

4. Striking feature of pay round to date is delays in reaching public sector settlements, notably coalmining, local authority manuals. Still too early to be confident about final outturn for pay round, but prospect remains settlements slightly down on last year, average earnings about the same.

5. Some indications of increased union militancy over pay, but not a wide-spread or major increase.

The Low Paid and Shorter Hours

6. TUC-endorsed negotiating aims for this round are reduction in working hours, more for lower paid, but major concessions on either not generally being made by employers. TUC argue that reducing wages does not reduce employment prospects, favour minimum wages of two-thirds average earnings. But accumulated evidence from research here and abroad shows that where minimum wages set high enough to affect earnings, result is job losses. Shorter hours not offset by increased output or reduced wages add to costs, threaten jobs.

Wages Councils

7. Government has made clear its serious misgivings about this form of wage-fixing machinery. Scope for action constrained (until 1985-86) by ILO

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Convention 26. But Convention 99 covering Agricultural Wages Boards can be denounced between now and August. No decisions taken yet. Consultation with CBI, TUC required before either convention denounced.

Civil Service Pay

8. Discussions now well advanced on data collection on outside pay movements to inform but not constrain non-industrial 1984 pay negotiations. Longer-term discussions on Megaw continue. Informal preliminary discussions on longer-term arrangements for industrials have begun, but slow progress expected. In recent years, industrial pay settlement has coat-tailed non-industrial settlement.

Public Service Pay

9. 3 per cent pay factor an allowance for increases in pay and related allowances from due settlement dates after taking account of planned changes in manpower. Not a norm, nor does it predetermine individual settlements. Does not apply to nationalised industries nor local authorities (recent offer of 3 per cent to local authority manuals reflects LA's own judgement on what they can afford).

10. Collection of outside data on pay (for teachers, NHS non-nursing staff, as well as CS non-industrials) does not mean plan to link public service pay to that of any particular group or groups, nor extension of mechanistic systems of comparability to groups not already covered by review bodies (TSRB, NHS medicals, armed forces) or by formula (police, firemen).

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Annex A

- cc CST
- FST
- MST
- EST
- Sir P Middle
- Mr Anson
- Mr Wilding
- Sir T Burr
- Mr Battis
- Mr Monger
- Mr Scholar
- Mr Hart
- Mr Donovan

ANNEX
A
LTPE
Ch/CA
MURRAY
3/1



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

3 January 1984

The Rt. Hon. Lionel Murray OBE
General Secretary
Trades Union Congress
Congress House
Great Russell Street
LONDON
WC1B 3LS

Lionel Murray

Thank you for your letter of 5 December about longer term public expenditure.

As I have made clear on a number of occasions, the Government welcomes the public debate which is taking place on public expenditure in the longer term and I am glad to hear that the TUC would like to make a constructive contribution. I look forward to hearing your views in due course.

You suggest that the internal study prepared last year might be published as a basis for public consultation. Much of that work is already, of course, in the public domain. But it would have to be brought up to date if we were to publish it now; we should need to test alternative assumptions and we should also have to take account of the latest work on the prospects for the economy. All this would take time. I have not yet taken a firm decision on publication but, as I indicated in the House of Commons on 24 November, I certainly do not rule out the possibility of producing a document of some kind on the prospects for public expenditure in order to sustain the momentum of the current debate.

NIGEL LAWSON

Nigel Lawson

(pwe) -

Standard /s. Chancellor.

LEN MURRAY - INTERVIEW ON TUC BUDGET RECOMMENDATIONS

12/2

Transcript from: BBC Radio 4, World at One, 5 January 1984

PROGRAMME PRESENTER: to the surprise of some the TUC chose to concentrate not on jobs but on increased benefits to the unemployed, families, pensioners and the low paid. The Chancellor should, argued the TUC, extend long term supplementary benefits rates to the long term unemployed, increase child benefits, increase pensions, raise tax thresholds and allowances and restore the cuts in housing benefits. The General Secretary, Mr Len Murray, said they hoped to meet the Chancellor, Mr Lawson, to present their proposals which the TUC has called 'Protecting those in Need'. Kent Barker spoke to Mr Murray about the proposals, but he asked him first for his reaction to the latest increase in the unemployment total:-

MURRAY: I'm sorry to say it's disappointing yet again. The underlying trend is still up. There ought to be more people taken on in the pre Christmas activities than actually were taken on. So it doesn't give much hope to the people standing in the dole queues.

INTERVIEWER: How do the unemployment figures relate to the document that you've produced today which you call 'Protecting Those in Need'?

MURRAY: We're concentrating very much in our representations on the Budget on protecting and helping those in need. It doesn't range widely over the broad economy. It merely says look in the immediate situation, pensioners, the unemployed, families, the low paid, are being hit particularly hard and it is those on whom we're concentrating and whom we say the Government should be concentrating on in this Budget.

INTERVIEWER: Will there not be those though who say it would have been better if you had recommended the Government to increase capital expenditure to create more jobs in the Budget?

MURRAY: Oh well that certainly isn't ruled out in terms of our on going representations. In the NEDC and elsewhere we shall be developing this argument. And of course we are now being joined by the CBI in arguing for more capital expenditure, notably in the public sector, so that those things will still be going through. We shall have a lot more to say in the course of the coming weeks and months.

INTERVIEWER : Well now the specific proposals relate really to increasing benefits in one form or another, which is going to cost quite a lot of money - you estimate I think £3.2 billion or 1% of the GNP: well now where do you propose that that money should come from in the Budget?

MURRAY: To begin with, we don't think of it as a lot of money. It's 1% of the total income of the nation as a whole. And surely we can find a little bit extra for these different groups. As to where does it come from; we certainly are not in favour of raising taxation. On the contrary, it can be borrowed by the Government from institutions, organisations, individuals, in the same way as they borrow many, many, many billions of £s already in order to do the things which the nation needs to be done.

INTERVIEWER : But isn't it one of the main tenets of the Government economic policy that they are trying to reduce the public sector borrowing requirement?

MURRAY: But what are they telling us; that long term unemployed people who've been out of work more than a year, should not be on the long term supplementary benefit rate which would only give an extra £11 a week to a family with children? Are they saying that we as a nation can't afford to pay an extra £3 (quid) a week in child benefit and another £2 for 1 parent families? Are they saying that we can't afford to jack up what old age pensioners are getting in a very modest way? And I'd emphasize

that these are very modest recommendations. They have been designed to make it more possible for the Government to do something and less easy for the Government to run around the claim that it's Oh, all these billions and billions of £s. This really is very modest indeed.

David

Can you/MW work out for this -
go it straight to CU + Mr Forger?

Other get leisure.

Paul

M.

PPS

1212

A, B, E

NI1076 4 XXX 222

TUC CALL FOR JOBLESS AID

THE TUC THIS MORNING CALLED FOR A £3,200 MILLION BUDGET PACKAGE OF MEASURES TO HELP THE UNEMPLOYED, THE LOW PAID, PENSIONERS AND FAMILIES COPE WITH THE EFFECTS OF THE RECESSION.

IN ITS BUDGET REPRESENTATIONS, ENTITLED "PROTECTING THOSE IN NEED", THE TUC ACCUSED THE GOVERNMENT OF "TURNING ITS BACK" ON THE UNEMPLOYED AND CREATING A MORE UNEQUAL SOCIETY.

IT ALSO CHALLENGED THE GOVERNMENT'S CLAIM OF IMPENDING ECONOMIC RECOVERY.

"THE MUCH-HERALDED ECONOMIC 'RECOVERY' REMAINS WEAK, PATCHY AND SHOWS FEW SIGNS OF BEING SUSTAINED BEYOND 1984", IT SAID.

THE TUC FORECAST THAT ECONOMIC GROWTH WOULD SLOW FROM 2.5 PER CENT IN 1983 TO 2 PERCENT IN 1984.

MANUFACTURING OUTPUT WOULD RISE BY ONLY ONE PER CENT TO TWO PER CENT, AND REMAIN 15 PERCENT LOWER THAN ITS 1979 LEVEL.

THE TUC SAID IT EXPECTED UNEMPLOYMENT TO RISE BY 10,000 A MONTH TO 3,300,000 WHILE INFLATION REMAINED AT SIX PERCENT. BRITAIN'S BALANCE OF PAYMENTS COULD MOVE INTO THE RED.

THE TUC HAS BROKEN WITH TRADITION BY PUBLISHING ITS BUDGET REPRESENTATIONS SEPARATELY FROM ITS ANNUAL ECONOMIC REVIEW.

IT SAID OF THE FORTHCOMING BUDGET: "THE TUC FIRMLY BELIEVES THAT THE TOP PRIORITY WITHIN THE BUDGET SHOULD BE THE MAINTENANCE AND IMPROVEMENT OF THE LIVING STANDARDS OF THOSE MOST IN NEED AND THOSE WHO HAVE SUFFERED MOST FROM THE GOVERNMENTS POLICIES."

051113 JAN 84

FROM: D R NORRGROVE
 DATE: 5 JANUARY 1984

MR MONAGHAN

David
 To note x!

M.

cc PS/Chancellor of the Exchequer
 PS/Chief Secretary
 Sir Peter Middleton
 Mr Bailey
 Sir Terence Burns
 Mr Cassell
 Mr Battishill
 Mr Folger
 Mr Ridley

TUC BUDGET REPRESENTATIONS

We spoke about the report now on the tapes of the TUC Budget representations (copy attached). The representations have not yet been received by the Chancellor's Office.

2. The TUC held a press conference about their representations this morning, even though the document itself is not yet back from the printers. Remarkably, the TUC say the Chancellor should receive his copy tomorrow (Friday).

3. For the moment, as we agreed, the Press Office should simply say if asked to comment that the Chancellor has not yet received the representations. (That speaks for itself.)

DR Norgrove
 D R NORRGROVE

A, B, E

NI1076 4 XXX 222

TUC CALL FOR JOBLESS AID

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051113 JAN 84

(P)

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OUR REFERENCE LM/BC/AC/IC

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

CH/EXCHEQUER	
REC.	- 6 JAN 1984
ACTION	Mr Bathshill
COPIES TO	CS, FST, MST, EST
1984 Budget	

DEPARTMENT Economic

61

January 6 1984

Dear Mr Lawson

Sir P. Middleton, Mr Bailey, Sir T. Burns
Mr Anson, Mr Litter, Mr Cassell, Mr Kemp
Mr Wilding, Mr Byatt, Mr Manck
Mr Lovell, Mr Burgner, Mr Watson
Mr Pentell, Mr Schotter, Mr Folger
Mr Ridley
PS/IR, PS/GZ

I am enclosing the General Council's recommendations on taxes and benefits for the 1984 Budget.

The title of the submission reflects the priority which the TUC believes the Budget should give to protecting those in society who have suffered most from Government economic policies during the recession. The principal groups in this category are the unemployed, families, pensioners and the low paid, and the submission highlights priority policies for assisting each of these groups.

As you know, the creation of jobs is the paramount concern of the TUC and we will be continuing to press the Government on every opportunity to take action to bring unemployment down. This submission, however, represents a set of measures which could be taken in the Budget without a major change in economic policy. Their implementation would, however, indicate a willingness on the part of the Government to accept its responsibility to protect those who have suffered most.

I therefore urge upon you the recommendations contained in the General Council's submission.

Yours sincerely

General Secretary,

Enc:

GENERAL SECRETARY: RT. HON. LIONEL MURRAY OBE DEPUTY GENERAL SECRETARY: NORMAN WILLIS
ASSISTANT GENERAL SECRETARIES: KENNETH GRAHAM OBE AND DAVID LEA OBE

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Chancellor of Exchequer
H M Treasury
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London
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YOUR REFERENCE

OUR REFERENCE LM/BC/AC/IC

CW/EXCHEQUER DEPARTMENT Economic

- 6 JAN 1984 January 6 1984

Action Mr. Battisill

CST, FST, MST, EST

Sir P. Middleton, Mr Bailey, Sir T. Burns

1984 Budget Mr Anson, Mr Lither, Mr Cassell, Mr Kemp
Mr Byatt, Mr Wilding, Mr Monger, Mr March

Dear Mr Lawson

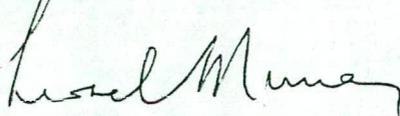
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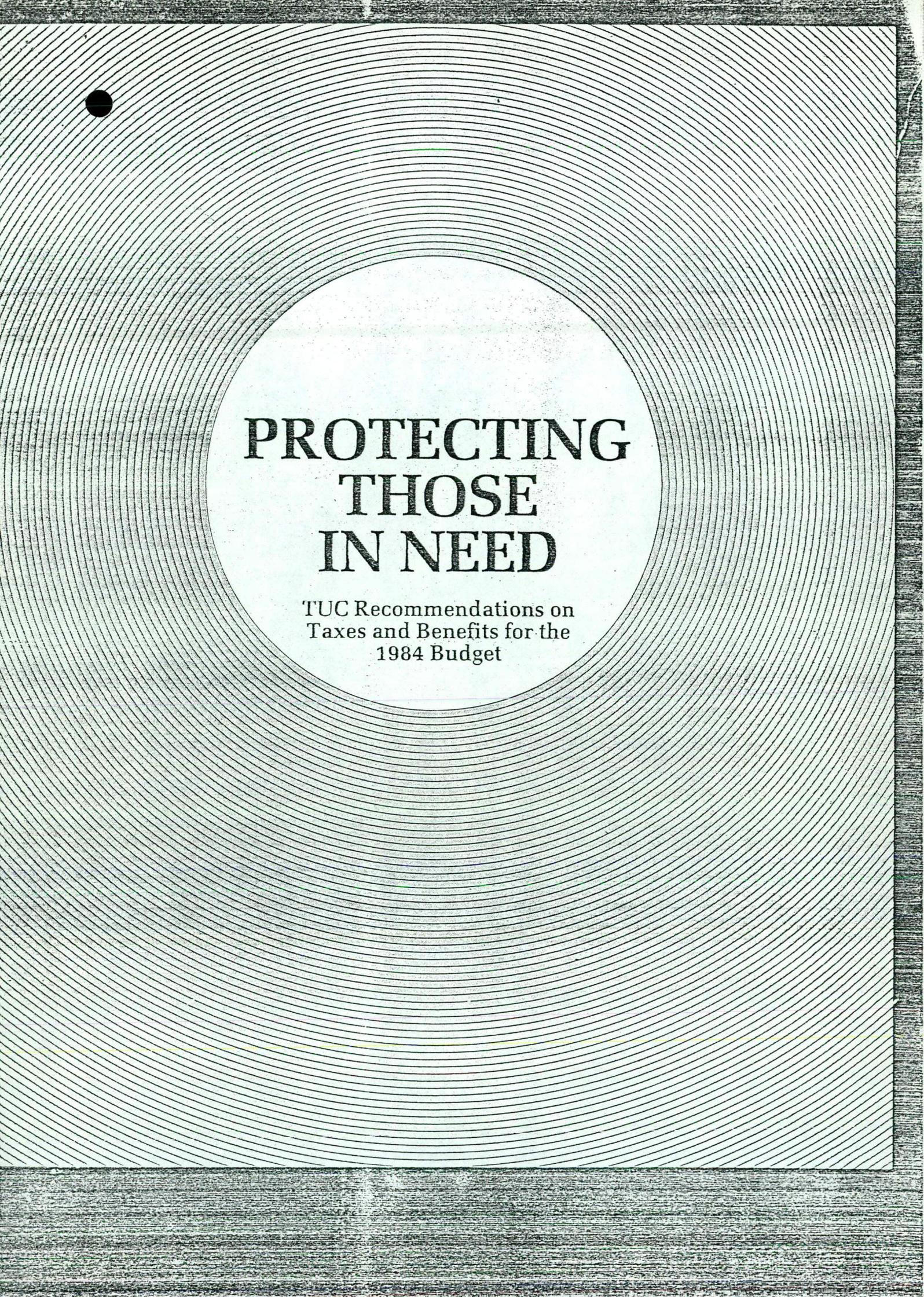
Yours sincerely



