



PO-CH/NL/0882

PART A

Part A

SECRET
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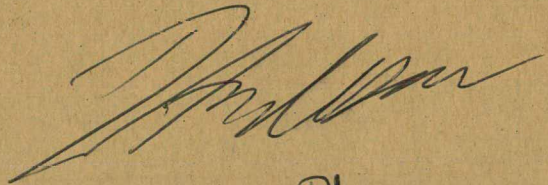
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PO -CH /NL/ QUES

PART A

Chancellor's (Lawson) Papers:

THE QUEENS SPEECH AND
THE DEBATE ON THE
ADDRESS
Details on the address

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 28/9/95

PO -CH /NL/ QUES
PART A

bff 15 Sept.



FROM: JILL RUTTER

DATE: 5 September 1986

AH 5.9.

PS/CHANCELLOR

cc: Sir Peter Middleton
Mr F F R Butler
Mr Anson
Mr Scholar
Mr Turnbull
Mr R Pratt
Mr Cropper

QUEEN'S SPEECH

The Chief Secretary has seen the draft of the Queen's speech circulated under cover of Rosalind Mulligan's letter of 4 September.

2 The Chief Secretary had one comment on the section on economic policy. [The last sentence of page 6] reads "Consistent with this, my Government will seek to improve the effectiveness of public spending, so that vital services can be further improved." Apart from using the words "improved" twice this suggests that the Government has only now woken up to the possibility of increasing effectiveness of public expenditure. The Chief Secretary therefore suggests as an alternative - though other copy recipients may be able to improve further - something along the following lines, which you may care to suggest to the Cabinet Office: "Consistent with this, my Government will continue to seek better value for money in public spending so that vital services can be further improved."

Sentence marked in Opening Speech in Annex A.

F

1. Parliamentary Section
This emphasises what I said earlier: we reserve our position.
2. Back to me, pl.
AH
5.9.

pp Mrs Felstead
JILL RUTTER
Private Secretary

SECRET

From: R PRATT x 8737

Date: 9 September 1986

1. MR SCHOLAR
2. CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Sir T Burns
 Mr F E R Butler
 Mr Anson
 Mr Turnbull
 Mr Culpin

C.
 Several points to consider but officials R. Pratt recommends just 2 drafting changes. Do you agree? They would like an answer tomorrow.

AMH

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

Lord Whitelaw has now re-examined the drafts of the Queen's Speeches for the Prorogation and Opening of Parliament. His office has circulated redrafts.

2. You may care to look again at the balance and wording of the drafts, bearing in mind the fact that they will be delivered at around the time of the Autumn Statement - Prorogation on the same day as the oral statement; Opening the day before the publication of the printed statement. The latest Cabinet Office drafts of the section on the economy are at Annex A; your own original version is at Annex B. The full drafts are at Annex E.

3. A number of points are worth noting. Firstly, the Queen's speech has, for the past three years included the words "maintain firm control of public expenditure" and last year linked that with the need for public expenditure to account for a declining share of the nation's incomes leaving room for reductions in taxation. The relevant passages are at Annex C. You will recall that the press interpreted last year's Queen's Speech (which contained a sentence very similar to that in the present Cabinet Office draft) as hinting at tax cuts to be paid for by increased privatisation (cuttings are at Annex D).

4. We have not yet considered the presentation of this year's planning total figures in the Autumn Statement and it is important to ensure that the Queen's Speech does not contain anything that might conflict with that presentation.

OK Subject to no changes to
 2 draft plus two v. further changes - Q's speech -
 agreed with me
 MHS 9/9
 one in para 1 have
 check 1 para 1
 M.

5. Unless the Survey goes very substantially worse than expected, we will still be asserting that public expenditure will decline as a proportion of national income. And it is most unlikely that we will be saying anything to conflict with the line that firm control of expenditure will be maintained. This form of words can therefore be accepted. GEP agree.

6. It is worth considering, however, whether we ought to think again about the reference to taxation, either dropping it altogether (as in the years before 1984), or softening it, for example, by saying:

"My Government will maintain firm control of public expenditure, so that it may continue to fall as a proportion of the Nation's income and facilitate the achievement of their objectives for taxation."

On balance, however, it is probably safer to stick to the existing draft. (Cabinet Office have substituted "permit reductions in the burden of taxation" for the original "leave room for reductions..."). The mere fact that the words have been used before reduces the risk of too much being read into them. Moreover by making the oral statement before the Queen's Speech, the Government will have already set out its stall and it is less likely that the press will read anything new into the Queen's Speech.

True.
If we say
"objectives",
people may
read into
this the
25p basic rate.

HHH

7. Secondly, we need to consider whether we will need to make any reference to measures to relieve oil industry tax flow by repaying APRT. If you decide to go ahead with this, there will be a case for a mention in the Queen's Speech; but it would certainly be premature now to alert Cabinet Office to the possibility by raising the point now in the context of the draft Queen's Speech.

8. Thirdly, you will note that by shortening the passage on the economy in the Prorogation Speech and by lengthening the section on employment and training measures, the Cabinet Office draft has substantially altered the balance of the original. However there seems to us to be nothing objectionable to us about the words proposed. On balance, there seems to need no press for any change. IAE agree.

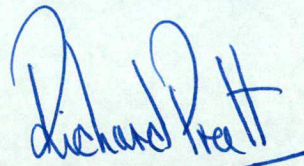
9. Finally, there are two drafting points which we propose to put to Cabinet Office. The first is that suggested by the Chief Secretary in his Private Secretary's minute of 5 September. The second is in the Cabinet Office's revise of the passage on education and employment and training measures in the Opening Speech. The latest draft says the Government will:

"... continue to promote enterprise and encourage the growth of employment. It will continue to give a high priority to measures to improve the education and training of young people."

This is unacceptable as we have not agreed any new measures. We propose instead:

"... continue to promote enterprise; the growth of employment; and the education and training of young people."

We need to respond to Cabinet Office during the course of tomorrow, 10 September. It would be helpful if you could let us know if you agree that we should accept the Cabinet Office's latest draft subject to the two drafting points set out above.


RICHARD PRATT

EXTRACT FROM CABINET OFFICE DRAFT OF THE PROROGATION SPEECH.

MEMBERS OF THE HOUSE OF COMMONS

I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

My Government's policies have been successful in reducing inflation to its lowest level for almost 20 years. The output of the nation continues to expand and the number of people in work continues to grow.

In order to give more help to the unemployed, my Government has through the Wages Act ~~has~~ removed some outdated obstacles to the creation of new jobs and has expanded existing employment and training measures including the introduction of the national Restart programme for the long term unemployed and the expansion of the Community Programme and the Enterprise Allowance Scheme. The "Action for Jobs" information campaign has been introduced to ensure that employers, employees and unemployed people know what help is available to them.

My Government continues to attach the highest importance to the education and training of young people and to improving the links between school and work. The new two year Youth Training Scheme was launched successfully and the Technical and Vocational Education Initiative has been expanded to a nationwide programme offering the opportunity of participation to all those between 14 and 18 years of age at school.

My Government has taken additional initiatives to encourage enterprise and improve the performance of the economy. The basic rate of income tax has been ^{further} reduced.

Continuing my Government's programme of encouraging greater industrial efficiency and promoting wider share ownership, legislation has been enacted to provide for the setting up of new regulatory arrangements for the gas supply and airports industries and for the sale of shares in British Gas and British Airports Authority to the public. An Act was also passed to enable the Atomic Energy Authority to operate as a trading fund from 1 April 1986 with a capital structure and borrowing powers. The remaining warship yards of British Shipbuilders have been sold as have my Government's shares in Cable and Wireless. The National Bus Company has begun to sell its undertakings to the private sector including sales to managers and employees.

An Act has been passed to enable building societies to increase the range of services offered to the public and to provide a new statutory framework for their supervision.

Legislation has been passed to extend and reform the regulation of investment. This will protect the interest of investors while encouraging the continued development of strong, efficient and competitive financial services.

EXTRACT FROM THE CABINET OFFICE DRAFT OF THE OPENING SPEECH.

X

"My Government's firm monetary and fiscal policies will continue to restrain inflation and foster the conditions necessary for further sustained economic growth. Within that framework, my Government will continue to promote enterprise and encourage the growth of employment. It will continue to give a high priority to measures to improve the education and training of young people."

X

My Government will maintain firm control of public expenditure, so that it may continue to fall as a proportion of the Nation's income and permit reductions in the burden of taxation. Consistent with this, my Government will ^{continue to seek better value for money in} seek to improve the effectiveness of public spending, so that vital services may be further improved. *further*

See CS7's comment at F.

Further action will be taken to pursue my Government's privatisation policy, both to improve economic efficiency and to encourage wider share ownership.

Legislation will be introduced to strengthen the framework for the supervision of banks.

CONFIDENTIAL

CHANCELLOR: ORIGINAL DRAFT

DRAFT PASSAGES FOR THE PROROGATION SPEECH

Members of the House of Commons

I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

For the Domestic Policies and Legislation Section,

My Lords and Members of the House of Commons

My Government's policies have been successful in bringing inflation down to its lowest level for almost 20 years. The output of the Nation continues to expand and the number of people in work continues to grow.

In order to give more help to the unemployed, my Government has expanded further its employment and training measures including the Restart programme for the long term unemployed, which has been extended to cover the whole country, and the further enlargement of the Community Programme and the Enterprise Allowance Scheme.

My Government has taken additional initiatives to increase incentives and improve the performance of the economy. The basic rate of income tax has been reduced. Further progress has been made in the privatisation programme, notably through the sale of the remaining warship yards of British Shipbuilders and the disposal of the remaining shares in Cable and Wireless. The National Bus Company has begun to transfer its operations to the private sector including consortia of managers and employees.

Legislation has been enacted to enable the transfer to the private sector of the British Gas Corporation and the British Airports Authority, and to provide for the regulation of the gas and airports industries. An Act was also passed to enable the Atomic Energy Authority to operate as a trading fund with effect from 1 April 1986.

An Act has been passed to enable building societies to increase the range of services they offer to the public and to provide a new statutory framework for their supervision.

CHANCELLOR'S ORIGINAL DRAFT ^{CONFIDENTIAL}

DRAFT PASSAGES FOR THE **OPENING SPEECH**

Members of the House of Commons

Estimates for the Public Service will be laid before you.

For the Domestic Policies and Legislation Section

My Lords and Members of the House of Commons

My Government's firm monetary and fiscal policies will continue to hold down inflation and create the conditions necessary for steady and sustained economic growth. Within that framework, my Government will do all in their power to promote economic efficiency and the growth of new jobs.

My Government will maintain firm control of public expenditure, so that it continues to fall as a proportion of the Nation's income and leaves room for reductions in the burden of taxation.

My Government will introduce a Bill to strengthen the framework for the supervision of banks.

Further action will be taken to implement my Government's privatisation policy, with a view to improving economic efficiency and encouraging wider share ownership, both among employees of the businesses concerned and among the public generally.

Plans for public expenditure will reflect the importance of restricting the claims of the public sector on the nation's resources. My Government share the nation's concern at the growth of unemployment and will continue to direct help to those groups and individuals most hard-pressed by the recession.

1982

My Government will maintain the monetary and fiscal policies necessary to achieve these ends, including continued restraint in public spending. They will promote efficiency and good management, especially in their own operations, and will take further steps to encourage initiative and enterprise.

1983

My Government will pursue policies designed to increase economic prosperity and to reduce unemployment. They will seek a further reduction in inflation. They will continue to maintain firm control of public expenditure and a responsible financial strategy based upon sound money and lower public borrowing.

1984

Firm control of public spending will be maintained. My Government will work for a more flexible and competitive economy through lower taxation, further reform of the tax system, increased efficiency in the public sector and encouragement of initiative and enterprise which will sustain rising living standards.

1985

Within the framework of firm monetary and fiscal policies designed to secure a continuing reduction in inflation, my Government will do all in their power to encourage the growth of new jobs. Firm control of public expenditure will be maintained, with a view to diminishing its share of overall national output and facilitating further reductions in the burden of income tax.