General Secretary

Enc:

GENERAL SECRETARY: RT. HON. LIONEL MURRAY OBE DEPUTY GENERAL SECRETARY: NORMAN WILLIS
ASSISTANT GENERAL SECRETARIES: KENNETH GRAHAM OBE AND DAVID LEA OBE



**PROTECTING
THOSE
IN NEED**

TUC Recommendations on
Taxes and Benefits for the
1984 Budget

CONTENTS

INTRODUCTION	3
The role of the Budget	3
The FUC's Priorities	4
ECONOMIC PROSPECTS FOR 1984	5
WHY THE GOVERNMENT'S BUDGET STRATEGY IS WRONG	7
An Alternative Approach: at home and abroad	8
THE FUC's 1984 BUDGET RECOMMENDATIONS	9
The Unemployed	10
Families	11
Pensioners	12
The Low Paid	12
SUMMARY AND CONCLUSIONS	14

INTRODUCTION

1 In the Budget the Government will be announcing important decisions on taxes and social benefits which will crucially affect the fortunes of different groups in our society. These decisions will reveal its priorities about the distribution of incomes and resources in society. That too is the focus of this document. The Government could do much more, if it were prepared to expand the economy and cut unemployment. The Government has repeatedly turned its back on this responsibility in previous years, however, and shows every sign of doing so again.

2 The TUC has set out the type of alternative economic, industrial and social policies which would put people back to work and improve our public services by raising real output and incomes. These policies are still relevant, and the TUC will be continuing to press them on the Government. However, even within the narrower role which the Government has set for the Budget itself, a move towards the priorities set out in this submission would mark a major turning point. It would indicate a recognition of the priority which must be given to those who are least well off in society.

The role of the Budget

3 Despite the public attention that it still receives, the significance of the Budget has in fact been considerably reduced by two features of this Government's approach. The first is that successive Budgets have been constrained by the Government's Medium Term Financial Strategy — first established in 1980. This sets a series of rolling targets for the money supply and the Public Sector Borrowing Requirement — a framework of purely financial targets into which decisions about the real economy have been squeezed. A principal effect has been to cut down drastically the range of genuine options considered for each Budget.

4 This effect has been reinforced by the Government's resistance to any notion of opening up the debate about Budget options or consulting outside the ranks of its trusted few, other than by orchestrated 'leaks'. The TUC, in common with a wide range of other organisations, has consistently argued for a more open and systematic discussion of options before the key decisions are taken. We have supported all those — from the Treasury and Civil Service Select Committee to the Institute for Fiscal Studies — who have argued for a 'green' Budget, one which does not simply follow the tram lines of the Medium Term Financial Strategy.

5 Unhappily the Government's response to this pressure has been no more than token. The Autumn Statement, published in November, contains the key decisions on public expenditure which set the context for the Budget. It is now a better presented and more readable document but, despite its format it now contains *less* usable information, not more, and does not provide for consultation and debate on economic strategy.

6 The TUC has published its response to the Autumn Statement. It has pointed out that the policies confirmed in the statement are unlikely to prevent unemployment rising still further in the year ahead. The projections for growth in output and demand — unsatisfactory enough as they are — seem to be more optimistic than is justified by an analysis of likely developments in consumption, investment, exports and stocks. At the same time the outline plans for public expenditure will at best leave vital public services in their present precarious state; if, as seems likely, the inflation rate rises above the Chancellor's forecast, there will be further real cuts.

7 The TUC has also intervened in the debate about the longer-term future of public expenditure, sparked off by the 'leaking' of a report on the subject drawn up in Whitehall. We have called for this report to be published so that the public at large can join in the debate about the implications for large areas of public expenditure of the Government's macroeconomic policy. As our own contribution to that debate we have set

motion a process of analysis and discussion within the trade union Movement about our own priorities in public expenditure. Through this the TUC will be aiming to make a systematic and informed contribution to the PESC exercise later in the year. One of the priorities which the TUC will be identifying will be the need for a major programme of capital projects to help the hard pressed construction industry.

8 In previous years TUC Budget recommendations have been included within the TUC annual Economic Review, which also covers wider and longer-term policy issues. This submission does not constitute our 1984 Economic Review. Later on in the year the TUC will be publishing statements which will include a full-scale review of the economy and of Government policy and explaining the contribution which the TUC's alternative economic policies could make to resolving the current recession. This present document therefore has a clear focus. It is not about the Autumn Statement. Nor is it about public expenditure; nor is it a statement of the full range of TUC policies. It is about the 1984 Budget.

9 The TUC recognises the limitations of any one Budget statement. Even with a Government that was genuinely trying to rebuild our shattered economy there is a limit to what can be achieved in a single year's measures. That is why the TUC has always been careful to indicate the need for sustained action over a period of years. Our programme of publicly-financed capital investment — set out in *The Reconstruction of Britain* — shows that co-ordinated measures over a five-year period are needed in order to rebuild the economy's infrastructure. Similarly our strategy for manpower, education and training balances immediate action to protect the jobless with longer term measures to equip our people with the skills required in the 1990s and beyond.

The TUC's Priorities

10 It is right for a Government to ask of any organisation submitting views on the Budget what its priorities are. The TUC can give a clear answer to that question. As we

stated last year in *Partners in Rebuilding Britain*:

- * The first call on the nation's resources must be the creation of jobs for the unemployed;
- * The second call must be the improvement of living standards for those most in need, including pensioners, recipients of benefits and the low paid, and
- * The third call must be the improvement of living standards for the rest of those in work, both from earnings and from improved public services.

The TUC remains committed to this statement of priorities.

11 As the analysis of the economy's prospects in the next section shows, however, if the Government maintains its present policies or chooses its course of action solely from within the confines of the Medium Term Financial Strategy, unemployment will continue to rise and any chance of a recovery will dissolve. That is why it is so urgent that the Government should change course and take responsibility for the level of output and employment in the economy. Only if Government acts to expand the economy can there be a sustained recovery.

12 The TUC has shown in the past, and is willing to demonstrate again, that such action is possible. Faced with a range of policy objectives — high unemployment, low inflation, economic growth and a positive balance of payments — there is scope to design packages of measures which allow for progress across a broad front. Recent work by the National Institute, and by NEDO using the Treasury's economic model, has proved this.

13 Our overwhelming fear, however, is that the Government is still not ready to listen to this message. All the indications are that the 1984 Budget will be a reaffirmation of the existing policy stance, rather than a decisive break with a failed approach.

14 In these circumstances it is not enough to repeat yet again the case for an alternative strategy. The TUC's view, reflected in this submission, is that if the Government is not going to do anything to achieve economic

growth and higher employment then our task must turn to protecting those who are suffering most from the effects of the Government's policies.

15 In part the trade union Movement will approach this task through collective bargaining, where our priorities for the period ahead will be the campaigns against low pay and for shorter working time.

16 But action within the Budget, in the ways described in later sections, will also be required to protect those who are bearing the brunt of the recession.

ECONOMIC PROSPECTS FOR 1984

17 The much heralded economic 'recovery' remains weak, patchy and shows few signs of being sustained beyond 1984. In stark contrast to the Chancellor's optimism about the prospects of inflation-free growth, a range of independent forecasting groups have questioned the strength and durability of the 'recovery'. The November NIESR Review pointedly contained a lower forecast for GDP growth in 1984, and a higher projection for unemployment, than the Treasury. Moreover, a considerable number of city analysts have refused to share the Chancellor's optimism and their view is confirmed by the latest CBI quarterly Trends Survey which concludes that the 'recovery' is faltering.

18 A wide consensus therefore indicates that output growth will tail off next year, industrial production will remain stagnant and unemployment will continue to rise. At the same time inflation is expected to continue to rise until the end of 1983, with no fall off in 1984. The TUC has analysed the independent forecasts for 1984 and this analysis suggests that:

- * **Output Growth** will decline from about 2.5 per cent in 1983 to around 2 per cent;
- * **Manufacturing Output** will continue to grow by only 1.2 per cent, leaving it over 15% below the 1979 level;
- * **Registered Unemployment** will grow by around 10,000 a month to 3.3 million;
- * **Inflation** will remain at about 6 per cent through 1984;
- * **The Balance of Payments** could move into deficit, following a sharp fall in the surplus in 1983, if the current trend in imports continues.

19 The *weakness* of the recovery is demonstrated by the fact that national output is still below the 1979 level, and the rate of growth is less than a third of that currently being experienced in the USA.

20 The *patchiness* of the recovery is shown by the fact that much of the increase in output can be attributed to the oil sector, leaving many traditional sectors in a continued state of slump.

21 The doubts about the *durability* of the recovery are based on the fact that it can largely be attributed to a consumer boom since mid-1982. The boom is however likely to peter out during 1984 for the following reasons. First, the decline in the savings ratio, which has financed much of the increase in personal consumption, is likely to come to an end. As inflation has come down, so the amount people have saved (the savings ratio) has declined from 12.8 per cent in early 1981 to 8 per cent in the second quarter of 1983 which is very low by historical standards and so unlikely to fall any further. In fact what has happened is that whilst the Government has been holding down public borrowing, personal borrowing has risen very sharply.

22 There are a number of points to be made about this. It shows the lack of logic in Government policies that cut public borrowing — which could help stimulate domestic economic activity — but which result in a boom in personal borrowing which has led to sharply increased spending on imports. In fact the foundation of the increase in consumption — increased personal borrowing — contrasts sharply with the ideas of thrift and saving that the Government holds out as the virtuous basis for rebuilding the economy. Furthermore, whereas public sector borrowing can be used to provide social goods and services whose benefits are equitably distributed, private borrowing is associated with a much greater inequality in the distribution of resources. Those who are least well off have the least access to such sources of finance and so progressively lose out. The unemployed cannot get a mortgage or a credit card loan. They are not enjoying the fruits of this consumer boom.

23 Second, the abolition of HP controls in July 1982 encouraged people to increase

their level of indebtedness. This has risen rapidly over the last 18 months and is approaching its upper limit; indeed the effect of the change to HP arrangements is likely to be one-off and short-lived.

24 Third, the consuming power of the unemployed is falling rapidly as some initial cushioning from redundancy payments gives way to totally inadequate benefit payments.

25 Fourth, the consumer boom has not sparked off an investment upturn which would have helped to sustain the recovery. Manufacturing investment is expected to remain weak in 1983-84, following a fall of over a third since 1979. This in turn reflects the uncertainty which exists in the minds of most employers over the durability of the 'recovery'. It also reflects the fact that domestic order books have benefited little from the consumer boom as much of it has leaked into imports. This helps to explain the fact that when growth in Gross Domestic Product (GDP) is measured in expenditure terms — as the Government tends to highlight — economic performance appears considerably better than when it is measured in output terms.

26 Finally, the economic recovery will not be sustained by a major stimulus from the balance of trade, exports are only expected to grow by around 3.5 per cent in 1984 and most forecasters see imports growing faster. *The prospects for 1984 and beyond, on current policies, are therefore not encouraging as output growth will be low and unemployment will continue to rise.*

WHY THE GOVERNMENT'S BUDGET STRATEGY IS WRONG

27 The Government's strategy is based on controlling the PSBR but Treasury forecasts of the PSBR have been wildly inaccurate. A recent Treasury study has shown that the average error in the PSBR forecasts made at the time of the Budget for the year ahead, for the period 1972-1983, was £4.4 billion or 1.6 per cent of GDP (in 1982-83 prices). There have even been large errors in the PSBR forecast made at the Budget for the year just finishing. For example, the Government claimed in the 1983 Budget that the PSBR for 1982-83 would be £7.5 billion, whereas it had to announce shortly afterwards that it was in fact £9.1 billion.

28 The reasons for these errors are readily apparent, as the PSBR is simply the difference between two very large numbers, total spending and total revenues, which are themselves difficult to forecast accurately. A small error on either side of the account can lead to an error which is substantial in relation to the PSBR itself. For example, a 1 per cent over-estimate of expenditure and a 1 per cent under-estimate of revenues combine to produce an error of £3.5 to 4 billion in the PSBR.

29 There was considerable argument in the Conservative Party during the run up to the 1983 Budget over whether the total budget adjustment should be £1.5 or £2.5 billion. As it turned out, the PSBR forecast error easily exceeded the gap between the so-called 'wet' and 'dry' camps.

30 The TUC has, however, consistently argued that this strategy is fundamentally misconceived in principle even discounting the practical difficulties which it has encountered. The highly deflationary strategy may have succeeded in reducing inflation, at least temporarily. It has also produced one of the lowest borrowing requirements in the OECD as the diagram below shows. The diagram

also shows that even before the Government embarked on its deflationary strategy, the UK was by no means out of line with other more successful countries such as Japan or Germany in the proportionate size of public borrowing. This factor therefore cannot explain the UK's poor relative economic performance over the years (see table over page). On the contrary, by focusing on this measure and trying constantly to reduce it, the Government has trapped the economy into a vicious circle of low growth, declining tax revenues and deepening expenditure cuts. In the absence of North Sea Oil revenues, the severity of the decline and expenditure cuts would have been even more catastrophic.

31 The TUC has shown in the 1982 and 1983 *Economic Reviews*, with the help of the Treasury model, that the introduction of more expansionary fiscal and monetary policies would provide a major sustained stimulus to demand and output growth. However, for those who doubt the reliability of computer simulations, there is now direct evidence from the USA that such a strategy can work.

32 Over the last 12-18 months, the US Administration has relaxed its monetary targets and expanded the budget deficit by over 75 per cent. This has had a major expansionary impact on the US economy, as the September Bank of England Quarterly Bulletin acknowledged, as real output growth has reached record levels of over 7 per cent per year, in the second and third quarters of 1983. This has resulted in a sharp rise in employment throughout the economy — in manufacturing, construction and services — and falling unemployment totals. There are also signs that the boom is beginning to produce an investment response as the US Administration appears committed to maintaining an expansionary fiscal stance during 1984.

33 Furthermore, the rapid expansion of output has not resulted in either an upsurge in inflation or interest rates which have always been the excuses of the UK Government for not acting. In fact the US Treasury Secretary has rejected the idea that US Budget deficits are keeping interest rates high as he has said that "there is no hard data to show that deficits will cause interest rates to rise".

General government financial balances		1979	1980	1981	1982	1983	1984
United States		+0.6	-1.3	-1.0	-3.8	-4.4	-3.9
Japan		-4.8	-4.5	-4.0	-4.1	-3.4	-2.5
Germany		-2.7	-3.2	-4.0	-3.9	-3.7	-3.1
France		-0.7	+0.3	-1.9	-2.6	-3.4	-3.3
United Kingdom		-3.2	-3.3	-2.5	-2.0	-2.5	-2.5
Italy		-9.5	-8.0	-11.7	-12.0	-11.6	-12.4
Canada		-1.8	-2.1	-1.2	-5.3	-6.5	-5.7
Total of above countries		-1.8	-2.5	-2.6	-4.1	-4.4	-4.0
Australia		-1.5	-1.0	-0.1	+0.4	-4.4	-4.6
Austria		-2.5	-2.0	-1.8	-2.5	-3.5	-3.5
Belgium		-6.9	-9.3	-13.1	-12.2	-11.3	-11.3
Denmark		-1.6	-3.2	-7.1	-9.1	-9.3	-8.3
Netherlands		-3.7	-3.9	-4.8	-6.4	-6.9	-6.4
Norway		+1.9	+5.7	+4.8	+4.4	+2.1	+1.5
Sweden		-3.0	-4.0	-5.3	-6.9	-8.0	-8.2
Total smaller countries		-2.8	-3.0	-4.1	-4.8	-6.2	-6.2
Total of above countries		-1.9	-2.6	-2.7	-4.1	-4.6	-4.2

SOURCE: OECD

In 1981 the US Budget deficit was 25 per cent below the 1983 level, but real interest rates have not increased.

34 Although complementary industrial policies will clearly be needed to sustain the US expansion in the long run, and not withstanding the differences between the US and UK economies, the current experience in the US undermines the UK Government's claim that it is powerless to act. It demolishes the myth now being pushed by the Government that it is responsible for creating a broad based international consensus on the need for deflationary cutbacks in budget deficits. At the most this can be said to be true for Europe, where the low growth prospects for 1983-84 present a sharp contrast to the US. But even then there are considerable differences in degree between France, for example, where unemployment has only increased marginally, and the UK.

An Alternative Approach: at home and abroad

35 The TUC recognises that a one year Budget package will only have a limited impact and so will need to be followed up in subsequent years by additional expansionary measures. In other words, the Government should introduce a Medium-Term Output

and Employment Strategy in place of its discredited MTFS. What this would be doing in effect would be to use the massive resources which the country is now wasting in financing high levels of unemployment to put people back to work producing real output and services to meet actual needs. This is the economics of commonsense.

36 A start could be made in a single Budget, although the TUC has always recognised that such a policy change would need to be part of a reappraisal and change of direction over a longer period of time. In such a context the alternative Budget packages which the TUC has put forward in previous years would be one important part of an alternative strategy. The first requirement would be a recognition on the part of Government that its approach to the management of the economy should be to put the nation's resources to work.

37 The benefits from domestic expansion would of course be multiplied if it formed part of a co-ordinated world reflationary strategy. This has been clearly demonstrated by the European Trade Union Confederation, using the OECD's Inter-Link model of the world economy. The UK Government is in a position to build a new consensus based on output and employment growth rather than retrenchment, as it will be the host to the next

Summit of the major industrialised nations in June 1984. The TUC will in due course set out the basis of a strategy which could be adopted at the London Summit.

38 The Government's strategy based on the MTFs, is therefore not only fundamentally flawed in practice but it is misconceived in its objectives. It has trapped the Government into a logic in which it is prepared to spend vast sums of money on the cost of unemployment rather than using the money constructively to employ people to produce real goods and services. Its consequences are only too apparent as the manufacturing base of the economy continues to decline and many public services are under threat.

THE TUC'S 1984 BUDGET RECOMMENDATIONS

39 Official Government statements, as well as unofficial leaks, indicate that the pattern of recent Budgets is again being followed, with the Chancellor castigating the Cabinet for being spend-thrift and issuing warnings about the dangers of excessive borrowing. The only difference this time perhaps is that the Chancellor has not been able to call on the assistance of the City in pushing for further cuts, as it has barely reacted to the announcement that the PSBR may overshoot its 1983-84 target by £1.5-£2.5 billion. The City has signalled that it can accommodate the extra borrowing, without any upward movement in interest rates.

40 The Budget debate within the Cabinet is likely to centre on whether the 1984-85 PSBR target of £8 billion should be strictly adhered to or whether it should be allowed to overshoot. However, all the evidence is that the Government has been prepared to take a less rigid view of the targets set by the MTFs, particularly in the last year in the run up to the General Election. The TUC therefore refuses to accept that the MTFs provides an unambiguous guide to fiscal policy. The key question is who benefits, or loses, from these changes. In contrast to the narrow vested interests which have influenced the Government's policies in recent years, the TUC is in a position to reflect the interests of the broad mass of the working population, the unemployed, pensioners and other groups within society.

41 The TUC firmly believes that the top priority within the Budget should therefore be the maintenance and improvement of the living standards of those most in need and those who have suffered most from the Government's policies. The Government has over the last four years succeeded in creating a more unequal society.

42 These are some of the stark facts about inequality in Britain today:

- * More than 7 million people live on incomes no more than 40 per cent above supplementary benefit rate — the level generally regarded as the poverty line.
- * One in seven families live below the poverty line.
- * One-third of all pensioners are living on or below the poverty line.
- * The top 10 per cent of the population own 60 per cent of the nation's wealth.
- * Over one million people have been unemployed for over a year, dependent on wholly inadequate levels of benefit.

43 These growing inequalities have in turn been reinforced by the attack being made on public services, such as the NHS and the education system. The rich are of course able to escape the consequences by purchasing private health care and education, which are beyond the reach of the vast majority of the population. That is why the TUC has opposed the recent further cuts in public expenditure and calls again here for *real* guarantees about the future of the National Health Service and other vital areas of the public services.

44 The Government has attempted to justify this by propagating a number of myths and fallacies, which claim that the rich need greater incentives to produce even more wealth while the unemployed need to be driven into even greater poverty in order to have an incentive to work. This has resulted in large tax cuts for the very rich and cutbacks in unemployment benefit and social security provisions for the unemployed and poor. No hard evidence has of course been produced to support the Government's case, but this has not deterred them.

45 The trade union Movement is attempting to mitigate the worst effects of these policies on the low paid through collective bargaining, as a campaign against low pay and for shorter working time has been launched. However, there are limits to what can be achieved through this means, and it is

the Government's responsibility to provide adequate incomes for those not employed.

46 The TUC, therefore, believes that the Government should take action in the 1984 Budget to help four groups that have suffered badly over the last four years. These are:

- * The Unemployed
- * Pensioners
- * Families
- * The Low Paid

Specific measures are proposed below but as a starting point the TUC stresses the vital need for all existing benefit payments and allowances to be fully indexed against inflation in order to maintain their real values. For example, the value of the weekly allowance for trainees on the MSC's Youth Training Scheme has been seriously eroded by the failure of the Government to increase the allowances in line with inflation. The TUC believes the weekly allowance should be increased immediately from £25 to £30.

The Unemployed

47 The unemployed not only lose the dignity and status associated with employment, but they also experience a severe drop in income. This was true before 1979, but since then the income gap between those employed and unemployed has widened even further as flat rate unemployment benefit rates have been cut, the earnings related supplement has been abolished and tax rebates withheld. The result is shown in a recent United Nations report which indicates that the loss of income suffered by the unemployed in the UK is greater than in almost every other major industrialised country. In Britain a married worker with three children receives 47 per cent of his work income if he loses his job; in West Germany he would receive 75 per cent and in France 90 per cent. Any move to de-index future increases in unemployment benefits would accentuate this and lead to even greater poverty. A recent TUC/Unemployment Alliance leaflet, *No Case for Cuts*, has shown that there is no justification for attacks on the unemployed. The situation is even worse for the long-term unemployed — over one-third of the total — who have exhausted their savings and any redundancy payments.

48 These people receive only the short-term rate of supplementary benefit. When the separate long-term rate of supplementary benefit was introduced in 1973, the long-term unemployed were excluded from its scope, for fear of reducing their incentive to work. In present circumstances when however great and determined the effort to find work, sufficient jobs are simply not there to be found, the denial of the long-term rate to the majority of the unemployed is wholly unjust. The differential between the two rates is now 27 per cent for a single householder and some 25 per cent for a couple — in cash, £11 a week. The Social Security Advisory Committee recently concluded that it seemed “manifestly wrong” that unemployed families should suffer this shortfall when they were already at a level of income where differences of pence, let alone pounds, could matter deeply.

49 The TUC, therefore, calls on the Government to:

* Make a commitment to continue the indexation of future unemployment benefit increases. This involved no additional cost as this is assumed within existing expenditure plans.

* Extend long-term supplementary benefit rates to the long-term unemployed as recommended by the Social Security Advisory Committee, as the first step towards an adequate unemployment benefit system as set out in the *TUC Benefit Charter for the Unemployed*. This would involve additional expenditure of £200 million between November 1984 and April 1985. This means an £11 a week increase for families with children and £7 a week increase for single people.

50 Over a million people have been out of work for more than a year. They need immediate help through temporary jobs paying the rate for the job for the hours worked. To do this the Community Programme should be strengthened by increasing its 1984-85 cash limit by £170 million in order to abolish the £60 average weekly wage cost restriction in order to uprate it to the average wage cost of the former Community Enterprise Programme. This would cost £170 million.

51 In addition, the temporary short-time working compensation scheme, designed to prevent redundancies, should be extended to 1984-85 at a cost of £40 million.

Families

52 The Government's economic policies have had a highly damaging impact on women in general and on families in particular. It has attempted to force many women back into the home either through redundancies or through the removal of services, such as nursery schools and care for the elderly, which make it possible for women to go out to work. The result of losing a key element of many family incomes has been to lead to a serious rise in poverty. The reversal of the Government's economic strategy would be the most effective means of reversing this trend. In the absence of this, one of the most effective means of assisting families would be to increase child benefit allowances.

53 As the recent report of the House of Commons Treasury and Civil Service Select Committee pointed out, child benefit is the major way of transferring income to families with children, of improving the net incomes of the low paid with children and by helping families during a period when needs are high relative to income. However, the Government, rather than considering improvements, is considering whether to tax the benefit in future and whether to reduce the real benefit level in 1984, and has been consistently cutting the extra support given to National Insurance claimants with children. Either of these steps would be disastrous for the families affected.

54 The TUC therefore believes that the Government should:

* Not tax current child benefit.

* Increase child benefits by £3 a week from £6.50 to £9.50, and increase the special child benefit for one-parent families by £2 a week from £4.05 to £6.05. This would result in additional expenditure of approximately £600 million in the 1984-85 financial year.

55 Young people are disproportionately affected by current high unemployment

levels. This leaves those approaching the minimum school leaving age with a difficult choice — to join the YTS which provides a weekly allowance — or to remain in full-time studies without any financial support. Only a minority of local education authorities offer educational maintenance allowances (EMAs) for young people over 16 years old, and these are set at varying and very low levels. Young people from poor families are therefore at a great disadvantage if they wish to remain in full-time study. There are strong social and educational reasons, therefore, for introducing the right to EMAs for all young people remaining in school beyond 16. The TUC believes these allowances should initially be provided on a means tested basis to discriminate in favour of the least well off. The full allowance should be equal to the supplementary benefit level they would receive if they were unemployed, currently set at £16.50 a week. This would cost £210 million.

Pensioners

56 Pensioners remain one of the most deprived groups in society. The Diamond Commission highlighted the link between old age and poverty. Since then, their plight has got worse, as although pensions have been increased in line with inflation, the link with earnings has been dropped. As earnings have generally increased by more than prices, the relative position of pensioners has therefore fallen.

57 The TUC, therefore, believes that urgent action is needed to help pensioners. Increasing thresholds, as set out in the next section, will provide some relief for those pensioners who are severely affected by the poverty trap. In addition, as a first step in increasing retirement pensions towards the TUC target of half average earnings for single people and two-thirds average earnings for married couples, the Government should:

- * increase the single person's pension by £8.40 from £34.05 a week to £42.45 and the married couples pension by £13.75 from £54.50 a week to £68.25. This would involve extra expenditure of £750 million between November 1984 and April 1985, in addition to inflation proofing.

The Low Paid

58 The Government has led a determined attack on the low paid, in the belief that it will 'price workers back into jobs'. This has resulted in schemes which are designed to force down young workers' wages, and efforts to undermine long established Fair Wages legislation. The Government has again provided no concrete evidence to support its case, even taking into account the recent Department of Employment Research Paper. A wide range of studies, including an earlier study by the Department of Employment, in fact indicate that there is no link between young people's wages and employment levels. The only consequence will, therefore, be to drive more people below the poverty line, leading possibly to even higher unemployment levels.

59 The TUC believes that workers have a right to decent wages and conditions. We have, therefore, set a minimum wage target of two-thirds of average earnings. Unions are currently seeking to achieve this objective through collective bargaining.

60 The Government could also make a major contribution to assisting the position of the low paid by dropping its efforts to force down wages and through changes to the tax system. Many low paid workers are now paying more income tax than ever before. The starting income level for paying tax for a married couple has fallen from two-thirds of average male earnings in 1950 to just one-third in 1983. In addition the low paid and the unemployed are disproportionately affected by indirect taxation, including VAT and National Insurance contributions. In fact the inequality of income has been made much sharper by the Government's tax policies, as shown by the fact that after-tax earnings of someone on five times the national average wage has increased by almost ten times that of someone on average earnings over the last five years.

61 This has served to reinforce the 'poverty trap' which the Government was pledged to tackle. This trap is caused by the combination of low tax thresholds and the graduated, but rapid, removal of means-tested benefits. The result is to produce very high effective marginal tax rates at low levels

of income. The Treasury and Civil Service Select Committee calculated that 500,000 low paid families faced marginal rates of 60 per cent or more, as compared with only 70,000 high income taxpayers.