FROM: A. P. HUDSON

9 September 1986

CHANCELLOR

TAX SPEECH

1. You raised two points. Also we've just received a detailed Labour programme (see below).

SDP

2. Revenue paper below, along with SDP paper itself. The SDP paper is long & detailed, so I've highlighted only the most interesting points. There are several quotations we can make fun of. And we can exploit the fact that the SDP - unlike Labour - have lots of figures, even if they back off them immediately!

Labour

3. As we agreed, there are 2 points to make & illustrate with figures.

(a) The cost of the £28 billion.

As a matter of arithmetic, raising £28 bn would mean a basic rate of 53%. We have been consistent on this in public (CS7 on radio 3 Aug; Mr Tebbit on Newsnight, 31 July). Philips & Drew have also mentioned this figure.

(b) How would Hattersley raise £3.6 billion?

a figure Hattersley has adopted for his poverty programme.

- The £3.6bn is ~~Hattersley's own figure~~. He reckons that is the total tax cut for the top 5% under this Government. We agree, broadly but reckon 115, @ 21 hrs

- However, ~~this depends on the tax~~ this figure includes the benefit to the top 5% of the basic rate cut and the threshold increases.

- So to raise £3.6bn from the top 5% alone needs a rate of 66%.

However

We are ~~fairly~~ confident about the 66% figure ^(Miss O'Mara's minute of 22 Aug.)
But the £3.6 billion depends on the pensions costing which DHSS have got wrong, ~~but~~ Andrew Tyrie suggests that ~~this~~ says that it will come down to £3.3 billion. I think the way out may be to quote illustrative figures, e.g. Mr Hattersley can raise £1.8 billion by ~~increasing~~ restoring his previous regime for investment income and capital taxes. The rest has to come from income tax. To raise £1 billion would ^{mean increasing the rate by} need a ~~marginal rate of~~ x%...

4. Andrew Tyrie has just received Labour's NEC Statement to Congress. I enclose the section on Social Security and Taxation. On the tax side, this is long on promises and low on costings. The main measures are similar to the SDP: more progressive NICs; abolish married man's allowance; personal allowances at basic rate only. Labour also want a reduced rate band and "a more progressive system of tax rates".

5. I don't think there is sufficient information here to repeat the £28 billion exercise. But can we challenge Hattersley to put ~~detail~~ figures to his promises?

- How much would the "poor" gain?
- Who would pay? At what income level would people be worse off?
- Or would he borrow the money?
- Or are these simply electoral bribes?

Spencer
check
C.H.

AHH 9.9.



1. Alex
2. PWP

FROM: A P HUDSON
DATE: 10 SEPTEMBER 1986

MR R PRATT

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Scholar
Mr Turnbull
Mr Culpin

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

The Chancellor has seen your 9 September minute.

2. The Chancellor has considered the points to which you drew attention in your paragraphs 3-8, and agrees that the present wording is acceptable.

3. He agrees with the two drafting points in your para 9, and has two further points:

(a) In the Prorogation Speech, the sentence on income tax to read "The basic rate of income tax has been further reduced".

(b) In the Opening Speech, the first sentence of the second extract to read "My Government will maintain firm control of public expenditure, so that it may continue to fall as a proportion of the Nation's income and permit further reductions in the burden of taxation."

A P HUDSON



Paper pt.
XWP

CHANCELLOR'S PARLIAMENTARY OFFICE

M.C. Scholar

T.U. Burgner

B. Gilmore

M. O'Mara

R. Pratt

J. MacAuslan

PS/Chancellor

Treasury Chambers, Parliament Street, SW1P
01-233 5532

Rosalind Mulligan
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

10 September 1986

Dear Ros,

QUEEN'S SPEECH FOR THE OPENING AND PROROGATION OF PARLIAMENT

The Chancellor has now had an opportunity to look at the latest draft of the speeches for the opening and prorogation of Parliament and also at the Lord President's redraft of the first two paragraphs on the economy and unemployment for the Opening Speech.

The Chancellor is essentially content with the draft subject to the changes set out below.

The second and third sentences of the redraft included in your letter to me of 9 September should be deleted and replaced by the following:

"Within that framework, my Government will continue to promote enterprise; the growth of employment; and the education and training of young people."

The Chancellor has noted that the draft in your letter implied that there would be new measures to improve the education and training of young people and, of course, no such measures have been agreed.

You confirmed on the telephone that you were not proposing to delete the paragraph beginning "My Government will maintain firm control of public expenditure". The Chief Secretary has noted, however, that in the present draft, the second sentence appears to give the impression that the Government is only now beginning to improve the effects of public spending. To remove this, we suggest amending the second sentence of this paragraph as follows:

"Consistent with this, my Government will continue to seek better value for money in public spending so that vital services can be further improved."

In the fifth paragraph of the draft prorogation speech, the Chancellor suggested that the final sentence be redrafted as follows:

"The basic rate of income tax has been further reduced".

Ruth A. Clydes.

pp RICHARD SAVAGE
Deputy Parliamentary
Clerk

FROM: A.P. HUDSON

10 September

CHANCELLOR

TAX SPEECH

1. Full draft below. I've asked officials to check the figures & give any comments.
2. I'm afraid one big problem has emerged. Brian Mace (IR), who's just back from leave, has explained that we can't say that married couples with joint income of £24,500 would face high tax rates to pay for Hattersley's £3.6 billion. The short point is that they would all make Wife's earnings elections. £24,500 is below the income level where this is worthwhile now, but if the rate went up to 66%, all those couples (police sergeant & bank clerk etc) would elect.

(which is why I and others didn't spot it before)
3. I think this means we have to soft-pedal on the line that Hattersley would have to tax ordinary people. So I have redrafted ^{paras 8-10} to make more of the point you made ^{on} ~~at~~ the capital taxes - that, in practice, the revenue wouldn't materialise.
4. On the SDP, we wondered whether to talk about David Owen's attitude to their plans. At para 18, I've tried a joke based on the attached newspaper report.

AHH

10.9.

TIM

Owen tries to limit tax reform damage

By George Hill 2/3

Dr David Owen, leader of the Social Democratic Party, moved yesterday to limit the damage done by last month's launch of the SDP's radical plans for taxation reform, which were widely read as implying that all families with above-average incomes would pay more tax.

"This is wholly inaccurate," Dr Owen said yesterday. "The fact is that the vast majority of people who pay the standard rate of tax would be better off, by varying degrees, as a result of our proposals."

The handling of the launch caused consternation among some party members, and was criticized by Mr David Steel, leader of the Liberal Party.

The plan, produced by a working party led by Mr Dick Taverne, QC, a former Labour Treasury minister, was introduced as "the biggest proposed redistribution to the poor put forward by any party", with its proponents claiming that it relied on "the altruism of Mr Above Average".

One sentence in the report, giving a warning that "there will be some extra tax burden on those with above average earnings", had been taken out of context, Dr Owen said.

Except for taxpayers above the £17,200 threshold, where the higher tax bands begin, only a small minority of taxpayers would be worse off, he said.

Dr Owen rejected Conservative claims that the plan also implied that couples with one income and two children could be as much as £24 a week worse off. He said the position of such a couple earning £300 a week, approximately 1½ times average earnings, would be improved by £2.50 per week, while a single man earning £300 per week would be £1 per week better off.

This confusion had arisen because the figures in the plan did not give the position of those earning between £200 and £600 per week, he said.

Although Dr Owen emphasized yesterday that he was on holiday when the document was launched, the incident must reflect on his control of the party's public relations.

The adverse publicity attracted by the unveiling of this big item in the party's planned election programme will cause heart-searching at next week's party assembly, with a view to preventing the SDP from giving similar ammunition to its opponents in future.

Daily Telegraph

Owen defends SDP's tax reform plans

By Our Political Staff

DR OWEN pledged himself yesterday to stand by the SDP's commitment to a "redistributive" tax and social security policy in the face of Conservative efforts to portray it as an attack on the middle classes.

After studying a review of the proposals by a leading accountant, Mr Maurice Fitzpatrick, "there is no way I am going to be put off this reform by the first whiff of grapeshot from Mr Tebbit," said Dr Owen.

The SDP leader was defending the recent recommendations of a party policy group whose report has been quoted as showing that every family earning more than £10,000 a year would have to pay higher taxes. The policy group made no such proposal, said Dr Owen.

Just misunderstood

"The vast majority of standard rate taxpayers up to a threshold of £17,200" would pay no more, he declared, though he conceded that the way proposals had been tabulated laid the way open for "misunderstanding" which had been seized on by Conservative Central Office.

Earlier this week senior figures in the SDP were hinting that the proposals from the group headed by the former Labour Treasury Minister Mr Dick Taverne would be pigeon-holed because of adverse reaction from Liberals as well as Conservatives.

Dr Owen left little doubt that he shared their embarrassment over the way the writing of the report had allowed it to be portrayed. Sharp words are still likely at the SDP's Harrogate conference over the ease with which opponents were able to score so many points.

THE GUARDIAN

Owen moves to contain tax policy damage

By James Naughtie, Chief Political Correspondent

Dr David Owen, the SDP leader, tried yesterday to repair the political damage he believes was caused by the launch of the party's tax and benefits policy document last month, with its promise of penalties on the better-off to help the worse-off.

Dr Owen said that the impression given that all those on earnings above average would be worse off was wholly inaccurate. He blamed it in part on the way the document was presented.

Yesterday he gave detailed figures which he said clarified the effect of the policy. The vast majority of standard rate tax payers earning up to the £17,200 would be better off under the policy, which is designed to merge the tax and

benefits system and redistribute wealth in favour of the worse-off, he said.

His statement amounted to a rebuke to Mr Dick Taverne, senior SDP figure who chaired the working group which drew up the policy and who presented the paper at a press conference last month while Dr Owen was on holiday.

At that press conference Mr Taverne agreed when it was suggested to him that all those above average earnings were likely to lose. "You can't make an omelette without breaking eggs," he said.

The headlines which followed, emphasising the cost to high earners of the policy, dismayed a number of SDP figures. Mr David Steel, the Liberal leader, raised his own objections to the way the policy was presented.

Turn to back page, col. 1

icy had been presented when he discussed Alliance strategy with Dr Owen last week.

The alarm at the ammunition given to Conservative Central Office by the threat of tax penalties on all those earning more than £10,000 forced Dr Owen to make his clarifying statement. With Mr Taverne beside him, he told journalists that parts of the press statement could have been better phrased.

He denied emphatically that he was withdrawing his own support for the policy but admitted that some of the figures in the policy papers were wrong. On the basis of an analysis by a senior city accountant, Mr Maurice Fitzpatrick, the party now said that the figure of a £24 weekly loss for a single-earner family with two children on £600 a week was "totally untrue."

The real figure, Dr Owen said, should have been a loss of £13.72. The point at which an average family would probably begin to lose was not

£200 a week but about £330 a week. For example, a single man earning £300 a week would be about £1 better off under the tax plan.

Dr Owen's reinterpretation of the policy statement was embarrassing for him — but he evidently believes it was worth while to limit the political damage caused by the way the policy was presented. Mr Steel and the Liberal social services spokesman, Mr Archy Kirkwood, were irritated that they had not seen the document before it was made public.

Mr Norman Tebbit, Conservative Party chairman, has already sent out briefing notes to prospective candidates claiming the cost of the policy to be £24 a week on some families with one income and two children — figures produced by the SDP, but now said to be inaccurate.

The episode has caused considerable embarrassment to Mr Taverne and irritation to Dr Owen, who was anxious to make a clarifying statement well before the two Alliance parties have their annual conferences later this month.