62 The problem of the poverty trap was made worse by the cuts to housing benefit announced in the Chancellor's Autumn Statement. From April, benefits will be reduced for families with working 18-20 year olds living at home and they will tail off at a faster rate as income rises. As a result 600,000 people will have their entitlement ended and the Institute for Fiscal Studies has estimated that this cut will double the number of people affected by the poverty trap.

63 A major overhaul of the tax and benefit system, in order to take many of the low paid out of the tax bracket is therefore urgently needed. However, this would in turn require a reversal of the Government's deflationary strategy in order to provide the necessary resources. Nevertheless, the Government could take immediate action in the 1984 Budget to help the low paid by raising tax thresholds in order to begin to reverse the movement over the last thirty years towards an ever-lower starting level for paying tax which has been greatly to the detriment of the low paid and has deepened the poverty trap. It is crucial to emphasise that the improvements this would bring to the low paid would be nullified if the Government were to continue its attacks on real wages.

* Increasing *income tax thresholds* and allowances by 6 per cent, over and above the index-linked increase would cost approximately £1 billion in the 1984-85 financial year.

* Restoring the cuts in *housing benefit* would cost £230m.

64 The TUC believes that these are the priorities which the Government should adopt. However, far more could and should be done both to help those on low incomes and to generate sustainable output and employment growth. The TUC is joined by many groups, including the CBI, in believing for example that the Government should expand public investment programmes to build more houses, restore our roads and

sewers and provide modern schools and hospitals. Our programme for the *Reconstruction of Britain* sets out in detail how the economy's infrastructure should be rebuilt and how this would generate jobs and output throughout the economy.

65 The Government should be expanding rather than contracting our public services, such as the NHS, to meet real needs and problems. We have the resources — we are currently wasting over £17 billion financing the cost of unemployment — but they need to be used with imagination and vision to build a better society.

66 Finally, it should be stressed that the economic debate on which tax and expenditure changes should be made should not simply be concentrated in the few months before a Budget. In the coming months the TUC will, therefore, be setting out its priorities for public expenditure and the tax structure, as well as engaging the Government in debate on when and how new jobs will be created.

SUMMARY AND CONCLUSIONS

67 This paper shows that:

- * The economic prospects for 1984, on current policies are gloomy as output growth will fall and unemployment will continue to rise.
- * The Government's economic strategy is based on financial targets which have been highly deflationary.
- * The TUC believes that a sustained recovery will only occur if the Government reverses its Budget strategy and expands the economy.
- * The TUC's case is supported not only by computer simulations, but also by the experience of the US economy in 1983 where a large expansion of the Budget deficit has contributed to a rapid growth in output.
- * Unfortunately, the Government appears oblivious to failures of its policies and is likely to reaffirm its commitment to the Medium Term Financial Strategy.
- * At best, the Government may marginally relax the extremely tight targets. This is totally inadequate as it will neither sustain the weak recovery nor prevent a further rise in unemployment.
- * However, even such small changes can have some impact on particular groups. The TUC believes that the key priority of the Government, if it is not going to change the broad thrust of its strategy, should therefore be to help the least well off and those who have been most seriously affected by the recession. These include the unemployed, women with families, pensioners and the low paid.

- * The Government should, therefore:
 - extend long-term supplementary benefit rates to the long-term unemployed;
 - increase child benefits;
 - increase pensions;
 - raise tax thresholds and allowances;
 - restore the cuts in housing benefits.
- * These policies will only help to soften the blow of the Government's policies and would not provide a solution to the current economic crisis.
- * A major sustainable recovery which would produce a sharp reduction in unemployment will only occur if the Government takes up its responsibility for the level of output and employment in the economy.

January 1984

TRADES UNION CONGRESS

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17

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

YOUR REFERENCE

OUR REFERENCE LM/BC/PK/JR

DEPARTMENT Economic

January 11 1984

C
we're fixing a date - shall
cut list for HMT but begin
from TUC!

mon 12/1 ✓ M

CH/EXCHEQUER	
REC.	12 JAN 1984 ✓
Action	M. Battisill
COPIES TO	CST, FST, MST, EST.
	Sir P. Middleton, Mr. Bailey
	Sir T. Burns, Mr. Liffler, Mr. Cassell
	Mr. Kemp, Mr. Byatt, Mr. Wilding

Dear Mr Lawson

1984 TUC Budget Submission

I sent you a copy of the TUC's 1984 budget submission on January 6. When the TUC Economic Committee met today they decided that they would like to meet you as soon as is practicable to discuss the submission.

I hope you will be able to agree to such a meeting and I will ask my office to contact yours to make the arrangements.

Yours sincerely

Lionel Murray

General Secretary,

Mr. Monck
Mr. Lovell, Mr. Burgess
Mr. Mosger
Mr. Watson
Mr. Pentell
Mr. Scholar
Mr. Folger
Mr. Ridley, R/D
P/S/C/E
Miss D. Young

~~Nigel~~

Can you please check that I did send a minute yesterday, concerning briefing

Paul
M.

M/ Seems that no minute has been done.
N.

Margaret

iOC Meeting.

Donna tells me the Treasury Team is not yet fixed.

You may find it helpful to know what subjects the iOC cover & on which we will be briefing.

Tax - FR.

Benefits - ST

Public Expenditure - GE

MSC, YIS etc - IAE

Forecast - EA.

Pay - PAY.
+ Priv. Inp

Wages - DEU.

EMAs - HE

} but these are pretty minor.

8876 - BT

Helen

FROM: M A HALL
18 January 1984

MS GOODMAN)
MR PAGE) Separate copies

c c PPS

~~7/6/84~~
M

TUC BUDGET REPRESENTATIONS

I understand that the TUC will be coming at 3 pm on 1 February.

2. The TUC have requested the usual facilities, i.e. the main conference room (29/2) for Len Murray to brief immediately afterwards; and use of the Treasury studio for radio and television appearances by Len Murray if there is a demand from the media for them. Brendan Barber, my opposite number at the TUC, imagines that, in line with previous practice, the brief of their main speaker (David Basnett) will be handed out to the press. This will in effect be his opening statement.

3. I should be grateful if Mr Page could undertake these arrangements.

✓ 4. The Chancellor is traditionally inhibited on these occasions from doing more than taking note of the representations. I doubt therefore whether he will wish to undertake any media appearances.

MAH

M A HALL

OMP



FROM: MISS M O'MARA

DATE: 18 January 1984

cc Mr Monger
Mr Folger
Mr Norgrove

PS/IR
PS/C&E

MR BATTISHILL

TUC BUDGET REPRESENTATIONS

The TUC's Economic Policy Committee will be calling on the Chancellor to discuss their Budget representations on the afternoon of 1 February. I should be grateful if you could arrange for a brief to reach this office by close of play on Tuesday 31 January.

Mom

MISS M O'MARA

FROM: H C GOODMAN
DATE: 31 January 1984

1. MR BATTISHILL ^{31/1}
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Kemp
Mr Monck
Mr Battishill
Mr Monger
Mr Scholar
Mr C Allan
Mr Folger
Mr Hall
Mr Hart
Mr Riley
Mr Shields
Ms Seammen
Mr Aaronson
Mr Hartley
Mr Gilhooly
Mrs Imber
Mr Mercer
Mr Norgrove
Mr Portillo

MEETING WITH THE TUC

See inside cover

You are seeing the TUC on 1 February. Attached is the TUC cast list. On the Treasury side, you will be supported by the Chief Secretary, Financial Secretary, Sir Peter Middleton, Sir Terence Burns, Mr Monck, Mr Battishill, Mr Monger, Mr Scholar, Mr Hall and Mr Portillo.

2. You already have a copy of the TUC Budget representations and I am attaching other copies for those attending the meeting, as necessary.

3. The TUC have told us that immediately after the meeting Mr Murray intends to brief the media and that, as in the past, they will hand out to the press the brief of their main speaker (Mr Basnett). You may wish to confirm these arrangements at the beginning of the meeting.

4. You will not wish and the TUC will not expect you to reveal much of your own thinking about the Budget, but this will be an opportunity for hearing their views in greater detail.

5. Attached are briefing notes on the main parts of the draft TUC Budget representations for which I am grateful to others. The paragraphs below give a brief summary of the TUC proposals together with one or two possible points to make on each.

Let Murray build down the PM in the morning

6. The TUC may raise the changes at GCHQ and current pay negotiations. You will wish to avoid discussion on these subjects and may wish to say that you hope the TUC will continue to take part in constructive discussions on wider economic matters. However a short brief on pay is attached. You are familiar with the background on GCHQ and already have detailed briefing on this prepared by the Foreign Office last week. As you know the Prime Minister will be meeting the unions tomorrow. Perhaps your Private Office could check with No 10 if there are any developments there which you will need to be aware of. If necessary we will provide further briefing then.

(in hand)

TUC proposals

7. The TUC's priorities are the creation of new jobs and an increase in living standards for pensioners, those receiving benefits, the low paid and, finally, others in work. The TUC paper criticises the MTFs and calls for reflation, through a larger PSBR. Later in the year they will be publishing a full review of economic policy but at this meeting they wish to concentrate on those points which they feel the Government could implement consistently with its strategy, namely higher benefits, and higher tax thresholds and allowances. The TUC argue that these would not "provide a solution to the current economic crisis" but would help those least well-off.

The role of the Budget

8. The TUC argue that the MTFs reduces the significance of each annual Budget.

Comment

9. You could agree, and this is to be welcomed as another part of the move away from the damaging process of fine tuning the economy. The MTFs provides a broad framework over a period of years within which Budget measures can be formulated. It is certainly right to see each year's Budget measures in the context of the longer term strategy presented in the MTFs.

10. The TUC also criticise the Government's resistance to "green" Budgets and consultation over fiscal decisions.

Comment

11. (i) November is too early to set out Budget proposals. However, in 1982 the Treasury accepted the TCSC recommendation to publish an Autumn Statement which brings together information on public expenditure, national insurance contributions, the Industry Act Forecast and provides tax ready reckoners.
- (ii) The AS is then usually fully debated in Parliament.
- (iii) Government also producing more Green Papers, discussion documents and prior consultation on a range of tax matters.

Public expenditure

12. The TUC recognise that this is not an appropriate time of year to discuss public expenditure. But they do request a more open debate on LTPE and they may wish to raise this at the meeting. Mr Murray has previously written to you about this. (His letter and your reply are attached.) Apart from increases in benefits and spending on the unemployed, the paper makes specific reference to the possibility of raising spending on the NHS and on public sector investment.

Comments

13. (i) The Government welcome the debate which is taking place on public expenditure in the longer term. Pleased if TUC able to contribute to the debate. Hope Government will be able to publish a document of some kind on prospects for public expenditure. However, no firm decisions taken yet.
- (ii) Presentation of capital expenditure used in successive public expenditure White Papers gives a misleading impression of trend. Excludes most capital spending by nationalised industries, most defence spending of a capital nature and proceeds of asset sales are deducted from the total. If account is taken of these factors, public sector capital spending has been broadly constant in real terms since 1978-79.
- (iii) Government would like to encourage worthwhile capital spending but essential that projects should be appropriate to the public rather than

private sector, should earn an adequate return, and should not impose additional current expenditure.

- (iv) Far from attacking the NHS, this Government has increased expenditure on it. Spending this year on the NHS is more in real terms than ever before. Growth since 1978-79 is over 7 per cent in real terms - more than is needed to cover demographic change - and plans for 1984-85 should deliver a further 1 per cent real growth. The NHS is treating more patients than ever before.

Economic prospects for 1984

14. The TUC argue the recovery is weak and patchy and that the forecast of continued recovery published in the IAF last November was over-optimistic. They argue that with personal consumption growth trailing off and investment, exports and, on present plans, public spending weak, GDP growth will be slower (around 2 per cent) in 1984 and beyond.

Comments

15. (i) Will be publishing a further economic forecast with Budget. No reason at present to revise projections presented in Autumn Statement.
- (ii) TUC representation of recent economic developments unduly bleak, in some cases inaccurate. On average measure of GDP - best indicator of longer term movements - GDP in 1983 running above average 1979 level, and growth in 1983 likely to have been near 3 per cent.
- (iii) TUC claim that recovery is patchy ignores current industrial structure in UK. Services sector output - over half whole economy output and arguably as 'traditional' as any sector - now $2\frac{1}{2}$ per cent above average 1979 level. Within production industries, true that energy output increased strongly, but manufacturing output now 3 per cent up on trough in 1981.
- (iv) Similarly TUC view of recent developments in fixed investment myopically centred on manufacturing industry and unwarrantedly gloomy. Manufacturing accounts for less than quarter of industrial investment. Investment by construction, distribution and financial industries - 40 per cent of total industry investment - up nearly a fifth since first half of 1981. Whole economy fixed investment up about 10 per cent since first half of 1981.

- (v) Prospects much better than TUC claim. They have made a selective review of outside forecasts. Very few commentators expect GDP growth as low as 2 per cent in 1984. Consumption growth still strong - retail sales up 5½ per cent in 1983 on previous year - and business investment intentions rising fast - DoI survey points to 9 per cent rise in manufacturing in 1984 and 6 per cent increase in other sectors.
- (vi) On inflation, TUC again looking only at the most pessimistic outside forecasts. Recent forecasts have consistently erred on the pessimistic side, understating the strength of the continued underlying downward trend. Next few months might see small increase in 12-month RPI inflation but this is due to the temporary reversal of a few special factors. Not indicative of a change in trend and the 12-month rate should fall again later this year.
- (vii) No sign of balance of payments difficulties. Improving performance of exports.

... lower PSBR?

"Why the Government's Budget strategy is wrong"

16. The TUC comment on the acknowledged difficulties of forecasting the PSBR and imply that this brings into question the wisdom of determining policy on the basis of a target figure. They reserve their main fire however for the principles underlying the strategy which they say are "highly deflationary." They go on to commend the US budget deficit, which they believe is the "major expansionary impact on the US economy".

Comments

17. (i) Higher PSBR in 1982-83 than expected caused by lower than expected shortfall on cash limited programmes and higher LA borrowing, perhaps associated with increased capital spending.
- (ii) Monetary and fiscal expansion cannot lead to sustained growth, only sustained inflation. Any boost to output which occurs as a result will be shortlived.
- (iii) Important to keep public borrowing down, not true that "City has signalled it can accommodate an increase without any upward movement in interest rates".

- (iv) The growth of UK output has been higher than in any other European country in 1983 and is expected by, for example, the OECD to remain so in 1984. Recovery now entering its fourth year. This is in spite of what the TUC refer to as the "deflationary strategy".
- (v) US interest rates have risen over the last year and remain historically high in real terms. Wide recognition of damage being done by the Budget deficit.
- (vi) Risk that it may not be possible to finance the high and increasing US budget deficit without sharply higher real interest rates, or increased monetary growth and hence higher inflation. In either case the recovery would be aborted.
- (vii) The high US budget deficit is mirrored in an external current account deficit which has to be financed by capital from abroad, keeping interest rates high in other countries.