3/

FROM: A.P. HUDSON

11 September

CHANCELLOR

TAX SPEECH

1. Revised draft attached. This incorporates a few comments from Robert Culpin, Michael Scholar, Margaret O'Mara, and Brian Mace,

2. Points to note:

(a) p.1, 2nd para, Robert Culpin suggested talking about "sound financial discipline" being linked to borrowing, rather than specifically

rather than inflation

(b) p.4, 1st para, I had a long conversation with Brian Mace about couples on £24,500 a year. We can say that some ~~they~~ will be worse off, by up to £3 a week, but have to be very careful about tying figures to specific cases, because ~~there~~ not many couples are affected & the position depends on ~~an~~ individual circumstances e.g. mortgage relief.

(c) p.7, 3rd para ; on your ref to the SDP consulting the Liberals, I think we're covered by Taverne's letter attached.

3. Robert thinks it well worth releasing the full text. Central Office would like it by 4pm if possible. Then we will get it typed on speech cards.

AH

11.9.

Winners and losers on the SDP tax form 10

Sir, — David Owen and I have worked together for many years on tax and benefit reform and he has been, and remains, a strong supporter of our proposals. He made this absolutely clear at our joint press conference on Friday.

The reporting of our scheme has tended to concentrate on the losers. What the press has found difficult to understand is that if you change and simplify a complex, irrational and unjust system, there is no simple break-even point of income at which gainers and losers divide. Some people who now benefit from anomalies in the system will lose from reform; others gain.

For example, if the total family income is £15,000, at present a one-earner family pays some £660 more in tax than one in which the income is split £10,000 and £5,000. Under the separate taxation of women which we propose, the two-earner couple will still pay less, but the disparity will not be so

great: they will get two single allowances, not two-and-a-half as now.

What I emphasised repeatedly was that the inevitable consequences of rationalising the tax mess and abolishing the regressive National Insurance tax, was that who gained and who lost, and how much, depended on whether the family had children, whether there was one earner or two and, if two, how the joint earnings were divided. There is no simple pattern. It depends on individual circumstances.

What the Conservatives are arguing is that no one should pay more tax. That means either more spending on social security — which they reject — or accepting the continual growth of poverty which their policies have created and which now affects one-third of our population. Conservatives would let the poor rot.

What Labour pretends is that only the very rich need to be taxed more. This is hypocrisy. If you are serious

about redistribution, some of the money will have to come from some of the better-off who are not very rich. This is unfortunate and regrettable, but it is the test of our seriousness and honesty. Otherwise, the money is not there.

It is suggested that we did not consult with the Liberals. The two parties' tax and social security committees have been in regular touch. The structure of our scheme is set out clearly as joint policy in Partnership for Progress.

It includes the principles of taxing child benefit, not by making it taxable generally as your Leader of September 8 implies, but only as the income of the caring parent. This reform incidentally enables us to give a big increase to families where the mother stays at home, a group which includes the families in greatest need.

The detailed figures, as I stressed at the press conference, are the SDP's suggestions for putting flesh on the

bones of the principles of our joint Alliance proposals, and these figures were given to the Liberals' tax committee long before our press launch. The figures are not sacrosanct and no doubt will be modified in discussion.

It is perhaps natural that the press should concentrate on the losers. But the real question is whether we intend to tolerate poverty, and are going to continue with a tax and social security system whose complexities and inconsistencies cry out for radical reform.

I believe, as David Owen does, that our proposals are the most radical proposals for redistribution and simplification put forward by any party and should form a central part of our policy. — Yours, etc,

Dick Taverne.
60 Cambridge Street,
London SW1.

Sir, — Knowing Dick Taverne's mastery of the subject, I find it incredible that he "agreed . . . that all

those above average earnings were likely to lose" under the SDP's tax and benefits reforms (Guardian, September 6).

The true picture is that although some people with not far above average earnings will lose, many people whose earnings are above average will gain, because the new, integrated system of tax and benefits will take better account of their respective needs.

The amount of losses has been exaggerated in hostile reports. The figure of £24-odd a week refers to a household on more than £31,000 a year, rather a long way from average earnings!

Incidentally, if it has been "admitted that some of the figures in the policy papers were wrong," I believe it should not have been. They are not. — Yours faithfully,

Josephine Hayes.
(Secretary to the SDP working party on taxation and social security),
London WC2.

PWP

BF Andrew 15/9.

FROM: RICHARD PRATT
DATE: 12 September 1986

FINANCIAL SECRETARY

- cc: Chancellor
- Chief Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Sir T Burns
- Sir G Littler
- Mr F E R Butler
- Mr Anson
- Mr Monck
- Mr Cassell
- Mr Turnbull
- Mr Scholar
- Mr D Moore
- Mr Culpin
- Miss O'Mara
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrrie

C.
 1. Your comments have been taken in, except that officials said we could not refer to "further" reductions in the burden of taxation.
 2. So now, only problem is in para 6 below, on coal. Are you content with briefing line for FST?

*
 disagree.
 "further"
 must be
 no
 (then
 was
 a
 what
 this
 you,
 hence
 any
 use of "further").
 FST must
 work on
 that.

15.9. Yes

QUEEN'S SPEECHES FOR THE PROROGATION AND OPENING OF PARLIAMENT:
 QL(86)7, QL(86)8

QL on Tuesday 16 September will discuss the Queen's Speeches for the prorogation and opening of Parliament. In the case of both speeches you are invited to:

- (a) consider the overall tone, balance and length of the draft;
- (b) consider any detailed changes;
- (c) agree to circulate the draft to Cabinet.

In addition, for the prorogation speech, QL is asked to consider whether any reference should be made to the marriage of the Duke of York.

Prorogation Speech

2. The draft is at present about seven pages long, of which three concern the Queen's engagements and Foreign Policy; one

is on the Economy and Employment; and three are a report on the 1985-86 legislative programmes. This balance is fairly traditional and, although the Lord President points out that the prorogation speech is slightly longer than has been the case in recent years, you may feel that this does not matter a great deal. Certainly there is no reason, from a Treasury point of view, to object to the tone, balance and length.

3. The passages on the Economy and Employment have been seen and approved by the Chancellor and there are therefore no further detailed changes you need suggest to those paragraphs.

4. There seems no reason not to follow the precedent - which is not to make a reference to the marriage of the Duke of York.

Opening

5. This draft is about five pages long, of which two concern the Queen's engagements and Foreign Policy, one is on the economy and two are on legislative programmes. The Lord President points out that the speech is shorter than usual and there is room for a reference to more bills. From the point of view of the overall balance of the speech, it does look odd that the section on the Government's legislative programme is no longer than that of the Queen's commitments and Foreign Policy. There does seem a case, therefore, for a reference to more bills. The only programme bills which are not mentioned in the speech are Ministry of Defence Police, Diplomatic Premises and Consular Premises Control, and Parliamentary pensions. There is no real reason why these should be left out and you may care to suggest that a reference is made to them. It might also be possible to say a little bit more about the Consumer Protection Bill and the Family Law Reform Bill, since the one line references in the Speech say little about what they are expected to achieve.

6. The Chancellor has seen and agreed the sections on the Economy and Employment and there are no detailed amendments to make to those paragraphs. PE division, however, are unhappy about the reference, currently in square brackets, to the Coal Bill on page 5. The present draft (which was apparently personally drafted

by the Secretary of State) says that legislation will be introduced "to promote assistance to the coal industry". This sounds very open ended and could be interpreted as a U turn in policy. In fact the Bill is to provide support for only two years and at a reduced level. A better formulation would therefore be:

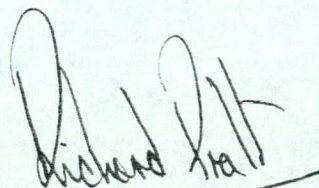
"To provide further financial assistance to support the coal industry's progress to commercial viability".

Or, if something shorter is required:

"To promote further progress towards a viable coal industry".

Or, if this is unacceptable, the reference to the Bill could be deleted.

7. Subject to the point about the Coal Bill, it is quite acceptable for the drafts to be forwarded to Cabinet.

A handwritten signature in black ink, appearing to read "Richard Pratt", written over a horizontal line.

~~RICHARD PRATT~~



FROM: A P HUDSON

DATE: 16 September 1986

PWP

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
 PS/Economic Secretary
 PS/Minister of State
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr F E R Butler
 Mr Anson
 Mr Monck
 Mr Cassell
 Mr Turnbull
 Mr Scholar
 Mr D Moore
 Mr Culpin
 Miss O'Mara
 Mr Pratt
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie

**QUEEN'S SPEECHES FOR THE PROROGATION AND OPENING OF PARLIAMENT:
 QL(86)7, QL(86)8**

The Chancellor has seen Mr Pratt's 12 September minute.

2. He is content with the briefing on the Coal Bill.

3. My 10 September minute recorded that the Chancellor wanted a key sentence to read "My Government will maintain firm control of public expenditure, so that it may continue to fall as a proportion of the Nation's income and permit further reductions in the burden of taxation" (new word underlined). Officials were cautious about putting this forward, since the overall burden of taxation has not fallen compared to 1978-79. But the Chancellor points out that there was a reduction this year, so that anything more would be a "further" reduction. He has said that the Financial Secretary must insist that the word goes in.

Accepted
 at QL,
 16.9.

C.R

PP

A P HUDSON



Papers, M.
PLW

MR HUDSON

FROM: N WILLIAMS
DATE: 17 September 1986

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Anson
Mr Monck
Mr Cassell
Mr Turnbull
Mr Scholar
Mr D Moore
Mr Culpin
Miss O'Mara
Mr Pratt
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Good

**QUEEN'S SPEECHES FOR THE PROROGATION AND OPENING OF PARLIAMENT:
QL(86)7, QL(86)8**

1. The Financial Secretary saw your minute of 16 September before he attended the meeting of QL held on the same date.
2. This is to confirm that the Financial Secretary insisted at the meeting on the inclusion of the word "further" in the Queen's Speech for the Opening of Parliament and that it should now appear in the Speech.

C.
Speech will therefore say "permit further reductions in the burden of taxation". Sorry I missed a trick before.

AH

Nigel Williams
NIGEL WILLIAMS
(Assistant Private Secretary)



01-930-5422 ext

233 7665

93/2

CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

CH/EXCHEQUER	
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24 September 1986

Dear Private Secretary

THE QUEEN'S SPEECHES ON THE PROROGATION AND
OPENING OF PARLIAMENT

I attach drafts of the Queen's Speeches on the Prorogation and Opening of Parliament which have been prepared following a discussion at a meeting of the Queen's Speeches and Future Legislation Committee.

The passage in the Opening Speech on inward State Visits is provisional while discussions continue with the Heads of State concerned about the timing of their visits. The passage on the content of the Criminal Justice Bill is also provisional pending policy clearance of some outstanding details.

I should be grateful if you could let me have any comments on the drafts which your Minister might wish to make by close of play on Friday 3 October. Further drafts of the Speeches will then be circulated for discussion at Cabinet on Thursday 16 October.

I am sending this letter to Private Secretaries to all Ministers in the Cabinet, to the Private Secretaries of all the Law Officers, the Parliamentary Secretary, Treasury and the Captain of the Gentlemen-at-Arms.

Rosalind Mulligan

ROSALIND MULLIGAN

CHANCELLER'S PARLIAMENTARY OFFICE	
Action	MR PRATT FP
Copies to	

Encs

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THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT 1986

1. My Lords and members of the House of Commons

The Duke of Edinburgh and I were pleased to receive the State visits of His Highness the Amir of Qatar in November, their Majesties the King and Queen of Spain in April, and the President of the Federal Republic of Germany and Freifrau von Weizsaecker in July.

2. We recall with great pleasure the State Visit to Nepal followed by visits to New Zealand and Australia earlier this year, as well as the recent State Visit to the People's Republic of China and the visit to Hong Kong.

3. My Government have attached great importance to relations with countries in the Far East. This was marked by the Prime Minister's visit to the Republic of Korea in May and by visits here of the President of the Republic of Korea in April and the General Secretary of the Central Committee of the Communist Party of China in June.

4. My Government and the Chinese Government have made good progress in carrying out the Sino-British Joint Declaration on Hong Kong.