*How far
higher
than*

1984 Budget Recommendations

18. As a starting point TUC wish to see all benefits price protected, but believe 1984 Budget should be targetted at helping those most in need, whom they believe to be the unemployed, pensioners, families and the low paid.

(a) Unemployed

19. They criticise the loss in income to the unemployed and call for continued indexation of unemployment benefit and the extension of long term supplementary benefit to the long term unemployed. They also wish to see an increase in the weekly allowance for trainees on YTS, an extension of the Temporary Short-Time Working Compensation (TSTWC) scheme and more money for the Community Programme.

Comments

20. (i) No Government pledge to price protect unemployment benefit, but this is required by Statute, so legislation needed to give less. Abatement now restored and benefit marginally higher in real terms than in May 1979.
- (ii) Cost of extending long term supplementary benefit to long-term unemployed would be £500 million. More constructive use of the resources on range of employment and training schemes, worth £2 billion in 1984-85, bringing direct help to $\frac{3}{4}$ million people.

- (iii) The TUC proposal to raise the YTS allowance to £30 per week would cost £30 million. The level of the allowance must reflect the limited contribution of trainees and the value to them of the training.
- (iv) Extending the TSTWC scheme would cost over £100 million (not the £40 million TUC claim). Useful in preventing cyclical redundancy but supporting jobs, which may not be viable in the long term. Could inhibit adjustment by tying up resources which could be used more productively elsewhere.
- (v) TUC proposal to abolish limit on wage costs in Community Programme would cost £200 million and could only be afforded if number of places cut.

(b) **Families**

21. The TUC are critical of proposals to tax child benefit. Rather they call for an increase in child benefit of £3 per week and the introduction of a right to educational maintenance allowances (EMAs) for those remaining at school after 16.

Comments

22. (i) The Government has no plans at present to tax child benefit. Taxation is seen by some as a rough and ready means test, to reduce the cost of a substantial increase in the benefit. But it would slightly worsen the poverty trap, by bringing into tax those previously just below threshold.
- (ii) The November increase in child benefit brought it to its highest ever level in real terms. TUC proposals would cost £1.5 billion. Child benefit is not intended to meet the full cost of raising children. For those in need FIS and Supplementary Benefit available.
- (iii) The TUC proposal to spend £210 million implies a fairly stringent means test if EMAs also covered those in non-advanced further education. In any case the proposal is costly and would impose new administrative burdens on Local Authorities. Anyway there has been an increase in school-staying-on rates, which suggest that the absence of EMAs has not been a serious problem, although the picture this year, following the introduction of YTS is not entirely clear.

(c) Pensions

23. The TUC call for a 25 per cent increase in the State retirement pension worth £8.40 per week for a single person and £13.75 for a married couple.

Comments

24. Government pledged to maintain real value of pensions, which are now worth more than in 1979.

- (i) Full year cost of proposal £3 billion. This is not feasible.
- (ii) Not obvious that an across-the-board increase of this sort is desirable. Many retired people have occupational pensions to supplement the State provision. Those whose income is insufficient entitled to Supplementary and Housing benefits.
- (iii) Better to direct resources to those in need, than indiscriminately from working to retired population.

(d) The Low Paid

25. The TUC argue that lower real wages do not increase employment prospects. They want to see a minimum wage of two-thirds average earnings and the maintenance of young workers' wages and say that they are "attempting to mitigate the worst effects ... through collective bargaining, and a campaign against low pay and for shorter working time has been launched."

Comment

26. The burden of proof is on those who say real wages do not matter. There are many studies to show that they do, eg the Department of Employment has just published a very thorough study showing the adverse effects of higher youth pay on youth unemployment. A minimum wage would destroy jobs and so would, in part, hurt the very people it was intended to help.

(e) Poverty Trap

27. However, in the short-term they want to reduce the effects the poverty trap by raising income tax thresholds by 6 percentage points above indexation and restoring the recently announced reductions in housing benefit.

Comment

28. (i) Fully endorse views on importance of raising income tax allowances, both to ease poverty trap and to help low paid. Last two Budgets made real increases - 2 per cent in 1982 and 8½ per cent in 1983. Over life of last Government, allowances kept pace with earnings and rose 6 per cent more than prices.
- (ii) But this must be gradual process because of cost. Same problem with grandiose scheme to re-design whole tax and benefit system. Impossible to make dramatic improvement in poverty and unemployment traps without either huge cost or making poorest households worse off.
- (iii) The proposed changes in housing benefit will save £230 million overall. These amount to less than 5 per cent of the total of nearly £4 billion that will be spent on housing costs in 1984-85.
- (iv) Housing benefit goes to around 7 million people (about one in three households, or some 40 per cent of the population). Even after the changes, about 6¼ million will still be getting help. Most pensioners and all Supplementary Benefit recipients will not be affected. For most beneficiaries changes will be fairly small, averaging 96p ^{per week}. Reasonable for households with high overall incomes or with one or more working non-dependants to meet more of their housing costs.

Conclusion

29. You may wish to conclude by saying that you believe the Government is doing its part to secure sound recovery, by setting stable financial framework and that you hope trade unions will play their part on the pay front, namely through moderation in claims. This is crucial if improved efficiency is to lead to higher output and employment which we all want. It should be remembered that those in work have made gains in take home pay over the last year, and that inflation should fall to about 4½ per cent by end of this year.

See separate
form

AC Goodman
H C GOODMAN



prep

NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY,
AT 3.00 PM ON WEDNESDAY 1 FEBRUARY 1984

Those present:

- | | | |
|-------------------------------|------------------|-----|
| Chancellor of the Exchequer ✓ | Mr Basnett) | |
| Chief Secretary ✓ | Mr Bickerstaffe) | |
| Financial Secretary ✓ | Mr Buckton) | |
| Sir P Middleton ✓ | Mr Daly) | |
| Sir T Burns ✓ | Mr Graham) | |
| Mr Monck ✓ | Mr Gill) | |
| Mr Battishill ✓ | Mr Jenkins) | |
| Mr Monger ✓ | Mr Sirs) | TUC |
| Mr Scholar ✓ | Mr Tuffin) | |
| Mr Kerr ✓ | Mr Murray) | |
| Mr Monaghan ✓ | Mr Lea) | |
| Mr Portillo ✓ | Mr Callaghan) | |
| | Mr Barber) | |
| | Mr Cave) | |

MEETING WITH TUC'S ECONOMIC COMMITTEE: BUDGET REPRESENTATIONS

Opening the discussion, Mr Basnett reiterated the TUC's call for a more open and systematic consideration of the fiscal prospect through the publication by the Government of a Green Budget. He noted that the TUC's proposals this year had been more specifically targetted towards the Budget itself than in the traditional Economic Review. The ^{TUC} would, of course, continue to make representations within the NEDC and elsewhere on a wide range of industrial and trade issues. The Chancellor was aware of the TUC's considerable concern about public expenditure issues; they were drawing up their own list of priorities and hoped by this means to make an effective input into the PES process in due course. They were also interested in public expenditure in the longer-term ^{and} Mr Basnett referred to the exchange of letters between Mr Murray and the Chancellor on the possibility that the Government might publish a document on the subject. The TUC would welcome a public debate in which they would hope to play a full part.

2. Mr Basnett said that the TUC did not share the Government's confidence about the strength and durability of the economic recovery. They believed it would only be sustained if the members



of the OECD were prepared to co-ordinate their policies. He noted that in their own Budget representations, the CBI had argued that the recovery could falter in the second half of 1984 and Mr Basnett suggested that the latest Industrial Trends Survey had not been particularly encouraging about either increased investment or capacity working. At that morning's meeting of the NEDC, he had not detected that the CBI were at all complacent about the recovery or the general economic prospect. Manufacturing industry was still only feebly recovering from the recession and unemployment was at best only levelling off. Well over one million of the population had now been out of work for over a year and increasing numbers were being driven into poverty, while the social services were being starved of vital resources. It was North Sea oil which was keeping the 1981 economy afloat. Manufacturing output was rising very slowly and in / for the first time there appeared to have been a £5 billion deficit in the UK's manufacturing trade. The current consumer boom was likely to run out of steam as the reduction in the savings ratio reached its limit. The TUC questioned whether industry would invest sufficiently to replace its existing fixed assets and doubted whether any real improvement would be secured on the supply side. They believed that the only way to achieve high growth and lower unemployment was to throw off the straitjacket of the MTF5 and to expand the economy.

3. Turning to the TUC's specific proposals for taxes and benefits, Mr Basnett said that these had been directed towards the particular problems of the unemployed, women and families, pensioners and the low paid in order to close the gulf between the rich and poor in UK society. The ^{TUC} / believed that the 1984 Budget must be designed to keep faith with those groups of the population who had suffered most from the recession. If the Government continued to give primacy to the MTF5, it could offer no hope for more jobs or greater equality but / ^{he suggested that} the MTF5 itself did not have to be totally inflexible.

4. In response to a question from the Chancellor, Mr Basnett confirmed that the TUC would be releasing his statement to the press following the meeting and that Mr Murray would be holding



a press conference. Although the TUC would tell the press the points they had put to the Chancellor, they would not comment on his reaction.

5. Elaborating on the TUC's proposals, Mr Murray said that seven million people, including one-third of all pensioners, were now living below the poverty line in Britain. Those least able to bear the burden had suffered most from the recession and the TUC's Budget representations had been drawn up with this thought very much in mind. For the unemployed, the ^{TUC} were recommending that long-term supplementary benefit rates should be extended to the long-term unemployed, on the lines recommended by the Social Security Advisory Committee. They believed more resources should be devoted to the Community Programme and that the Temporary Short Time Working ^{Compensation} / Scheme should be extended. For women and families they had proposed an increase in child benefit and in the supplement paid to one-parent families, together with the introduction of Educational Maintenance Allowances for those who stayed at school after the age of 16. For the elderly, they believed there was a very strong case for increasing the single pension by £8.40 a week and the married couple's pension by £13.75. Finally, in order to help the ^{raised} low paid they recommended that thresholds and allowances should be / 6 percentage points above the level required by indexation and that the recently announced cut in housing benefit should be restored. They regarded the reduction of £230 million as totally unacceptable, pointing out that it would affect many who had already suffered delays in receiving benefit as a result of administrative problems.

6. Mr Murray acknowledged that the TUC's approach to the low paid was in sharp contrast to that of those who advocated cuts in living standards in the name of "flexibility". The TUC believed that cutting wages would not lead to more jobs. Rather it would produce poverty and thus reduce demand in the economy. All the evidence from overseas suggested that higher competitiveness went hand in hand with higher living standards. The TUC agreed that their proposals



implied a small increase in the PSBR. They suggested this might be of the order of the previous year's overshoot which had been easily accommodated. They shared the CBI's view that such an increase in the PSBR would not produce higher interest rates or higher inflation. They also agreed with the CBI on the need for higher capital spending in the public sector and Mr Murray gave notice that the TUC would be returning to this point in the NEDC and other contexts later in the year. Overall, he believed their proposals were modest and weredirected towards meeting priority needs. He hoped that the nation would judge the Government by the extent to which it met its moral and political responsibility to protect those who had suffered most.

7. Responding to the TUC's points in turn, the Chancellor said that his predecessor had considered the proposal for a Green Budget very carefully and had taken an important step in that direction with his decision to publish an annual Autumn Statement. Sir Geoffrey Howe had believed that it would not be sensible to go any further and he himself shared that view. He suggested that he and the TUC were at one on the issue of long term public expenditure in the sense that he had already agreed it would be helpful if the Government could produce a document which would carry the debate a stage further. However, he could as yet give no more details, since he had not had an opportunity to discuss the document in detail with his colleagues. He did not share the TUC's fears about the secure foundation of the recovery but did share their concern about the level of unemployment which he regarded as profoundly unsatisfactory. The NEDC's investigation of where the new jobs would come from would be useful in this context. The Government remained committed to its Medium Term Financial Strategy. Had it not been, inflation would not have fallen as it had and the present sustained recovery would not have occurred.

8. Turning to housing benefit, the Chancellor referred to the enormous increase there had been in social security spending.



Housing benefit alone now cost £3¼ billion a year. The £¼ billion reduction /which had recently been announced had been designed to meet the constraints within which the Government had to operate for the sake of the economy as a whole but had been carefully calculated to avoid falling on the most vulnerable. Thus very few pensioners would be affected by the changes and none of those on supplementary benefit. So far as pay was concerned, the Chancellor himself wanted to see real wages at their highest level sustainable and he pointed out that it was the aim of the Government's strategy to improve the performance of the economy and increase the welfare of the people. But there was plenty of evidence that excessive levels of pay raised unemployment above the level it would otherwise have reached. He noted the TUC's plea for higher capital spending in the public sector. The next Public Expenditure White Paper would set out the Government's plans/in greater detail than in the past. From this, the TUC would be able to see that despite some changes in composition, public sector capital spending had remained more or less constant in real terms since 1978-79, despite the depth of the recession through which the economy had passed.

9. Finally, the Chancellor suggested that the Government should not be judged by the contents of any individual Budget but by the performance of the UK economy over a number of years within a very difficult world context. He pointed out that the Government had succeeded in reducing inflation dramatically and had thereby provided the foundation for a sustained recovery. The UK's growth rate in 1983 had been the best of any EC country and, according to Commission and OECD forecasts, the same should be true for 1984 as well. Mr Murray commented that the Government would be judged not only by its economic performance (although that in itself could have been improved) but also by its social achievements

10. Mr Basnett welcomed the possibility that the Government would publish a document on long term public expenditure, although he agreed that the Government and TUC were likely to be on opposite sides of the debate. He disputed the Chancellor's analysis of the relationship between excessive pay/^{settlements} and higher unemployment.



Much depended on definitions but he pointed out that the public sector had itself been responsible for the growth of large areas of low pay.

11. Sir Terence Burns said that it was clear from the latest CBI survey that they had changed their view about the possibility that the recovery might falter in 1984. They now expected it to continue this year and perhaps into 1985. He acknowledged that the Treasury's own forecasts had tended to be more optimistic than most over the last 18 months but noted that most forecasts had in practice been shown to be too pessimistic about inflation and output over that period. Both consumer spending and fixed investment were continuing to rise so the economy seemed likely to grow by about 3 per cent in 1984. There was no sign as yet of any slackening in the recovery. Inflation had increased slightly in recent months, as the Government had predicted, but the rate should begin to fall again after reaching a peak in the spring.

12. Mr Lea questioned the Government's definition of a "sustainable" recovery. The TUC interpreted this as a rate of growth for the economy which would bring down the level of unemployment. If 3 per cent growth could not achieve any further reduction in unemployment, they doubted whether the present recovery was in fact sustainable. They were also extremely concerned about the alarming deterioration in Britain's trade performance in manufactures, against^a background of declining oil revenues later in the decade and the need to finance long-term unemployment. Finally, Mr Lea referred to a study of comparative replacement ratios produced by the UN's Commission on Europe. This suggested that the UK suffered a greater loss of income than any other country so that if unemployment levelled off, we should be left with a very heavy public expenditure burden. The best solution was clearly to get more people back to work but, failing that, the TUC recommended the extension of long-term supplementary benefit rates to the long-term unemployed.

13. The Chancellor agreed on the need for more jobs and drew



attention to the considerable sums which the Government was spending on special employment measures. However, he did not share the TUC's concern about the trade deficit in manufactures. There had to be some counterpart to the UK's substantial export surplus in oil and its increased invisible earnings. The alternative to higher manufacturing imports was either a shift in the exchange rate or a heavy outflow of capital. He suspected that the TUC would not favour either option. Higher imports of manufactures would, by contrast, help to increase the standard of living in the UK and, through the provision of more efficient machinery, enable British industry to become more competitive. Mr Lea suggested that the TUC's concern was based on a more dynamic view of the economy and Mr Basnett drew attention to the implications for jobs of a decline in manufacturing. However, the Chancellor pointed out that over the past year the economy had expanded at a rate of 3 per cent but had still run a balance of payments surplus of £2 billion.

14. In conclusion, the Chancellor thanked the Economic Committee for their representations to which he and his colleagues had listened attentively.

15. The meeting closed at 4.00 pm.

Mom

MISS M O'MARA

2 February 1984

Distribution:

Ministers and officials present

Mr Folger

Mr Hall

Ms Goodman

Ms *Scanner*

ANNEXES

- A - Correspondence with Mr Murray on LTPE
- B - Economic Prospects
- C - Real Wages and Employment
- D - Social Security
- E - Pay

DL return to 82/2
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PROTECTING THOSE IN NEED

TUC Recommendations on
Taxes and Benefits for the
1984 Budget

CONTENTS

INTRODUCTION	3
The role of the Budget	3
The TUC's Priorities	4
ECONOMIC PROSPECTS FOR 1984	5
WHY THE GOVERNMENT'S BUDGET STRATEGY IS WRONG	7
An Alternative Approach: at home and abroad	8
THE TUC's 1984 BUDGET RECOMMENDATIONS	9
The Unemployed	10
Families	11
Pensioners	12
The Low Paid	12
SUMMARY AND CONCLUSIONS	14

INTRODUCTION

1 In the Budget the Government will be announcing important decisions on taxes and social benefits which will crucially affect the fortunes of different groups in our society. These decisions will reveal its priorities about the distribution of incomes and resources in society. That too is the focus of this document. The Government could do much more, if it were prepared to expand the economy and cut unemployment. The Government has repeatedly turned its back on this responsibility in previous years, however, and shows every sign of doing so again.

2 The TUC has set out the type of alternative economic, industrial and social policies which would put people back to work and improve our public services by raising real output and incomes. These policies are still relevant, and the TUC will be continuing to press them on the Government. However, even within the narrower role which the Government has set for the Budget itself, a move towards the priorities set out in this submission would mark a major turning point. It would indicate a recognition of the priority which must be given to those who are least well off in society.

The role of the Budget

3 Despite the public attention that it still receives, the significance of the Budget has in fact been considerably reduced by two features of this Government's approach. The first is that successive Budgets have been constrained by the Government's Medium Term Financial Strategy — first established in 1980. This sets a series of rolling targets for the money supply and the Public Sector Borrowing Requirement — a framework of purely financial targets into which decisions about the real economy have been squeezed. A principal effect has been to cut down drastically the range of genuine options considered for each Budget.

4 This effect has been reinforced by the Government's resistance to any notion of opening up the debate about Budget options or consulting outside the ranks of its trusted few, other than by orchestrated 'leaks'. The TUC, in common with a wide range of other organisations, has consistently argued for a more open and systematic discussion of options before the key decisions are taken. We have supported all those — from the Treasury and Civil Service Select Committee to the Institute for Fiscal Studies — who have argued for a 'green' Budget, one which does not simply follow the tram lines of the Medium Term Financial Strategy.

5 Unhappily the Government's response to this pressure has been no more than token. The Autumn Statement, published in November, contains the key decisions on public expenditure which set the context for the Budget. It is now a better presented and more readable document but, despite its format it now contains *less* usable information, not more, and does not provide for consultation and debate on economic strategy.

6 The TUC has published its response to the Autumn Statement. It has pointed out that the policies confirmed in the statement are unlikely to prevent unemployment rising still further in the year ahead. The projections for growth in output and demand — unsatisfactory enough as they are — seem to be more optimistic than is justified by an analysis of likely developments in consumption, investment, exports and stocks. At the same time the outline plans for public expenditure will at best leave vital public services in their present precarious state; if, as seems likely, the inflation rate rises above the Chancellor's forecast, there will be further real cuts.

7 The TUC has also intervened in the debate about the longer-term future of public expenditure, sparked off by the 'leaking' of a report on the subject drawn up in Whitehall. We have called for this report to be published so that the public at large can join in the debate about the implications for large areas of public expenditure of the Government's macroeconomic policy. As our own contribution to that debate we have set

in motion a process of analysis and discussion within the trade union Movement about our own priorities in public expenditure. Through this the TUC will be aiming to make a systematic and informed contribution to the PESC exercise later in the year. One of the priorities which the TUC will be identifying will be the need for a major programme of capital projects to help the hard pressed construction industry.

8 In previous years TUC Budget recommendations have been included within the TUC annual Economic Review, which also covers wider and longer-term policy issues. This submission does not constitute our 1984 Economic Review. Later on in the year the TUC will be publishing statements which will include a full-scale review of the economy and of Government policy and explaining the contribution which the TUC's alternative economic policies could make to resolving the current recession. This present document therefore has a clear focus. It is not about the Autumn Statement. Nor is it about public expenditure; nor is it a statement of the full range of TUC policies. It is about the 1984 Budget.

9 The TUC recognises the limitations of any one Budget statement. Even with a Government that was genuinely trying to rebuild our shattered economy there is a limit to what can be achieved in a single year's measures. That is why the TUC has always been careful to indicate the need for sustained action over a period of years. Our programme of publicly-financed capital investment — set out in *The Reconstruction of Britain* — shows that co-ordinated measures over a five-year period are needed in order to rebuild the economy's infrastructure. Similarly our strategy for manpower, education and training balances immediate action to protect the jobless with longer term measures to equip our people with the skills required in the 1990s and beyond.

The TUC's Priorities

10 It is right for a Government to ask of any organisation submitting views on the Budget what its priorities are. The TUC can give a clear answer to that question. As we

stated last year in *Partners in Rebuilding Britain*:

- * **The first call** on the nation's resources must be the creation of jobs for the unemployed;
- * **The second call** must be the improvement of living standards for those most in need, including pensioners, recipients of benefits and the low paid, and
- * **The third call** must be the improvement of living standards for the rest of those in work, both from earnings and from improved public services.

The TUC remains committed to this statement of priorities.

11 As the analysis of the economy's prospects in the next section shows, however, if the Government maintains its present policies or chooses its course of action solely from within the confines of the Medium Term Financial Strategy, unemployment will continue to rise and any chance of a recovery will dissolve. That is why it is so urgent that the Government should change course and take responsibility for the level of output and employment in the economy. Only if Government acts to expand the economy can there be a sustained recovery.

12 The TUC has shown in the past, and is willing to demonstrate again, that such action is possible. Faced with a range of policy objectives — high unemployment, low inflation, economic growth and a positive balance of payments — there is scope to design packages of measures which allow for progress across a broad front. Recent work by the National Institute, and by NEDO using the Treasury's economic model, has proved this.

13 Our overwhelming fear, however, is that the Government is still not ready to listen to this message. All the indications are that the 1984 Budget will be a reaffirmation of the existing policy stance, rather than a decisive break with a failed approach.

14 In these circumstances it is not enough to repeat yet again the case for an alternative strategy. The TUC's view, reflected in this submission, is that if the Government is not going to do anything to achieve economic

growth and higher employment then our task must turn to protecting those who are suffering most from the effects of the Government's policies.

15 In part the trade union Movement will approach this task through collective bargaining, where our priorities for the period ahead will be the campaigns against low pay and for shorter working time.

16 But action within the Budget, in the ways described in later sections, will also be required to protect those who are bearing the brunt of the recession.

ECONOMIC PROSPECTS FOR 1984

17 The much heralded economic 'recovery' remains weak, patchy and shows few signs of being sustained beyond 1984. In stark contrast to the Chancellor's optimism about the prospects of inflation-free growth, a range of independent forecasting groups have questioned the strength and durability of the 'recovery'. The November NIESR Review pointedly contained a lower forecast for GDP growth in 1984, and a higher projection for unemployment, than the Treasury. Moreover, a considerable number of city analysts have refused to share the Chancellor's optimism and their view is confirmed by the latest CBI quarterly Trends Survey which concludes that the 'recovery' is faltering.

18 A wide consensus therefore indicates that output growth will tail off next year, industrial production will remain stagnant and unemployment will continue to rise. At the same time inflation is expected to continue to rise until the end of 1983, with no fall off in 1984. The TUC has analysed the independent forecasts for 1984 and this analysis suggests that:

- * **Output Growth** will decline from about 2.5 per cent in 1983 to around 2 per cent;
- * **Manufacturing Output** will continue to grow by only 1-2 per cent, leaving it over 15% below the 1979 level;
- * **Registered Unemployment** will grow by around 10,000 a month to 3.3 million;
- * **Inflation** will remain at about 6 per cent through 1984;
- * The **Balance of Payments** could move into deficit, following a sharp fall in the surplus in 1983, if the current trend in imports continues.

19 The *weakness* of the recovery is demonstrated by the fact that national output is still below the 1979 level, and the rate of growth is less than a third of that currently being experienced in the USA.

20 The *patchiness* of the recovery is shown by the fact that much of the increase in output can be attributed to the oil sector, leaving many traditional sectors in a continued state of slump.

21 The doubts about the *durability* of the recovery are based on the fact that it can largely be attributed to a consumer boom since mid-1982. The boom is however likely to peter out during 1984 for the following reasons. First, the decline in the savings ratio, which has financed much of the increase in personal consumption, is likely to come to an end. As inflation has come down, so the amount people have saved (the savings ratio) has declined from 12.8 per cent in early 1981 to 8 per cent in the second quarter of 1983 which is very low by historical standards and so unlikely to fall any further. In fact what has happened is that whilst the Government has been holding down public borrowing, personal borrowing has risen very sharply.

22 There are a number of points to be made about this. It shows the lack of logic in Government policies that cut public borrowing — which could help stimulate domestic economic activity — but which result in a boom in personal borrowing which has led to sharply increased spending on imports. In fact the foundation of the increase in consumption — increased personal borrowing — contrasts sharply with the ideas of thrift and saving that the Government holds out as the virtuous basis for rebuilding the economy. Furthermore, whereas public sector borrowing can be used to provide social goods and services whose benefits are equitably distributed, private borrowing is associated with a much greater inequality in the distribution of resources. Those who are least well off have the least access to such sources of finance and so progressively lose out. The unemployed cannot get a mortgage or a credit card loan. They are not enjoying the fruits of this consumer boom.

23 Second, the abolition of HP controls in July 1982 encouraged people to increase

their level of indebtedness. This has risen rapidly over the last 18 months and is approaching its upper limit; indeed the effect of the change to HP arrangements is likely to be one-off and short-lived.

24 Third, the consuming power of the unemployed is falling rapidly as some initial cushioning from redundancy payments gives way to totally inadequate benefit payments.

25 Fourth, the consumer boom has not sparked off an investment upturn which would have helped to sustain the recovery. Manufacturing investment is expected to remain weak in 1983-84, following a fall of over a third since 1979. This in turn reflects the uncertainty which exists in the minds of most employers over the durability of the 'recovery'. It also reflects the fact that domestic order books have benefited little from the consumer boom as much of it has leaked into imports. This helps to explain the fact that when growth in Gross Domestic Product (GDP) is measured in expenditure terms — as the Government tends to highlight — economic performance appears considerably better than when it is measured in output terms.

26 Finally, the economic recovery will not be sustained by a major stimulus from the balance of trade, exports are only expected to grow by around 3.5 per cent in 1984 and most forecasters see imports growing faster. *The prospects for 1984 and beyond, on current policies, are therefore not encouraging as output growth will be low and unemployment will continue to rise.*

WHY THE GOVERNMENT'S BUDGET STRATEGY IS WRONG

27 The Government's strategy is based on controlling the PSBR but Treasury forecasts of the PSBR have been wildly inaccurate. A recent Treasury study has shown that the average error in the PSBR forecasts made at the time of the Budget for the year ahead, for the period 1972-1983, was £4.4 billion or 1.6 per cent of GDP (in 1982-83 prices). There have even been large errors in the PSBR forecast made at the Budget for the year just finishing. For example, the Government claimed in the 1983 Budget that the PSBR for 1982-83 would be £7.5 billion, whereas it had to announce shortly afterwards that it was in fact £9.1 billion.

28 The reasons for these errors are readily apparent, as the PSBR is simply the difference between two very large numbers, total spending and total revenues, which are themselves difficult to forecast accurately. A small error on either side of the account can lead to an error which is substantial in relation to the PSBR itself. For example, a 1 per cent over-estimate of expenditure and a 1 per cent under-estimate of revenues combine to produce an error of £3.5 to 4 billion in the PSBR.

29 There was considerable argument in the Conservative Party during the run up to the 1983 Budget over whether the total budget adjustment should be £1.5 or £2.5 billion. As it turned out, the PSBR forecast error easily exceeded the gap between the so-called 'wet' and 'dry' camps.

30 The TUC has, however, consistently argued that this strategy is fundamentally misconceived in principle even discounting the practical difficulties which it has encountered. The highly deflationary strategy may have succeeded in reducing inflation, at least temporarily. It has also produced one of the lowest borrowing requirements in the OECD as the diagram below shows. The diagram

also shows that even before the Government embarked on its deflationary strategy, the UK was by no means out of line with other more successful countries such as Japan or Germany in the proportionate size of public borrowing. This factor therefore cannot explain the UK's poor relative economic performance over the years (see table over page). On the contrary, by focusing on this measure and trying constantly to reduce it, the Government has trapped the economy into a vicious circle of low growth, declining tax revenues and deepening expenditure cuts. In the absence of North Sea Oil revenues, the severity of the decline and expenditure cuts would have been even more catastrophic.

31 The TUC has shown in the 1982 and 1983 *Economic Reviews*, with the help of the Treasury model, that the introduction of more expansionary fiscal and monetary policies would provide a major sustained stimulus to demand and output growth. However, for those who doubt the reliability of computer simulations, there is now direct evidence from the USA that such a strategy can work.