5. My Government have enhanced the United Kingdom's defences and played a full part in the Atlantic Alliance. My Government have worked vigorously for balanced and verifiable agreements on arms control in respect of nuclear, chemical and conventional weapons, keeping in close consultation with the United Kingdom's allies. They have continued to seek improved relations with the Soviet Union and the countries of Eastern Europe.

6. My Government have assumed the Presidency of the Council of Ministers of the European Community. My Government signed the Single European Act to amend the Treaty of Rome and legislation to give effect to it has been passed.

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7. My Government have worked in the European Community and the Commonwealth to bring about peaceful and fundamental change in South Africa. They have supported efforts to restore the independence and non-aligned status of Afghanistan and Cambodia. My Government have honoured their commitments to the people of the Falkland Islands, while continuing to seek more normal relations with Argentina.

8. My Government welcomed the resolution adopted at the United Nations Special Session on Africa concerning the economic recovery and development of African countries. They have provided substantial emergency assistance to victims of famine in Africa, both directly and through the European Community.

9. My Government have welcomed the initiative of a new round of multilateral trade negotiations within the General Agreement on Tariffs and Trade believing that this will help preserve and strengthen the world's open trading system.

10. My Government have made vigorous efforts to combat international terrorism and trafficking in drugs.

11. My Government have signed a treaty with the Government of France for a Channel Tunnel to be financed by private capital. Legislation has been introduced to enable the treaty to be ratified.

12. My Government and the Governments of the Cayman Islands and the United States of America have signed a treaty relating to mutual legal assistance in criminal matters. My Government have introduced measures for the better administration of the Turks and Caicos Islands.

13. Members of the House of Commons

I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

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14. My Lords and Members of the House of Commons

My Government's policies have been successful in reducing inflation to [its lowest] levels ^{not seen} for almost 20 years. The output of the nation continues to expand and the number of people in work continues to grow.

15. In order to give more help to the unemployed, my Government has through the Wages Act removed some outdated obstacles to the creation of new jobs and has expanded existing employment and training measures including the introduction of the national Restart programme for the long term unemployed and the expansion of the Community Programme and the Enterprise Allowance Scheme. The "Action for Jobs" information campaign has been introduced to ensure that employers, employees and unemployed people know what help is available to them.

16. My Government continues to attach the highest importance to the education and training of young people and to improving the links between school and work. The new two year Youth Training Scheme was launched successfully and the Technical and Vocational Education Initiative has been expanded to a nationwide programme offering the opportunity of participation to all those between 14 and 18 years of age at school.

17. My Government has taken additional initiatives to encourage enterprise and improve the performance of the economy. The basic rate of income tax has been further reduced.

18. Continuing my Government's programme of encouraging greater industrial efficiency and promoting wider share ownership, legislation has been enacted to provide for the setting up of new regulatory arrangements for the gas supply and airports industries and for the sale of shares in British Gas and British Airports Authority to the public. An Act was also passed to enable the Atomic Energy Authority to operate as a trading fund from 1 April 1986 with a capital structure and borrowing powers. The remaining warship yards of British Shipbuilders

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have been sold as have my Government's residual shares in Cable and Wireless. The National Bus Company has begun to sell its undertakings to the private sector including sales to managers and employees.

19. An Act has been passed to enable building societies to increase the range of services offered to the public and to provide a new statutory framework for their supervision.

20. Legislation has been passed to extend and reform the regulation of investment. This will protect the interest of investors while encouraging the continued development of strong, efficient and competitive financial services.

21. Legislation has been enacted to improve the management of schools in England and Wales and to promote the professional effectiveness of teachers.

22. An Act has been passed giving further effect to my Government's policies towards agriculture and the countryside.

23. Legislation has been passed to encourage the sale of publicly owned flats to their tenants and the wider involvement of private business in the ownership and management of council housing, and to improve the planning system.

24. Legislation has been enacted to prohibit expenditure on party political publicity by local authorities and to require local authorities to make a rate by 1 April each year.

25. An Act has been passed to reform social security.

26. In Northern Ireland the drive to eradicate terrorism has been maintained. The security forces, assisted by the restraint and good sense shown by the broad majority of the people of Northern Ireland, have

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GOVERNMENT

preserved public order. My Government has entered into an Agreement with the Government of the Republic of Ireland which it believes can benefit all the people of Northern Ireland and achieve greater peace and stability.

27. For Scotland, measures have been passed to extend the right of public sector tenants, to facilitate the private ownership of public sector housing, to improve the building control system, and legal aid arrangements.

28. Further progress has been made in the consolidation of statute law. Legislation has been passed for England and Wales to set fair time limits for cases involving latent damage; provision has been made to settle conflicts of law relating to child abduction within the United Kingdom, and to reform the law of land registration and the administration of funds by the Public Trustee and other authorities.

29. An Act has been passed to enable the courts in England and Wales to confiscate the proceeds of drug trafficking, and to penalise those who assist traffickers to retain the benefit of such proceeds.

30. An Act has been passed to reform the law relating to public order.

31. Legislation has been enacted to establish improved arrangements for the protection of animals used for experimental and other scientific purposes.

32. An Act has been passed to modify and extend the management structure of salmon fisheries in Scotland and to introduce further measures to prevent illegal fishing in Great Britain.

33. Proposals have been made to extend the accountability of local authorities and for other reforms in the finance of local government.

34. My Lords and Members of the House of Commons

I pray that the blessing of Almighty God may attend you.

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THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT 1986

1. My Lords and members of the House of Commons
[I look forward with much pleasure to receiving His Majesty King Fahd of Saudi Arabia and His Majesty King Hassan of Morocco on State visits during the next twelve months.]
2. I also look forward to visiting Berlin in May during that city's 750th anniversary year and to being present on the occasion of the Commonwealth Heads of Government Meeting in Canada.
3. My Government will continue to attach the highest importance to maintaining national security and preserving peace with freedom and justice. They will enhance the United Kingdom's own defences and play an active part in the Atlantic Alliance.
4. My Government will work for greater co-operation and trust between East and West in arms control and disarmament negotiations, and at the Vienna Review Conference on Security and Cooperation in Europe.
5. My Government will hold the Presidency of the Council of Ministers of the European Community until the end of this year. Within the Community they will work for action on unemployment; for removing barriers to internal trade; for improvements in world trade rules; and for continuing reform of the Common Agricultural Policy.
6. My Government will honour their commitments to the people of the Falkland Islands while continuing to seek more normal relations with Argentina. They will discharge their obligations to the people of Hong Kong and will work closely with the Chinese Government to carry out the Sino-British Joint Declaration.

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7. My Government will continue to work with the European Community and the Commonwealth for peaceful and fundamental change in South Africa, and to support Namibian independence. They will look for solutions to the problems of the Middle East. They will support attempts to achieve settlements in Afghanistan, in Cambodia, in Cyprus and in Central America.

8. My Government will make vigorous efforts to combat international terrorism and trafficking in drugs.

9. My Government will give full support to the Commonwealth and play a constructive role at the United Nations. They will maintain a substantial aid programme, play their part in the relief of famine and other natural disasters and encourage investment in the developing countries.

10. Members of the House of Commons

Estimates for the Public Service will be laid before you.

11. My Lords and Members of the House of Commons

My Government's firm monetary and fiscal policies will continue to restrain inflation and foster the conditions necessary for further sustained economic growth. Within that framework, my Government will continue to promote enterprise; the growth of employment and the education and training of young people.

12. My Government will maintain firm control of public expenditure, so that it may continue to fall as a proportion of the Nation's income and permit further reductions in the burden of taxation. Consistently with this, my Government will continue to seek better value for money in public spending, so that vital services may be further improved.

13. Action will be taken to further privatisation, both to improve economic efficiency and to encourage wider share ownership.

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14. Legislation will be introduced to improve the system for the supervision of banks.

15. A Bill will be brought forward to improve the working of criminal justice; [to implement certain recommendations made by the Committee on Fraud Trials; and to make further provision for the confiscation of the proceeds of crime.]

16. Measures will be proposed to promote further competition in order to secure greater efficiency in the provision of local authorities' services; and, for England and Wales, to improve both the system of control over local authority capital expenditure and the basis for the payment of rate support grant.

17. A Bill will be introduced to extend the rights of people living in privately owned flats in England and Wales.

18. A Bill will be introduced to facilitate the conservation and management of the Norfolk and Suffolk Broads.

19. Measures will be proposed to bring up to date the arrangements regulating oil and gas installations and operations.

20. Measures will be brought forward further to reform family law.

21. A Bill will be introduced to modify the system for the control of fire risks and to make further provision for safety at sports grounds.

22. For Scotland, Bills will be introduced to abolish domestic rates, to reform the enforcement of debts due under court orders, and to make various improvements to criminal justice.

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23. My Government will continue through the Anglo-Irish Agreement to develop closer cooperation with the Government of the Republic of Ireland. They will encourage elected representatives in Northern Ireland to search for an agreed basis for the return to a devolved administration. They will continue to encourage economic and industrial development. A Bill will be introduced to amend Northern Ireland legislation against terrorism.

24. Measures will be proposed to reform the administration of marine pilotage.

25. Legislation will again be before you to enable construction of a Channel Tunnel. A Bill will be introduced to authorise the construction of a third crossing of the Thames at Dartford.

26. Measures will be proposed to reform the law of copyright; to improve other aspects of the law relating to intellectual property and further to strengthen the law on consumer protection.

27. Other measures will be laid before you.

28. My Lords and Members of the House of Commons

I pray that the blessing of Almighty God may rest upon your counsels.

CONFIDENTIAL

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FROM: R PRATT
 DATE: 3 OCTOBER 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir Peter Middleton
 Sir Geoffrey Littler
 Sir Terence Burns
 Mr F E R Butler
 Mr Anson
 Mr Cassell
 Mr Monck
 Mr Jameson
 Mrs Lomax
 Mr D Moore
 Mr Peretz
 Mr Scholar
 Mr Turnbull
 Miss O'Mara

OK ✓

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

... I attach the latest Cabinet Office drafts of the Queen's speeches for the prorogation and opening of Parliament. There have been a few changes since the draft that was circulated to QL and we are now asked for final comments before the speeches are circulated to Cabinet on 16 October.

2. From the Treasury's point of view, the only changes of any interest (apart from those which the Financial Secretary pressed for) are those affecting the sections in the opening speech on privatisation, bank supervision and on Roskill. These changes are sidelined in the attached draft. MG, FIM and PE are content with the present drafts.

3. Although there are no significant changes of interest to the Treasury in the prorogation speech, the section on inflation (paragraph 14) will not be strictly true when the Queen's speech is made. Instead of the present draft, we suggest:

My Government's policies have been successful in reducing inflation to levels not seen for almost 20 years."

ok? This will be consistent with our latest forecast for the September RPI, which will be published on 17 October. We will ensure that the speech is checked again before delivery.

4. Are you content with the present draft, subject to the suggested change to the inflation paragraph in the prorogation speech?

5. Cabinet Office have agreed to an extension of their deadline until Monday 6 October. It would be helpful if we could have your response then.

C.

On the previous round there were 2 outstanding issues for us:

(a) putting right the ref to "further reductions in the burden of tax" - this has been done;

(b) the ref. to ~~the~~ coal - this has now been omitted.

Content?

HH



RICHARD PRATT

PWP

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NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

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3rd October 1986

Miss R Mulligan
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

Dear Ros,

THE QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

Thank you for your letter of 24 September. We are content with the Northern Ireland passages in the Speeches, subject to one amendment.

The final sentence of the Northern Ireland passage in the prorogation speech should read:

"My Government has entered into an Agreement with the Government of the Republic of Ireland which it believes can benefit all the people of Northern Ireland and help achieve greater peace and stability."

The word "help" was included in the text which we originally proposed: it is important that it should be reinstated.

Copies of this letter go to Private Secretaries to all Ministers in the Cabinet, to the Private Secretaries of all the Law Officers, the Parliamentary Secretary, Treasury and the Captain of the Gentleman-at-Arms.

Yours Sincerely
Neil Ward.

N D WARD
PS/Secretary of State (L)

CONFIDENTIAL

PHW



FROM: A P HUDSON
DATE: 7 OCTOBER 1986

MR PRATT

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Geoffrey Littler
Sir Terence Burns
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Jameson
Mrs Lomax
Mr D Moore
Mr Peretz
Mr Scholar
Mr Turnbull
Miss O'Mara

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

The Chancellor was grateful for your 3 October minute.

2. He is content with your revised sentence on inflation, and with the rest of the present draft.

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

A P HUDSON

PWP
(Lab)

SECRETARY/BRIAN GOULD - INTERVIEWS ON AUTUMN STATEMENT

Transcript from: BBC 1 TV, Good Morning Britain, 7 November 1986

INTERVIEWER: (Frank Bough) Well the Government last night won a substantial victory against Opposition attacks on its Autumn economic statement. Labour's leader, Neil Kinnock, accused the Chancellor of trying to as he put it bankroll the Tories for the election. This charge was also made by the SDP Ian Rigglesworth, who attacked the Government for changing course as he said to generate a short term pre-election boom. Demands for more money from Ministers caused the Chancellor to overshoot his original spending targets by £4.75 billion, with the Department of Education getting £2.2 billion, an extra £1.7 billion will be set aside for social security, and £630 million for health and social services and the rest will be used for housing, roads and the police. Well with me now are the Treasury Minister, John Macgregor, and Labour's Treasury spokesman Brian Gould. A very good morning to the pair of you. John you can't blame people for being rather sceptical. One minute there's no money for extra spending, all of a sudden £4.7 billion appear, from where we ask?

CHIEF SEC: Well £4.7 billion appears a lot to a lot of people. But let me put in context. Last year we increased spending after taking account of inflation by just under 1%. This year by just over 1%. And that's because we've had great success with the economy, 6 years of successive economic growth. We are still keeping public spending down as a proportion of our national output which is what we said we'd always do which is necessary for the economy. But what we are able to do is to make judicious and carefully targeted increases in public spending on key areas which we think are priorities because of the success of the economy. So that's what we've done.

INTERVIEWER: There you are Brian Gould.

CHIEF SEC: And it is not a pre-election spending spree.

INTERVIEWER: We'll come onto that in a second. It is all part of the plan he said?

GOULD: Yes, I'm afraid we take a cynical view of this. Incidentally, John Macgregor keeps saying that they're getting public spending down as a proportion of the gross national product, it's still higher than it was in 1979. So even if they were sticking to their own plans they wouldn't be raising it now and that's why we're cynical. We want to see, we very much welcome all this increased spending on schools and housing and health and so because that's what we think we ought to have had a long time ago. But what we're asking I think and with some reason is if it's right to do it now why have we been put through all this misery up until now. And why does the Chancellor keep on pretending that he's sticking to his plans. I think it's perfectly clear that this is a pre-election boom and one question mark which I think everybody ought to have on their mind is will it last beyond an election?

INTERVIEWER: Well they would say of course that it's right to do it now because they're relying on buoyant taxation, on growth and so on and therefore the money is going to be created?

GOULD: Well I wish they'd accept that argument and embrace it wholeheartedly. That's exactly what we've been pressing for a very long time.

CHIEF SEC: What I would say is in fact Brian's got it wrong. We've actually been spending more in real terms, that's to say after taking account of inflation, in key areas like hospitals, like the health service which has been up very substantially over the last few years, like the road programme and all we're doing is actually just carrying that forward. Now we also have to meet a big bill if we can get agreement on teachers pay in order to put that right. And I think that's what the whole country wants. So what we're actually doing is using the economic growth both to get real growth in the economy and also as I say



FROM: A P HUDSON
DATE: 10 November 1986

MR PRATT
MR HALL 391/5
MRS BROWN

cc Mr Turnbull
Mrs Lomax
Mr Moore
Mr Scholar
Mr Cropper

PRIME MINISTER'S SPEECH IN THE DEBATE ON THE ADDRESS

No.10 have asked for three further pieces of information for the Prime Minister's speech in the Debate on the Address. They would like these by tonight.

2. On public investment, we take the line that we have kept capital spending constant in real terms. No.10 would like to know if investment in roads and the NHS is now higher than its peak under Labour, and when Labour's peak was. (Action: Mr Pratt.)

3. I understand we provided a figure last week for the number of building society accounts, based on information from the Registry of Friendly Societies. Could we assess whether the number has increased since 1979? (Action: Mr Hall.)

4. Could we provide some examples of other countries with privatisation programmes? (Action: Mrs Brown.)

Mr Hudson

c Mr Brim (RFS)
Mr Hall

A P HUDSON

The number of basic share & deposit accounts in 1979 was 30.6 million, compared to 51.4 million in 1985. But we cannot say if this is 20 million new investors (it probably isn't) or what proportion of the total are dormant accounts. /KAM/impl 10/11

MR A P HUDSON

APH 10.11.

FROM: MRS M E BROWN
DATE: 10 November 1986

cc Mr Moore
Mr Scholar
Mr Cropper
Mr McIntyre

PRIME MINISTER'S SPEECH IN THE DEBATE ON THE ADDRESS

Your minute of today.

2. The merits of privatisation are being recognised world wide, from France to Japan, from Mexico to Turkey. Particular examples include:

France: Government have announced first three privatisation candidates - St. Gobain Group, Paribas Financial Group, Assurances Generales de France (Insurance Company).

Japan: has announced plans to sell NIPPON Telegraph and Telephone and other state firms.

Mexico: has announced that 15 parastatal organisations (mostly in tourism or food processing) will be sold to private interests.

Mary Brown

MRS M E BROWN

Miss Roche (No. 10).

We spoke.

APH 10.11.

FROM: N BARKER
DATE: 10 November 1986

1. MR PRATT
2. MR HUDSON

cc Mr Kalen

Miss Roche (Number 10)

PRIME MINISTER'S SPEECH IN THE DEBATE ON THE ADDRESS

Your minute of today to Mr Pratt asked whether investment in roads and the NHS is now higher than its peak under Labour, and when Labour's peak was. The figures are:

- (a) Roads (capital and current, central and local government)

£ million

	<u>Cash</u>	<u>Constant 1985-86 prices*</u>
1973-74	783	3,160
1974-75	839	2,838
1975-76	1,036	2,788
1976-77	1,065	2,532
1977-78	961	2,006
1978-79	1,093	2,062
1986-87	2,489	2,416

(b) <u>NHS capital</u>	<u>Cash</u>	<u>1985-86 prices*</u>	£ million
1973-74	251	1,013	
1974-75	254	859	
1975-76	334	899	
1976-77	364	866	
1977-78	325	678	
1978-79	373	704	
1985-86	921	921	
1986-87	925	898	

* latest GDP deflator

2. For roads, there has been a real fall of 14 per cent between 1986-87 and Labour's 1974-75 peak. For the NHS, spending in 1986-87 is at about the same level in real terms as it was at Labour's 1975-76 peak; 1985-86 over 1975-76 would show a 2 per cent real increase.

3. Firm estimates are not yet available on this basis for the planning period beyond 1986-87.

Nicholas Barker

N BARKER
GEP2

PH



FROM: A P HUDSON
DATE: 11 NOVEMBER 1986

CHANCELLOR

PH

cc: Mr Scholar
Mr Culpin
Miss O'Mara
Mr Allan
Mr Tyrie
Mr Ross Goobey
Mr P. Lilley MP

OUTLINE OF SPEECH FOR DEBATE ON THE ADDRESS

I attach an outline for discussion at tomorrow's meeting.

2. In last week's Opposition Day Speech, we said quite a lot about the economy, and attacked Labour's economic record and their macro-economic policies. For next week, I am suggesting rather more on Government policies to make the economy work better, and the contrast with Labour's industrial policy.

3. I am afraid I have not yet worked in the piece we had on why interest rates are higher here than in most competitor countries.

4. Following the meeting, I shall write a full draft and take in comments in time for Friday night's box.

PH

A P HUDSON

OUTLINE OF SPEECH FOR DEBATE ON THE ADDRESS

1. Economic strategy based upon sound money and free markets.

2. Explained last week that commitment to sound money unchanged.

- Financial conditions that bear down on inflation.

- Control of public borrowing.

- Public expenditure as percentage of GDP.

3. Some suggested there had been a U-turn. *But look at the facts.*

- Inflation low and set to stay low.

- Public borrowing on track and committed to keep it there.

- Plans mean public expenditure continues to fall as percentage of GDP. Never been U-turn in policy since 1979. Figures and charts show U-turn in trend in 1982/83: because of recession, unable to reduce public

expenditure as percentage of GDP immediately, but have done so every year since 1982 and set to continue.

4. The Government who did perform a U-turn were the last Labour Government. Policy of spend, spend, spend led to the IMF, and had to be followed by cut, cut, cut.

Answer V

5. Will be no let up on sound money. Foolish and dangerous to imagine that "a bit more inflation" would be a good thing.

6. Sound money fundamental to strength of economy. Last week, described position this year and outlook for next. Steady progress; contrast to stop-go and panic policy measures. Even halving of oil price led to a pause in growth, rather than decline. [Perhaps repeat some "end of pause" material from Opposition Day speech. Add, as appropriate, indications from this week's statistics.]

7. Explained a fortnight ago, vast difference between Government approach and Labour's on the fundamentals of economic policy. And the differences in the records those policies produced.

8. But differences also on the way to make the economy work better. This is of critical importance because it is a thriving, competitive economy that creates jobs.

9. Our approach is based on the belief that free markets work best. We want to give free rein to enterprise and initiative.

10. Labour just don't believe that. They cannot escape from the idea that the State knows best. Look at their industrial policy. [Here, use material taken out of Opposition day speech - planning agencies etc. Quotations to suggest Hattersley being pushed aside with Smith running the economy.]

Smith plus (CRA notes)

11. More alarming still, Labour intending to use trade unions and local authorities to lead the jobs initiative. "The nation's industrial future in the hands of Ron Todd and Bernie Grant."

12. Labour obsessed, as ever, with manufacturing, as though it were only source of new employment. But manufacturing employment fell 1974/79, and productivity increase was very low - sign of further hidden unemployment exposed by world recession 1980/81.

?

13. Planned economy, as Labour want, not flexible enough to respond to challenges and changing opportunities, and thus generate new businesses and new jobs.

14. To do that, need policies to allow basic market forces to work better.

15. Policies to improve incentives. That means lower taxation, when prudent. But Labour want to increase it. And employee share schemes, *to help incentives.*

16. Policies to help small firms, which create jobs.

- BES a success, but Labour want to abolish it.

- Other measures to help small firms
- But number of self-employed fell under Labour.
- Number of co-operatives has grown substantially since 1979.

17. Policies for better industrial relations.

- Giving trade unions back to members.
- But Labour want to reverse trade union reform, back to industrial strife of the 1970s.

18. Policies for a well-trained workforce. Government measures help to achieve this. Employers could do more.

19. Policies for research and development. Labour call instinctively for more spending. But Government-funded R&D is already higher as a percentage of GDP than in the USA or Japan. Better for employers to decide what is most appropriate to their needs.

20. Privatisation illustrates benefits of competition. Examples to show higher profits, more jobs at Jaguar etc. Benefits also to customers: BT waiting lists eliminated etc. But Labour would reverse all that by renationalisation.

21. More flexibility especially needed in pay. [OECD study confirms that Britain has rigid real wages, and that countries with the most rigid wages have generally had the largest rises in unemployment.]

22. Thus the high pay settlements we have seen are good for people in jobs, but bad for *competitiveness* and bad for the unemployed.

23. Labour's first response is to go in the opposite direction and introduce a national minimum wage. This could cost up to 600,000 jobs. But they don't want a statutory incomes policy. They are relying on discussing it with the unions. We all remember where that leads.

24. We have brought down the cost of employing labour through abolishing the National Insurance Surcharge and through the reduced rates of national insurance for the lower paid. Mr Hattersley has changed his mind on these [quotations].