32 Over the last 12-18 months, the US Administration has relaxed its monetary targets and expanded the budget deficit by over 75 per cent. This has had a major expansionary impact on the US economy, as the September Bank of England Quarterly Bulletin acknowledged, as real output growth has reached record levels of over 7 per cent per year, in the second and third quarters of 1983. This has resulted in a sharp rise in employment throughout the economy — in manufacturing, construction and services — and falling unemployment totals. There are also signs that the boom is beginning to produce an investment response as the US Administration appears committed to maintaining an expansionary fiscal stance during 1984.

33 Furthermore, the rapid expansion of output has not resulted in either an upsurge in inflation or interest rates which have always been the excuses of the UK Government for not acting. In fact the US Treasury Secretary has rejected the idea that US Budget deficits are keeping interest rates high as he has said that "there is no hard data to show that deficits will cause interest rates to rise".

General government financial balances		1979	1980	1981	1982	1983	1984
Surplus (+) or deficit (-) as percentage of nominal GNP/GDP	United States	+0.6	-1.3	-1.0	-3.8	-4.4	-3.9
	Japan	-4.8	-4.5	-4.0	-4.1	-3.4	-2.5
	Germany	-2.7	-3.2	-4.0	-3.9	-3.7	-3.1
	France	-0.7	+0.3	-1.9	-2.6	-3.4	-3.3
	United Kingdom	-3.2	-3.3	-2.5	-2.0	-2.5	-2.5
	Italy	-9.5	-8.0	-11.7	-12.0	-11.6	-12.4
	Canada	-1.9	-2.1	-1.2	-5.3	-6.5	-5.7
	Total of above countries	-1.8	-2.5	-2.6	-4.1	-4.4	-4.0
	Australia	-1.5	-1.0	-0.1	+0.4	-4.4	-4.6
	Austria	-2.5	-2.0	-1.8	-2.5	-3.5	-3.5
	Belgium	-6.9	-9.3	-13.1	-12.2	-11.3	-11.3
	Denmark	-1.6	-3.2	-7.1	-9.1	-9.3	-8.3
	Netherlands	-3.7	-3.9	-4.8	-6.4	-6.9	-6.4
	Norway	+1.9	+5.7	+4.8	+4.4	+2.1	+1.5
	Sweden	-3.0	-4.0	-5.3	-6.9	-8.0	-8.2
	Total smaller countries	-2.8	-3.0	-4.1	-4.8	-6.2	-6.2
	Total of above countries	-1.9	-2.6	-2.7	-4.1	-4.6	-4.2

SOURCE: OECD

In 1981 the US Budget deficit was 25 per cent below the 1983 level, but real interest rates have not increased.

34 Although complementary industrial policies will clearly be needed to sustain the US expansion in the long run, and not withstanding the differences between the US and UK economies, the current experience in the US undermines the UK Government's claim that it is powerless to act. It demolishes the myth now being pushed by the Government that it is responsible for creating a broad based international consensus on the need for deflationary cutbacks in budget deficits. At the most this can be said to be true for Europe, where the low growth prospects for 1983-84 present a sharp contrast to the US. But even then there are considerable differences in degree between France, for example, where unemployment has only increased marginally, and the UK.

An Alternative Approach: at home and abroad

35 The TUC recognises that a one year Budget package will only have a limited impact and so will need to be followed up in subsequent years by additional expansionary measures. In other words, the Government should introduce a Medium-Term Output

and Employment Strategy in place of its discredited MTFs. What this would be doing in effect would be to use the massive resources which the country is now wasting in financing high levels of unemployment to put people back to work producing real output and services to meet actual needs. This is the economics of commonsense.

36 A start could be made in a single Budget, although the TUC has always recognised that such a policy change would need to be part of a reappraisal and change of direction over a longer period of time. In such a context the alternative Budget packages which the TUC has put forward in previous years would be one important part of an alternative strategy. The first requirement would be a recognition on the part of Government that its approach to the management of the economy should be to put the nation's resources to work.

37 The benefits from domestic expansion would of course be multiplied if it formed part of a co-ordinated world reflationary strategy. This has been clearly demonstrated by the European Trade Union Confederation, using the OECD's Inter-Link model of the world economy. The UK Government is in a position to build a new consensus based on output and employment growth rather than retrenchment, as it will be the host to the next

Summit of the major industrialised nations in June 1984. The TUC will in due course set out the basis of a strategy which could be adopted at the London Summit.

38 The Government's strategy based on the MTFS, is therefore not only fundamentally flawed in practice but it is misconceived in its objectives. It has trapped the Government into a logic in which it is prepared to spend vast sums of money on the cost of unemployment rather than using the money constructively to employ people to produce real goods and services. Its consequences are only too apparent as the manufacturing base of the economy continues to decline and many public services are under threat.

THE TUC'S 1984 BUDGET RECOMMENDATIONS

39 Official Government statements, as well as unofficial leaks, indicate that the pattern of recent Budgets is again being followed, with the Chancellor castigating the Cabinet for being spend-thrift and issuing warnings about the dangers of excessive borrowing. The only difference this time perhaps is that the Chancellor has not been able to call on the assistance of the City in pushing for further cuts, as it has barely reacted to the announcement that the PSBR may overshoot its 1983-84 target by £1.5-£2.5 billion. The City has signalled that it can accommodate the extra borrowing, without any upward movement in interest rates.

40 The Budget debate within the Cabinet is likely to centre on whether the 1984-85 PSBR target of £8 billion should be strictly adhered to or whether it should be allowed to overshoot. However, all the evidence is that the Government has been prepared to take a less rigid view of the targets set by the MTFS, particularly in the last year in the run up to the General Election. The TUC therefore refuses to accept that the MTFS provides an unambiguous guide to fiscal policy. The key question is who benefits, or loses, from these changes. In contrast to the narrow vested interests which have influenced the Government's policies in recent years, the TUC is in a position to reflect the interests of the broad mass of the working population, the unemployed, pensioners and other groups within society.

41 The TUC firmly believes that the top priority within the Budget should therefore be the maintenance and improvement of the living standards of those most in need and those who have suffered most from the Government's policies. The Government has over the last four years succeeded in creating a more unequal society.

42 These are some of the stark facts about inequality in Britain today:

- * More than 7 million people live on incomes no more than 40 per cent above supplementary benefit rate — the level generally regarded as the poverty line.
- * One in seven families live below the poverty line.
- * One-third of all pensioners are living on or below the poverty line.
- * The top 10 per cent of the population own 60 per cent of the nation's wealth.
- * Over one million people have been unemployed for over a year, dependent on wholly inadequate levels of benefit.

43 These growing inequalities have in turn been reinforced by the attack being made on public services, such as the NHS and the education system. The rich are of course able to escape the consequences by purchasing private health care and education, which are beyond the reach of the vast majority of the population. That is why the TUC has opposed the recent further cuts in public expenditure and calls again here for *real* guarantees about the future of the National Health Service and other vital areas of the public services.

44 The Government has attempted to justify this by propagating a number of myths and fallacies, which claim that the rich need greater incentives to produce even more wealth while the unemployed need to be driven into even greater poverty in order to have an incentive to work. This has resulted in large tax cuts for the very rich and cutbacks in unemployment benefit and social security provisions for the unemployed and poor. No hard evidence has of course been produced to support the Government's case, but this has not deterred them.

45 The trade union Movement is attempting to mitigate the worst effects of these policies on the low paid through collective bargaining, as a campaign against low pay and for shorter working time has been launched. However, there are limits to what can be achieved through this means, and it is

the Government's responsibility to provide adequate incomes for those not employed.

46 The TUC, therefore, believes that the Government should take action in the 1984 Budget to help four groups that have suffered badly over the last four years. These are:

- * The Unemployed
- * Pensioners
- * Families
- * The Low Paid

Specific measures are proposed below but as a starting point the TUC stresses the vital need for all existing benefit payments and allowances to be fully indexed against inflation in order to maintain their real values. For example, the value of the weekly allowance for trainees on the MSC's Youth Training Scheme has been seriously eroded by the failure of the Government to increase the allowances in line with inflation. The TUC believes the weekly allowance should be increased immediately from £25 to £30.

The Unemployed

47 The unemployed not only lose the dignity and status associated with employment, but they also experience a severe drop in income. This was true before 1979, but since then the income gap between those employed and unemployed has widened even further as flat rate unemployment benefit rates have been cut, the earnings related supplement has been abolished and tax rebates withheld. The result is shown in a recent United Nations report which indicates that the loss of income suffered by the unemployed in the UK is greater than in almost every other major industrialised country. In Britain a married worker with three children receives 47 per cent of his work income if he loses his job; in West Germany he would receive 75 per cent and in France 90 per cent. Any move to de-index future increases in unemployment benefits would accentuate this and lead to even greater poverty. A recent TUC/Unemployment Alliance leaflet, *No Case for Cuts*, has shown that there is no justification for attacks on the unemployed. The situation is even worse for the long-term unemployed — over one-third of the total — who have exhausted their savings and any redundancy payments.

48 These people receive only the short-term rate of supplementary benefit. When the separate long-term rate of supplementary benefit was introduced in 1973, the long-term unemployed were excluded from its scope, for fear of reducing their incentive to work. In present circumstances when however great and determined the effort to find work, sufficient jobs are simply not there to be found, the denial of the long-term rate to the majority of the unemployed is wholly unjust. The differential between the two rates is now 27 per cent for a single householder and some 25 per cent for a couple — in cash, £11 a week. The Social Security Advisory Committee recently concluded that it seemed “manifestly wrong” that unemployed families should suffer this shortfall when they were already at a level of income where differences of pence, let alone pounds, could matter deeply.

49 The TUC, therefore, calls on the Government to:

* Make a commitment to continue the indexation of future unemployment benefit increases. This involved no additional cost as this is assumed within existing expenditure plans.

* Extend long-term supplementary benefit rates to the long-term unemployed as recommended by the Social Security Advisory Committee, as the first step towards an adequate unemployment benefit system as set out in the *TUC Benefit Charter for the Unemployed*. This would involve additional expenditure of £200 million between November 1984 and April 1985. This means an £11 a week increase for families with children and £7 a week increase for single people.

50 Over a million people have been out of work for more than a year. They need immediate help through temporary jobs paying the rate for the job for the hours worked. To do this the Community Programme should be strengthened by increasing its 1984-85 cash limit by £170 million in order to abolish the £60 average weekly wage cost restriction in order to uprate it to the average wage cost of the former Community Enterprise Programme. This would cost £170 million.

51 In addition, the temporary short-time working compensation scheme, designed to prevent redundancies, should be extended to 1984-85 at a cost of £40 million.

Families

52 The Government's economic policies have had a highly damaging impact on women in general and on families in particular. It has attempted to force many women back into the home either through redundancies or through the removal of services, such as nursery schools and care for the elderly, which make it possible for women to go out to work. The result of losing a key element of many family incomes has been to lead to a serious rise in poverty. The reversal of the Government's economic strategy would be the most effective means of reversing this trend. In the absence of this, one of the most effective means of assisting families would be to increase child benefit allowances.

53 As the recent report of the House of Commons Treasury and Civil Service Select Committee pointed out, child benefit is the major way of transferring income to families with children, of improving the net incomes of the low paid with children and by helping families during a period when needs are high relative to income. However, the Government, rather than considering improvements, is considering whether to tax the benefit in future and whether to reduce the real benefit level in 1984, and has been consistently cutting the extra support given to National Insurance claimants with children. Either of these steps would be disastrous for the families affected.

54 The TUC therefore believes that the Government should:

* Not tax current child benefit.

* Increase child benefits by £3 a week from £6.50 to £9.50, and increase the special child benefit for one-parent families by £2 a week from £4.05 to £6.05. This would result in additional expenditure of approximately £600 million in the 1984-85 financial year.

55 Young people are disproportionately affected by current high unemployment

levels. This leaves those approaching the minimum school leaving age with a difficult choice — to join the YTS which provides a weekly allowance — or to remain in full-time studies without any financial support. Only a minority of local education authorities offer educational maintenance allowances (EMAs) for young people over 16 years old, and these are set at varying and very low levels. Young people from poor families are therefore at a great disadvantage if they wish to remain in full-time study. There are strong social and educational reasons, therefore, for introducing the right to EMAs for all young people remaining in school beyond 16. The TUC believes these allowances should initially be provided on a means tested basis to discriminate in favour of the least well off. The full allowance should be equal to the supplementary benefit level they would receive if they were unemployed, currently set at £16.50 a week. This would cost £210 million.

Pensioners

56 Pensioners remain one of the most deprived groups in society. The Diamond Commission highlighted the link between old age and poverty. Since then, their plight has got worse, as although pensions have been increased in line with inflation, the link with earnings has been dropped. As earnings have generally increased by more than prices, the relative position of pensioners has therefore fallen.

57 The TUC, therefore, believes that urgent action is needed to help pensioners. Increasing thresholds, as set out in the next section, will provide some relief for those pensioners who are severely affected by the poverty trap. In addition, as a first step in increasing retirement pensions towards the TUC target of half average earnings for single people and two-thirds average earnings for married couples, the Government should:

* increase the single person's pension by £8.40 from £34.05 a week to £42.45 and the married couples pension by £13.75 from £54.50 a week to £68.25. This would involve extra expenditure of £750 million between November 1984 and April 1985, in addition to inflation proofing.

The Low Paid

58 The Government has led a determined attack on the low paid, in the belief that it will 'price workers back into jobs'. This has resulted in schemes which are designed to force down young workers' wages, and efforts to undermine long established Fair Wages legislation. The Government has again provided no concrete evidence to support its case, even taking into account the recent Department of Employment Research Paper. A wide range of studies, including an earlier study by the Department of Employment, in fact indicate that there is no link between young people's wages and employment levels. The only consequence will, therefore, be to drive more people below the poverty line, leading possibly to even higher unemployment levels.

59 The TUC believes that workers have a right to decent wages and conditions. We have, therefore, set a minimum wage target of two-thirds of average earnings. Unions are currently seeking to achieve this objective through collective bargaining.

60 The Government could also make a major contribution to assisting the position of the low paid by dropping its efforts to force down wages and through changes to the tax system. Many low paid workers are now paying more income tax than ever before. The starting income level for paying tax for a married couple has fallen from two-thirds of average male earnings in 1950 to just one-third in 1983. In addition the low paid and the unemployed are disproportionately affected by indirect taxation, including VAT and National Insurance contributions. In fact the inequality of income has been made much sharper by the Government's tax policies, as shown by the fact that after-tax earnings of someone on five times the national average wage has increased by almost ten times that of someone on average earnings over the last five years.

61 This has served to reinforce the 'poverty trap' which the Government was pledged to tackle. This trap is caused by the combination of low tax thresholds and the graduated, but rapid, removal of means-tested benefits. The result is to produce very high effective marginal tax rates at low levels

of income. The Treasury and Civil Service Select Committee calculated that 500,000 low paid families faced marginal rates of 60 per cent or more, as compared with only 70,000 high income taxpayers.