25. We have also suggested ways of introducing more flexibility in pay bargaining: profit-related pay; geographical pay.

26. Teachers' settlement not precedent for other public sector wages: special case, designed to achieve real benefits. [Criticise settlement for LA manual workers?]

26. Conclusion: Labour policies offer a way back to the past. Don't believe in allowing the economy to work better. Solely concerned with imposing their preconceived pattern on it.



10 DOWNING STREET

From the Private Secretary

11 November 1986

Dear Andrew

DEBATE ON THE ADDRESS

I enclose the latest draft of the Prime Minister's speech for the debate tomorrow. I should be grateful for your comments and those of the other recipients by 3pm this afternoon.

Copies of this letter and the speech go to: Robin Young (Environment), Stephen Boys Smith (Home Office), John Turner (Employment), Rob Smith (DES), Catherine Bradley (DTI), and Robert Gordon (Scottish Office).

*Y er
Mark Addleton*

Andrew Hudson
H M Treasury

RP

1250/79

FROM: A ROSS GOOBEY
DATE: 13 NOVEMBER 1986

AAH

MR HUDSON

cc Mr Scholar
Mr Culpin
Miss O'Mara
Mr Tyrrie

DEBATE ON THE ADDRESS - 19 NOVEMBER

One of the aspects of constant attacks is the position of manufacturing and the proposition that, although it accounts for only 25% of GDP, it is 50% of exports (viz, "This Week, Next Week").

2. The gross private sector receipts of invisibles have been about equal to or above our visible exports in every year since 1981, and presumably manufactures account for less than 100% of visible exports (oil for instance).

3. Can we make anything of this, not so much to denigrate the importance of manufacturing but to point out the growing importance in gross trade of our invisibles?

4. It could be linked with the prediction today that this year or next year we have the world's biggest surplus on invisibles and the second largest net overseas assets.

P. Owen.

*Gross receipts from invisibles
incl IPD.*

ARL

A ROSS GOOBEY

* Many Thanks.
Pst have utyped
ASAP, as
am I.



Pst also
include bills
from LNA & Tyne
(below on the clip)
as relevant.

C.

SPEECH ON THE ADDRESS

I will also like

1. Draft below, revised hastily following our meeting to go over
2. Also below, in folder the employment
version, which
 - Peter Lilley's ideas; I am to Brussels
 - Andrew Tyrie on 728 billion; to make
 - text of Hattersley on "reflation by incompetence". I think this can be
is, at best, double-edged, so
have taken it out of this utyped
draft; version, plus
has Council,
 - quotes from Roy Jenkins et al.

AH

ready for
my return
Jim Brussels

14.11.

M

P1. take in audits

SECOND DRAFT OF SPEECH FOR DEBATE ON THE ADDRESS

19 NOVEMBER

14/11/86

Response to Hattersley

1. As we begin our ~~leighth~~ Parliamentary session in office, I am forcibly struck by the consistency ~~with~~ *exhibiting by the Opposition throughout all Nat time.* ~~which the Opposition have stuck to the failed nostrums of~~ *Nor ever have they deviated from the failed nostrums of* the past. ~~Next section will clearly depend on what Hattersley raises, but likely to include some or all of the following.]~~

(C)

2. Today's speech by the RHG the Member for Sparkbrook is no exception.)

(C)

3. As always, he expounded on the decline of manufacturing industry, and implied that this would be terminal without a return to the policies his Government pursued.

Instead of explaining his own policies, the RHG has again concentrated on attacking the Government.

4. But look at how manufacturing actually fared under the last Labour Government. Output fell. Productivity rose *only* very slowly, and the world recession of 1980-81 *crucially* exposed the extent of ~~the~~ *the overman* hidden unemployment. And British manufacturing exporters' share of world trade *fell, top.* ~~fell.~~ *completely to fall.* The RHG did not accept this in our last debate on the economy, but I have the figures here for him. Under Labour, the volume share of UK manufacturers in UK export

x x markets fell ^{from} 12.1 to 10.0 per cent. This trend continued until 1981, when the share fell to 8.8 per cent, but since then it has recovered, and now stands at 9.4 per cent.]

10-Jan, 5. The outlook for manufacturing industry is encouraging. The first half of this year was a difficult period because of the pause in world economic growth.

But that pause is now over, and at the same time ~~but~~ the competitive position of British manufacturers has

been improved by the ^{monetary} adjustment to the exchange rate which followed the oil price fall, ^{indeed,} and they have shown in the past their ability to respond. ^{already} The pick-up is well

under way. ^{In the third quarter of this year,} Over the last quarter, manufacturing output ^{was more than 1 percent higher than in the same quarter,} rose by over 1 per cent, and exports were some 3 per cent

higher than in the first half of the year. This has been matched by an improved performance on unit labour costs:

the year-on-year rise was ^{almost} ~~nearly~~ 8 per cent in the first half of the ^{this} year, but ^{was} ~~is now~~ down to 4.4 per cent. ^{In the third quarter,} Next

^{Next} year, manufacturing output is forecast to grow by 4 per cent, with a continued growth in ^{both} productivity and ~~in~~ exports.

6. As I have often stressed, a reduction in the growth of unit labour costs is very important if unemployment is ^{of the just importance to the proper for} to come down. ^{Jobs.} ^{here, too,} And recent figures suggest that the ^{one concern} ~~benefits~~ are starting to emerge. ^{On a seasonally adjusted basis,} Last week's figures

x showed a drop of 25,000 in the number of people out of work; and the fall over the past three months has been

for 13 years.)
the largest three-monthly fall since 1973. I am sure the
RHG will join me in welcoming this news. ~~know or less.~~

7. The way to achieve further falls in unemployment is
to continue the economic policies which have created over
a million new jobs since 1983, when the electorate last
~~rejected~~ *has no opportunity to choose* the Opposition's approach to the problem. ~~add~~
Emphatically rejects Mr. Yab

8. ~~What is so puzzling is that~~ the Opposition are still
trying to peddle the same combination of high borrowing,
high spending, and high taxation, as ~~their approach to~~ *the alleged answer*
unemployment. ~~After all,~~ *Despite the fact that* it was the RHG the Member for
Sparkbrook *house* who said, *shaky* after the last Election,

x "Last month, our economic policy ... was ~~not~~ ^{net} a vote
loser. Nobody believed that our theories could be
put into practice."

*NOT that even in the eyes of the RHG could for much say more, not
in the eyes of his own Leader.*

9. ~~Perhaps I should really direct my questions not at
the RHG but at his RHF the Member for Monklands East,
because the RHG the Leader of the Opposition has said
that~~ *in quite clear that, in his opinion and I
quote ->*

"The primary role in British strategic planning must
be performed by the Department of Trade and
Industry."

that and ~~that~~ the role of the Treasury is to "manage the
short-run circumstances of the economy". So in the

hope

unlikely event of a Labour Government, the RHG would become the only man ever to have been the Shadow Chancellor ~~both~~ in Opposition and in Government. *alike.*

But then the opposition are all sides -
10. Perhaps this is why it is so difficult to get a *Serious on work issues there* clear line from the Opposition on so many issues these days. Let me take just three examples.

[Em] 11. First, and most recently, on training. The HM for ~~Kingston upon Hull East~~ called for a 1 per cent levy on firms to fund new training initiatives. *[The best cash figure here]* The RHM for Sparkbrook replied, and I quote,

Asked him this, no RHM for Sparkbrook should have replied:

"The idea that there should be a 1 per cent levy is not policy, it wasn't described as policy by John, and I can't imagine it's going to be policy."

Yes
~~So he must have got a surprise last Wednesday~~ on the first day of this debate, *very* when his HF confirmed - albeit from a sedentary position - that the levy would be "at least 1 per cent".

Presumably got to what point? [in response to ...]

But I pay tribute to the honesty of the HM for Hull East. (quote X from Tynt)

12. Second, ~~on~~ income tax. The RHG tried for some weeks to maintain that *White* Labour's plans would *a savage* not mean any increase in the basic rate *of income tax*. *There would be no* Nobody ever

say, nobody from really believed him. But his cover was well and truly blown by his *NEC* colleague ~~[on the NEC]~~ Mr David Blunkett, who said

"In my view there will have to be a return to a higher standard rate of income tax and people will respect us for saying so."

13. Third, on National Insurance contributions. Last year, the RHG the Member for Sparkbrook was ^{rather} dismissive about ~~my~~ ^(I announced in the Budget) reductions in the rates of National Insurance contributions for the lower paid. ~~He said:~~ ^{In the debate on the Social Security Bill he said this:}

"The Labour Party has never believed that such changes to the cost of labour and employment could contribute to the solution of the central problem of the economy, which is the reduction of unemployment."

~~(Hansard, 29 April 1985, column 35.)~~

^{year within a year, he was ^{on the} the for John Young - a}
~~However, last March, he said:~~ ^{quote -}

"If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay, then they'll take on more labour. So we'd like to cut the National Insurance contributions."

~~(Jimmy Young Show, 20 March 1986).~~

^{Almost the only area of public policy where we do get}
14. ~~In so many areas, we search in vain for clarity from~~ ^{a measure of ^{unity} and ^{clarity} from the Opposition is}
~~the Opposition. But not on public spending. They all~~
want as much of that as they can get. My RHF the Chief Secretary ^(carefully) ~~has~~ added up their pledges, and the cost ~~has~~

Insert AH
Vision of
Right Span 6

(at least)

~~now~~ reached £28 billion. [~~And it is still rising.~~] Once again, the RHG the Member for Sparkbrook has been knocked over in the rush to spend more, and the HM for Dagenham has been brought in to try to pick up the pieces. ~~Does Mr Tyrie want to expand or change this?~~

See separate note.

Continuity of Government Policy

15. Fortunately for the nation, the Opposition will not get the chance to put any of their policies - confused or clear - into operation for a good many years yet, if ever. And the economic strategy set out in the Gracious Speech - the strategy we have pursued consistently since 1979 - is in stark contrast to the one they pursued when they were last in office.

16. Over the past seven years, our aim has been ^{gradually} to bring down the growth of money GDP, so as to squeeze inflation out of the system and hence make room for real growth.

17. We have brought inflation down from the ^(appalling) high levels generated by the policies of the previous Government, ^(in which no Rtg stood as Min for Prices, more than) when it averaged over 15 per cent, to the lowest levels seen for a generation. [~~Expand on "underlying trend", i.e. without mortgage interest.~~]

18. Ever since inflation ^{first} dropped into single figures in April 1982, the Opposition have made ^{confused} gloomy predictions that it would rise again. ^{Just no last general election} It was in May 1983, for

~~Campaign,~~

~~to be taken out~~

example, that the RHM for Sparkbrook ~~said~~ "Inflation is ready to rocket again. By this time next year, it will be back in double figures."

~~Poppy code. A so as p... [Possible quotation from~~

~~Roy Jenkins.]~~ Each time they have predicted higher inflation, ~~as each time~~ they have been wrong.

See separate note

Since 1982 we have succeeded ~~in~~ in keeping

19. We have combined low inflation with steady growth. ~~input low, but also in coming in with steady growth.~~ For each of the past five years, GDP has grown [by between 2½ and 3½ per cent], and is set to continue at this ~~pace~~ ^{steady rate} next year.

20. Again, there has been no shortage of predictions that this growth was about to peter out. ~~Indeed, 364~~

~~Indeed this has occurred consistently, after a year or two. Ever since 1980~~

claims

economists predicted that the economy could never recover from the 1981 Budget - which actually coincided with the start of the upswing. In 1984, the RHM the Leader of the Opposition predicted that after more years of this Government "Economic growth will not have come out of economic shrinkage; production will not have increased as a result of neglect."