62 The problem of the poverty trap was made worse by the cuts to housing benefit announced in the Chancellor's Autumn Statement. From April, benefits will be reduced for families with working 18-20 year olds living at home and they will tail off at a faster rate as income rises. As a result 600,000 people will have their entitlement ended and the Institute for Fiscal Studies has estimated that this cut will double the number of people affected by the poverty trap.

63 A major overhaul of the tax and benefit system, in order to take many of the low paid out of the tax bracket is therefore urgently needed. However, this would in turn require a reversal of the Government's deflationary strategy in order to provide the necessary resources. Nevertheless, the Government could take immediate action in the 1984 Budget to help the low paid by raising tax thresholds in order to begin to reverse the movement over the last thirty years towards an ever-lower starting level for paying tax which has been greatly to the detriment of the low paid and has deepened the poverty trap. It is crucial to emphasise that the improvements this would bring to the low paid would be nullified if the Government were to continue its attacks on real wages.

* Increasing *income tax thresholds* and allowances by 6 per cent, over and above the index-linked increase would cost approximately £1 billion in the 1984-85 financial year.

* Restoring the cuts in *housing benefit* would cost £230m.

64 The TUC believes that these are the priorities which the Government should adopt. However, far more could and should be done both to help those on low incomes and to generate sustainable output and employment growth. The TUC is joined by many groups, including the CBI, in believing for example that the Government should expand public investment programmes to build more houses, restore our roads and

sewers and provide modern schools and hospitals. Our programme for the *Reconstruction of Britain* sets out in detail how the economy's infrastructure should be rebuilt and how this would generate jobs and output throughout the economy.

65 The Government should be expanding rather than contracting our public services, such as the NHS, to meet real needs and problems. We have the resources — we are currently wasting over £17 billion financing the cost of unemployment — but they need to be used with imagination and vision to build a better society.

66 Finally, it should be stressed that the economic debate on which tax and expenditure changes should be made should not simply be concentrated in the few months before a Budget. In the coming months the TUC will, therefore, be setting out its priorities for public expenditure and the tax structure, as well as engaging the Government in debate on when and how new jobs will be created.

SUMMARY AND CONCLUSIONS

67 This paper shows that:

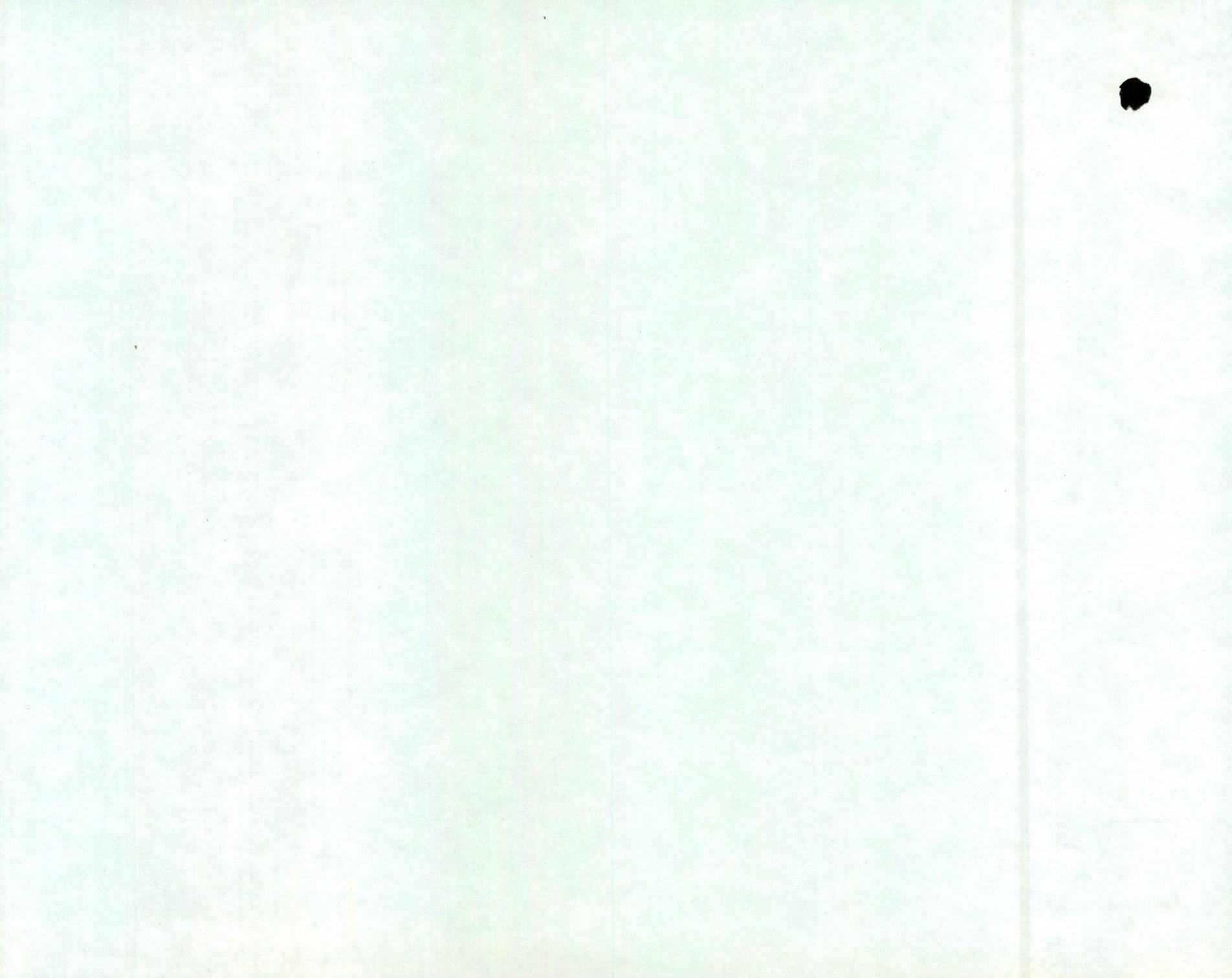
- * The economic prospects for 1984, on current policies are gloomy as output growth will fall and unemployment will continue to rise.
- * The Government's economic strategy is based on financial targets which have been highly deflationary.
- * The TUC believes that a sustained recovery will only occur if the Government reverses its Budget strategy and expands the economy.
- * The TUC's case is supported not only by computer simulations, but also by the experience of the US economy in 1983 where a large expansion of the Budget deficit has contributed to a rapid growth in output.
- * Unfortunately, the Government appears oblivious to failures of its policies and is likely to reaffirm its commitment to the Medium Term Financial Strategy.
- * At best, the Government may marginally relax the extremely tight targets. This is totally inadequate as it will neither sustain the weak recovery nor prevent a further rise in unemployment.
- * However, even such small changes can have some impact on particular groups. The TUC believes that the key priority of the Government, if it is not going to change the broad thrust of its strategy, should therefore be to help the least well off and those who have been most seriously affected by the recession. These include the unemployed, women with families, pensioners and the low paid.

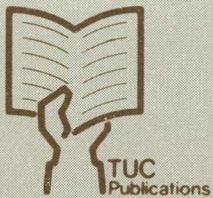
- * The Government should, therefore:
 - extend long-term supplementary benefit rates to the long-term unemployed;
 - increase child benefits;
 - increase pensions;
 - raise tax thresholds and allowances;
 - restore the cuts in housing benefits.

* These policies will only help to soften the blow of the Government's policies and would not provide a solution to the current economic crisis.

* A major sustainable recovery which would produce a sharp reduction in unemployment will only occur if the Government takes up its responsibility for the level of output and employment in the economy.

January 1984





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UNCLASSIFIED

26 January 1984

Dear John,

GCHQ Statement

I thought you might find it useful to have the enclosed copies of a briefing pack which has been prepared here for use by press officers and others in responding to questions arising from Sir Geoffrey Howe's statement in the House yesterday.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

CH/EXCHEQUER	
REC.	27 JAN 1984
ACTION	Mr Hall
COPIES TO	Mr Kemp
	Mr Lovell
	Mr Kilgatt

Note: already copied to
CST, PST, ST, MST. Sir P Middleton

J O Kerr Esq
HM Treasury
Parliament St
London SW1

GCHQ AND THE EMPLOYMENT PROTECTION ACTS

As briefing material on the Foreign Secretary's Commons statement of 25 January, I attach:

- i) the statement;
- ii) the general briefing line; and
- iii) supplementary questions and answers.

All of this material can be used on the record.

Any further questions may be referred to Richard Clarke, News Department, Foreign and Commonwealth Office (233-8618).

STATEMENT BY THE RIGHT HON SIR GEOFFREY HOWE QC MP,
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS,
IN THE HOUSE OF COMMONS ON WEDNESDAY, 25 JANUARY 1984

GCHQ AND THE EMPLOYMENT PROTECTION ACTS

With permission, Mr Speaker, I will make a statement on Government Communications Headquarters and the Employment Protection Acts.

As the House knows, the Employment Protection Acts contain provisions which enable the Government to except Crown employees from the application of the Acts. These provisions can be used only for the purposes of safeguarding national security, and reflect the acknowledged need for particularly sensitive functions of Government to be protected so far as possible from the risk of exposure or disruption.

Government Communications Headquarters is responsible for intelligence work of crucial importance to our national security. To be effective this work must be conducted secretly. Moreover, GCHQ must provide a service which can be relied on with confidence at all times. It is clear, therefore, that the conditions envisaged in the special provisions of the Employment Protection Acts exist in this case.

The House will wish to know that, for these reasons, I have today signed Certificates under Section 121(4) of the Employment Protection Act 1975 and Section 138(4) of the Employment Protection (Consolidation) Act 1978, excepting GCHQ employees from the application of the relevant provision. The Certificates have immediate effect and new conditions of service are at the same time being introduced at GCHQ. Under these new conditions, staff will be permitted in future to belong only to a Departmental Staff Association approved by their Director.

The very special nature of the work of GCHQ will be apparent from what I have said. The action which I have taken stems directly from that. The Government fully respects the right of civil servants to be members of a trade union, and it is only the special nature of the work of the GCHQ which has led us to take these measures. I can assure the House therefore that it is not our intention to introduce similar measures outside the field of security and intelligence.

GCHQ staff are being informed of these measures this afternoon.. Those who decide to remain at GCHQ will each receive a payment of £1,000 in recognition of the fact that certain rights which they have hitherto enjoyed are being withdrawn from them in the interests of national security. Those who do not wish to continue to serve at GCHQ will be offered the opportunity of seeking a transfer to another part of the Civil Service.

GCHQ AND THE EMPLOYMENT PROTECTION ACTS

GENERAL BRIEFING LINE

Ministers decided on this course of action only after very careful consideration. Among the factors which they had to bear in mind were:

- i) the effect of TU action on GCHQ (33 man years lost since 1979 plus other disruption short of withholding labour);
- ii) the very special position of GCHQ as an intelligence agency engaged in 'intelligence work of crucial importance to our national security';
- iii) the fact that similar certificates have been issued (by the last Labour Government in 1976, using Labour's 1975 Employment Protection Act) for other security and intelligence services; and
- iv) the fact that it was not feasible to ensure the effective working of GCHQ by other measures, for example, a no strike agreement.

This decision is not in any way an attack on trade unions or their membership. Special conditions apply in the field of security and intelligence, and there is no intention to introduce similar measures outside the field of security and intelligence.

GCHQ management will consult staff representatives to find other ways of conducting industrial relations after 1 March 1984. They will invite staff to make proposals for a new departmental staff association. Details are for discussion but it is envisaged that the association will negotiate on the full range of issues of concern to staff. GCHQ staff will of course continue to be part of HCS and to be employed on the National Pay and Conditions of Service of the HCS.

Work on this problem began before the Prime case and interest in the lie detector. Yesterday's announcement has nothing to do with moles, spies, etc and is not a reflection on the loyalty of Trade Unionists. It aims to prevent a recurrence of the very real disruption which GCHQ faced in 1979 - 81 and the risk of GCHQ's work being discussed in, for example, Industrial Tribunals.

SUPPLEMENTARY QUESTIONS:

1. UNION BASHING?

Not an attack on trade unions or their membership. Special conditions apply in security and intelligence work.

2. DEVICE TO COMPEL STAFF TO SUBMIT TO POLYGRAPH?

No. Purpose to avoid disruption and risk of sensitive matters being discussed before industrial tribunal. Under consideration for some time before Security Commission recommended use of polygraph.

3. WHY NOW?

Industrial action during 1981 Civil Service pay dispute caused serious disruption at GCHQ, damaging confidence in stability and reliability. Long and careful consideration since then of ways to avoid repetition.

4. WHY NOT A 'NO STRIKE' AGREEMENT?

Such an agreement could not prevent damaging disruption or exposure to industrial tribunals.

5. WILL MEASURES BE EXTENDED?

GCHQ in very special position as intelligence agency. No intention to introduce similar measures outside field of security and intelligence. No question of wider application.

6. OTHER CERTIFICATIONS?

Certifications can be issued only to safeguard national security. Similar certificates have been issued for other security and intelligence services. Cannot give further details.

7. WHAT OTHER INTELLIGENCE AGENCIES?

House aware of existence and role of Security Service. Not appropriate to say any more about organisations which must remain secret to be effective.

8. US PRESSURE?

No. US Government would not interfere in internal matters.

9. BREACH OF INTERNATIONAL AGREEMENTS?

Would not take this step if it were contrary to relevant international agreements to which UK is a party.

10. WHY NO CONSULTATION?

In common sense, not realistic to consult Unions on a matter of this kind. Legislation envisages cases where national security must come first. This is clearly such a case. There will, of course, be close consultation about setting up a proper departmental staff association.

11. WILL THE CERTIFICATE MAKE IT ILLEGAL FOR GCHQ EMPLOYEES TO BELONG TO NATIONAL TRADE UNIONS?

No. The certificates will make it possible for GCHQ management to dismiss anyone who joins a trade union other than a departmental staff association approved, for the time being, by Director GCHQ.

12. WOULD THE CERTIFICATES MAKE STRIKES ILLEGAL?

Not unlawful as such. But GCHQ's terms and conditions of service will render staff who take industrial action liable to disciplinary proceedings.

13. HOW MANY STAFF ARE AFFECTED?

All GCHQ staff. It would not be in the national interest to be specific about the numbers involved.

14. PAYMENT TO STAFF

Depends on how many accept it.

15. WHY £1,000?

Reflects broad assessment of value of benefits being withdrawn.

16. COULD STAFF ASSOCIATION AT GCHQ AFFILIATE TO TUC?

No. New Staff Association would need approval of Director of GCHQ. This would be given only on basis of no external affiliations.