As recalled as a few months ago,

21. Earlier this year, I was told that the halving of the oil price would spell the end of the upswing unless I engaged in ^{as} vigorous expansion of the economy. Instead, I ventured the ~~though~~ ^{view} that the pause in growth was just that. Subsequent events have proved that ^{view} right. Growth next year is expected to pick up to 3 per cent. And before the Opposition put that down simply to ~~their~~ ^{what they} so-called "consumer boom", let me remind them that growth in

dismissed

consumer spending is actually set to slow down ^(Sparkbrook) next year, that exports are picking up ^{with,} and that investment ^{is} will continue ^(expected) to grow ^{at (bank)} broadly, in line with the economy as a whole.

X 22. This year more than most, ^{the} ~~my~~ critics ^{seem to} have found it hard to know what to think. First, they predicted a slump and ^(up) told me to expand the economy. I ~~did not~~ ^{decided} take their advice. But, as I predicted, growth ^(down) picked up. Then they ^(predicted) changed their tune and told me the economy was overheating and I should rein it back. I have not responded to that either. And ^{now} the Opposition are ~~now~~ trying to maintain that the economy is both declining and overheating at ~~once~~. ^{one -> the same time.} They ~~don't know whether they are coming or going.~~

~~26~~ 23. ^{(Meanwhile,} We have fostered the conditions in which over a million jobs have been created since 1983. Yet the Opposition have persistently criticised our policies as bringing no hope to the unemployed. What could bring more hope than the knowledge that more jobs are being created? I have already drawn to the House's attention the latest figures suggesting that the continuing growth in jobs is at last outpacing the growth in the number of people seeking work. This suggests that the RHG the Member for Sparkbrook was mistaken when he claimed in 1984 that "There is a widespread acceptance that the present Government will not reduce unemployment."

In February, ^{he said of} ~~talking about~~ one of Labour's other pledges,

"How did we get this policy of one million jobs? Who worked on the programme?"

Promises such as this simply label us with targets we cannot achieve and expose our credibility."

But I have to tell the House that this figure is now out of date. Because ~~there are five~~ Labour have made five new pledges, over and above the ones in the original costing: for a winter heating premium, a higher Christmas bonus for pensioners, the abolition of standing charges for pensioners, ~~and~~ new policies of energy, and the latest ~~proposed~~ pension increase from the HM for Oldham West. Together, these cost £ ^{10.3} ~~7~~ billion. So the overall cost of Labour's programme now stands at ~~£7 billion~~ almost [£39] billion.

NOTES FOR QUEEN'S SPEECH DEBATE

Suggested structure:-

i) Opening knockabout in response to Hattersley and Kinnock.

- :forecasts versus outcomes - AH
- :absence of any credible alternative (see (1) below)
- :Steel on infrastructure (see (3) below) or use later e.g. when discussing spending priorities
- :Hattersley described the City as "seedy but not fraudulent" - could describe him, if not his policies

ii) Continuity

iii) Wider Ownership

iv) More knockabout on Labour's £28 billion

- :use quote from Today "Labour's willingness to explain how it would finance those reforms is the proof, not the denial, of its socialism. Making promises first and worrying about the cost afterwards is the certain way to make sure that the promises are not kept."

v) Peroration

Roughly what we've got. Do we want to return to the £28 bn towards the end?

Draft paragraphs:-

(Pst work in first two as you have Russell)

~~23~~ The RHG has once again ^{he} refused to discuss his own party's economic policies. He has left them completely undefended. Is this simply an application of the labour party's unilateralist defence policy to the sphere of parliamentary debate? Or is it because he finds his own policies indefensible?

Good, assuming it's true. Perhaps use at start, after para 1, link "He has concentrated again on attacking Govt."

23. It is still not clear to me what is the Opposition's reaction to the public spending plans spelled out in the Autumn statement. Do the Labour Party want us to spend more next year? Or less? Or the same as is in our plans?

24. On the ~~first~~ ^{open} day of this debate the RHG the leader of the Opposition seemed to believe the projected spending increase would ignite what he called a pre-election boom. In almost the same breathe he asserted that there is no hope of the economy growing at the 3% rate forecast in the statement.

Work into para 22?

25. Given that the economy has grown at an average rate of nearly 3% for the last five years, it seems odd to characterise a sixth year of the same ~~(still less anything short of that) as a boom. Unless he thinks every year of this Parliament has been a boom year!~~

as (the attainable or some special pre-election boom. Unless, of course, he believes that every year of the last Parliament was a boom year.)

3) I noted that the RHG the leader of the Liberal party made his central point the alleged inadequacy of the planned increase in public sector capital spending.

The planned £1 billion increase is apparently insufficient for him. [Though it was all his friend the RH leader of the SDP wanted to add to my budget earlier this year (check)]

I will happily give way if he (or his economic spokesman) could explain to the House why he sustained in office a Government which cut public sector investment by nearly one third?

Work in between 31 & 32. The Party has been a pre election boom year.

27 24. Thus we have achieved a combination of low inflation, sustained growth, and rising employment. And we have achieved this by the consistent pursuit of an economic strategy based on sound money and free markets.

28 25. In operating monetary policy, we have ^{all along} always taken account of all the indicators of monetary conditions. It was ^{as far back as} in 1980 that we said that "No single measure of the money supply can be expected fully to encapsulate monetary conditions". (~~Green Paper on Monetary Control~~). So anybody who imagined ^{even} that policy was ^(for that matter) determined simply on the basis of M3, or any other single indicator, has failed to understand the policy. We shall continue to watch broad money closely, ^{while being fully aware} taking full account of the difficulties in interpreting M3 which the Governor of the Bank of England has recently described, ^{and which as I myself have done on a number of} as I have on ~~previous~~ occasions. We shall continue to watch M0, which has proved a ^{particularly reliable} good indicator of monetary conditions in recent years. ^{of course} And we shall continue to take account of ~~movements in~~ the exchange rate. ¶

29 26. As I have said before, short-term interest rates are the key instrument of monetary policy, and ^{They will do} my aim is to ^{Keep at whatever} keep them at a level ^{to achieve} that secures monetary conditions that bear down on inflation. [Examples from track record to show good judgement.]

30 27. On fiscal policy, too, we can point to a record of consistency. ~~[I have never set a target for the PSBR~~

Thinking of that as Chancellor

~~I have ^{an account} struck ~~the~~ path ~~marked~~ on
the ~~map~~ from ~~the~~ ~~start~~, as ~~apart~~
from 1984-85, when I allowed the ~~PSBR~~ public ~~sector~~
higher than the one set in the previous year's Budget.
to ~~pay~~ to ~~finance~~ the ~~one-off~~ ~~expenditure~~ ~~needed~~ ~~to~~ ~~successfully~~
The ~~outturns~~ have been ~~close~~ to ~~plans~~ apart from for
~~the~~ ~~coal~~ ~~strike~~, ~~the~~ ~~outturn~~ has ~~been~~ ~~a~~ ~~low~~ ~~one~~
1984-85 which was distorted by the coal strike. And the
~~PSBR~~ ~~forecast~~ ~~at~~ ~~the~~ ~~start~~ ~~of~~ ~~the~~ ~~Budget~~.~~

~~the combined public sector borrowing requirement for the
three financial years I have been Chancellor is lower in
real terms/as a proportion of average GDP than in the
single year 1975-76.]~~

28. People have often predicted that our fiscal policy would be abandoned. In last year's Debate on the Address, the RHG the Member for Sparkbrook accused us of reflation. In the event, the Public Sector Borrowing Requirement for 1985-86 turned out to be rather lower than had been forecast at the start of that year.

29. In the Autumn Statement, I ~~said~~ that the forecast for ~~this~~ year's PSBR is the same as I set in the Budget. And I made clear that there will be no expansion of next year's PSBR, compared with what was ~~planned~~ in the Budget.

30. We have shown continuity in our monetary and fiscal policy, because it has worked. The record on inflation is the evidence.

31. Finally, public expenditure. The comment and discussion that has followed the Autumn Statement has generated a good deal of heat but rather less light, and ~~this is not the first time that this has happened. In~~

~~Reflect the
to come
knows
knows
allegations
the
higher
and
higher~~

* ~~we~~ ~~see~~

~~the year's~~

~~News~~ ~~take~~

~~MPS~~

~~planned @ the time of the Budget.~~

*PhMs
occasion*

*Spam 6
ag?*

I think we've got most of those ideas except X, I'm not sure we want to draw so much attention to the continued growth of public expenditure in real terms.

4) ~~CONTINUITY~~

31. Much of the press reaction to the Autumn Statement has been fairly predictable. On any subject they have two headlines to choose from. And on public spending its either "Cut Cut Cut" or "Spend Spend Spend".

32. ~~They~~ chose the latter. But the truth, unfortunately for the headline writers, is that we are continuing on the path we have pursued throughout this parliament.

33. Our primary objective has been to reduce the proportion of national income taken by the public sector. This we have achieved every year since 1982. And we plan to do so over the next three years.

34. ~~In~~ In the decade prior to our election in 1979 public sector spending grew at an average annual rate of about 3%. In our first parliament, because of the world recession and the bills we inherited, we only managed to slow the growth of spending to an average rate of 2 1/4%. But so far during this parliament we have managed to curb the growth in spending to 1 3/4% (2). The ~~planned~~ *stair* increase over the next three years is at the slightly slower rate of 1 1/2% per annum.

fraser

The ~~second~~ *stair* objective of our public spending strategy has been to concentrate increases in spending on priority areas - health, pensions for the increasing number of retired people, defence in line with our commitment to NATO and roads. Again in our current plans we concentrate spending on the priority areas....

Not this year?

stair

35. The ~~third~~ element of continuity is our determination that spending should not be financed by inflationary borrowing. That is why I spelled out that in the coming year we will not allow the public sector borrowing requirement to exceed the 1 3/4% of GDP indicated in the medium term financial strategy.

36. I can understand that "continuity" may be an unfamiliar concept in the RHG's party. The last Labour Government's spending policies consisted of a massive increase - x% in the first two years - which had to be dramatically reversed when the IMF took over from the RHG the member for Leeds East.

*get frogs -
x macro
ann / cap. V
pm
(v.m.p)*

By contrast sticking to a sustainable medium term strategy is bringing its rewards. Inflation has come down to low single figures. This has been combined with five years of steady growth at a rate of nearly 3%.

Earlier this year we were urged to take panic measures to offset the pause in growth which followed the collapse in oil prices. But, steadiness paid off and growth has resumed here and abroad as we predicted it would.

What is more there now seems clear signs that growth in the economy is bringing the long upward trend in unemployment to an end.

Other Measures

37 ~~33~~. In the new session, we shall continue to follow the economic strategy which has brought the successes I described. But the Government's objectives go deeper than simply continuing our economic advance.

38 ~~34~~. In particular, we want to encourage the spread of ownership in society. This means wider home ownership and wider share ownership.

39 ~~35~~. The number of shareholders has doubled under this Government, not least because of the opportunities arising out of the privatisation programme. Some [8 million] people have shown interest in the British Gas sale alone.

40 ~~36~~. Nonetheless, many people still find the idea of share ownership complicated and daunting. To make it more attractive, I announced in the Budget the new Personal Equity Plans. These will enable small investors to invest in UK shares free of tax, in a simple way, with no need for record-keeping or dealings with the Inland Revenue.

1 see note below in blue.

41 ~~37~~. Labour were opposed to this initiative, and a number of commentators thought it would be a damp squib. In fact, it has proved very popular. I can announce today we have received a hundred applications from firms who want to ^{run} ~~become~~ Plans Managers. I am laying the draft

~~announced in the Budget~~
~~the new Personal Equity Plans~~

predict that this initiative

~~Labour were opposed to this initiative~~

couldn't wait to

now get off the ground.

~~it is now clear that it will be a great success.~~

that

already

~~Inland Revenue~~

[insert smat
ask re 100]

regulations for the scheme before the House today, so that subject to approval, ~~the~~ ^{it} scheme can begin on 1 January next year.

62 38. A second area where we ~~shall build~~ ^{are building} on success is privatisation. Our privatisation programme is a historic achievement. It has brought benefits to consumers, investors, employees, management, and the economy as a whole. It is being copied around the world.

63 39. This session, British Gas, British Airways, Rolls Royce, and the British Airports Authority will be privatised, so that ^{by the end of it} the State commercial sector will be down to ~~just over~~ ^(10% more than) half of what we inherited in 1979.

64 40. This, of course, is a policy ^{the} Labour ~~don't~~ ^{Party can't} like. They don't like the opportunities it has brought for millions of people to own shares. They don't like the idea that management - and not politicians - are running the companies. No wonder the heads of these newly privatised companies point to the dangers of renationalisation [quote from Sir G Jefferson or others].

65 41. For areas which remain in the public sector, many of the benefits of privatisation can be secured by putting out to competitive tender services which were previously provided in house. This has already brought savings of £100 million a year - much of it available to improve

Some more?

patient care in the Health Service. This session, as was announced in the Gracious Speech, we shall legislate to make competitive tendering compulsory for a ^{wide} range of local authority services, including street cleaning and ~~refuse collecting~~.

46 A2. Third, this will be another momentous year for the City and the financial world, as it adjusts to the competitive environment ~~following the Big Bang.~~ ^{now}

47 A3. The House devoted a good deal of time in the previous session to the Financial Services Act, and the Building Societies Act. To complement these, I introduced on Friday a new Banking Bill to modernise and strengthen the rules for banking supervision.

Supervision is essential throughout the financial sector, as a sound law is essential to do what is necessary to achieve it.

48 A4. The growth of the financial services sector has brought ^{great} ~~enormous~~ benefits to the economy, not least ^{in terms of} jobs - two million people are now employed in banking, finance, and insurance. And it may surprise some Opposition members to learn that the number of extra jobs in that sector since 1979 is more than ^{three or greater as} ~~double~~ the job losses in ^{my} motor vehicles. *indeed.*

[45. Fourth, a theme of the Gracious Speech is our commitment to law and order, and the issue of drug control involves one of my Departments, Customs and Excise.

X

See note from Kris Romanski in blue separate folder - I suggest dropping this.

46. I have no major announcement to make here. But I would like to reassure the RHG the Leader of the Opposition, who suggested in his speech last Wednesday that resources in Customs to prevent drug trafficking had fallen away. In fact, Customs effort on control of drug smuggling is greater now than in 1979, thanks to increased efficiency, ~~giving~~^{the} a higher priority^{given} to this work, and a doubling of the number of key staff on specialist drugs investigations.]

Conclusion

69 47. Mr Speaker, in the year ahead we shall continue to pursue the economic policies set out in the Gracious Speech. They are the policies which have brought five years of steady growth already and inflation down to the lowest levels for a generation. They are policies which the Opposition are committed to reverse. But they are policies which have taken hold of the public mind, so that the Opposition will never get the chance to reverse them.

*do this, for by an plan which
have caught the imagination of the
British people.*

✱

1. Pl. retyp. Take in red and blue amendments. Red overrides blue. Take out all para nos.

14/11/86

**THIRD DRAFT OF SPEECH FOR DEBATE ON THE ADDRESS
19 NOVEMBER**

Response to Hattersley

1. As we begin our eighth Parliamentary session in office, I am ~~forcibly struck by the consistency exhibited~~ ^{forced to acknowledge the consistency exhibited by} ~~by~~ the Opposition throughout all that time. Not once have they deviated from the failed nostrums of the past.

~~MEM~~
[Opp have changed in some ways]

~~2. Today's speech by the RHG the Member for Sparkbrook is no exception. He refused to discuss his own party's economic policies. He has left them completely undefended. Is this simply an application of the Labour Party's unilateralist defence policy to the sphere of parliamentary debate? Or is it because he finds his own policies indefensible?~~ ^{Nor that we heard much about the Opposition's policies today. ~~declared~~ ~~the RHG~~ ~~no reason for Sparkbrook~~ ~~declared to discuss, let alone to defend, them.~~ ~~Is this simply an application of the Labour Party's passion for unilateralist defence policy to the sphere of parliamentary debate?~~ ~~Or is it because he finds his own policies indefensible?~~}

~~3. [Instead of explaining his own policies, the RHG has again concentrated on attacking the Government.] As always, he (expounded on the decline of manufacturing industry, and implied that this would be terminal without a return to the policies his Government pursued.~~ ^{Mr RHG}

Mr Tyrie suggests omit, because this debate is about our policies.

~~Mr Tyrie~~

^{I will come on to our record in a moment.}

~~4. But look at how manufacturing actually fared under the last Labour Government. Output fell. Productivity rose only very slowly, and the world recession of 1980-81 cruelly exposed the extent of the overmanning and hidden~~

Mr Tyrie

And Britain's share of world exports

unemployment. ~~And British manufacturing exporters' share of world trade fell, too.~~
of manufactured goods steadily fell - a fall which would indeed - a shock which under the circumstances has been unequivocally avoided.

5. Today, the outlook for manufacturing industry is encouraging. The first half of this year was a difficult period because of the pause in world economic growth. But that pause is now over, and at the same time the competitive position of British manufacturers has been improved by the inevitable adjustment ^{of} to the exchange rate which followed the oil price fall. Indeed, the pick-up is already well under way. In the third quarter of this year, manufacturing output was more than 1 per cent higher than in the second quarter, and exports were some 3 per cent higher than in the first half of the year. ~~This has been matched by an improved performance on unit labour costs: the year-on-year rise was almost 8 per cent in the first half of this year, but was down to 4.4 per cent in the third quarter. Next year, manufacturing output is forecast to grow by 4 per cent, with a continued growth in both productivity and exports.~~

6. As I have often stressed, a reduction in the growth of unit labour costs is of the first importance to the prospect for jobs. And here, too, recent figures are encouraging. On a seasonally adjusted basis, last week's figures showed a drop of 25,000 in the number of ^{adults} people out of work; and the fall over the past three months has been the largest three-monthly fall for 13 years. I am sure the RHG will join me in welcoming this encouraging trend.

MOM:
[since June 83,
~~over~~ over a million
now, but figures may
be revised]

7. The way to achieve further falls in unemployment is to continue the economic policies which have created ~~over~~ a million new jobs since 1983, when the electorate last had the opportunity to choose the Opposition's approach to the problem and emphatically rejected it.

8. Yet the Opposition are still trying to peddle the same combination of high borrowing, high spending, and high taxation, as the alleged answer to unemployment. Despite the fact that it was the RHG the Member for Sparkbrook himself who said, shortly after the last Election,

"Last month, our economic policy ... was a net vote loser. Nobody believed that our theories could be put into practice."

Mr Tyrie

9. Not that the views of the ~~Treasury~~ ~~voice of the R.H.G.~~ ~~would~~ ~~under Labour~~ ~~RHG~~ count for much ~~any~~ more, not even in the eyes of his own Leader. The RHG the Leader of the Opposition has made it quite clear that, in his opinion - and I quote -

"The primary role in British strategic planning must be performed by the Department of Trade and Industry."

Mr Tyrie

~~He said~~ and that the role of the Treasury is to "manage the short-run circumstances of the economy". So in the highly unlikely event of a Labour Government, the RHG

would become the only man ever to have been the Shadow Chancellor in Opposition and in Government alike.

10. But then the Opposition are at sixes and sevens on most issues these days. Let me take just three examples.

11. First, and most recently, on training. The HM for Hull East called for a [£m] 1 per cent levy on firms to fund new training initiatives. Asked about this, the RHM for Sparkbrook somewhat tetchily replied:

"The idea that there should be a 1 per cent levy is not policy, it wasn't described as policy by John, and I can't imagine it's going to be policy."

Yet on the very first day of this debate, [in response to ...], his HF ^{insist} confirmed - albeit from a sedentary position - that the levy would be "at least 1 per cent". But I pay tribute to the honesty of the HM for Hull East. In ~~Labour's~~ ^{Labour's} ~~debates~~ ^{debates}. ~~Earlier in the House~~ ^{It is always} ~~we~~ ^{to have the contribution of the HM for Hull East to} ~~February~~ ^{February}, he said of one of Labour's other pledges, to create a million jobs:

"How did we get this policy of one million jobs? Who worked on the programme? Promises such as this simply label us with targets we cannot achieve and expose our credibility."

12. Second, income tax. The RHG tried for some weeks to maintain that while Labour's plans would mean a savage increase in the higher rates of income tax, there would

APH:
-in effect, a new tax on turnover which he thinks would raise £6 billion from British business.

C.
Preacott wasn't picked up in Hansard, I'm afraid.
AHH

Mr Tyrie
Carbon
this year

The RHM for Sparkbrook's

be no increase in the basic rate. Needless to say, nobody ever really believed him. But his cover was well and truly blown by his NEC colleague Mr David Blunkett, who said

"In my view there will have to be a return to a higher standard rate of income tax and people will respect us for saying so."

13. Third, on National Insurance contributions. Last year, the RHG ^{the} Member for Sparkbrook was somewhat dismissive about ^{the} reductions I announced in the Budget in the rates of National Insurance contributions for the lower paid. In the debate on the Second Reading of the Finance Bill he said this:

"The Labour Party has never believed that such changes to the cost of labour and employment could contribute to the solution of the central problem of the economy, which is the reduction of unemployment."

Yet within a year, he was on the air telling Mr Jimmy Young - and I quote -

"If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay, then they'll take on more labour. So we'd like to cut the National Insurance contributions."

In conjuncts
with Jan RHF
No Chief Secretary
I have
carefully

14. About the only area of economic policy where we do get a measure of unity and clarity from the Opposition is public spending. They all want as much of that as they can get. My RHF the Chief Secretary carefully added up their pledges, and the cost reached at least £28 billion.

Mr. Tyrie:
Labour's Conference was always likely to be an expensive week for the RHM for Sparkbrook. I have costed just five new pledges they made at Blackpool:

x
15
H.A.

But I have to tell the House that this figure is now out of date. ~~Because Labour have made five new pledges, over and above the ones in the original costing:~~ for a winter heating premium, a higher Christmas bonus for pensioners, the abolition of standing charges for pensioners, new policies on energy, and the latest pension increase promised by the HM for Oldham West. Together, these cost £10.8 billion. So the overall cost of Labour's programme now stands at ^[about £38] almost ~~£39~~ billion. Once again, the RHM the Member for Sparkbrook has been knocked over in the rush to spend more, and the HM for Dagenham has been brought in ^{far too late,} to try to pick up the pieces.

sm

Tyrie x

Tyrie:
So Labour's Conference was always likely to indeed expensive for the RHM for Sparkbrook. It cost him and Labour's credibility dear.

Continuity of Government Policy

17
15. ~~Fortunately for the nation, the Opposition will not get the chance to put any of their policies - confused or clear - into operation for a good many years yet, if ever. And the economic strategy set out in the Gracious Speech~~ ^{continues} ~~the strategy we have pursued consistently since 1979. - is in stark contrast to the one they pursued when they were last in office.~~

Mr Tyrie suggests omit.

Jadny

RPC

48
16. Over the past seven years, ~~our aim has been~~ *we have gradually brought* ~~gradually to bring~~ down the growth of money GDP, so as to squeeze inflation out of the system and hence make room for real growth.

17. We have brought inflation down from the appallingly high levels generated by the policies of the previous Government, in which the RHG served as Minister for Prices, when it averaged more than 15 per cent, to the lowest levels seen for a generation.

18. Ever since inflation first dropped into single figures in April 1982, the Opposition have made confident predictions that it would rise again. During the last general election campaign, the RHM for Sparkbrook told the nation that "Inflation is ready to rocket again. By this time next year, it will be back in double figures." Poppycock. And so it proved. Each time they have predicted higher inflation, and each time they have been wrong.

RPC

B

MOM:
Inflation still at 8.7% in 1982, and growth not within 2½-3½% band for a 5 year period. So either redraft as here, or talk about 83 → a 4 year period.

19. ~~Since 1982 we have succeeded not merely in keeping inflation low, but also in combining it with steady growth.~~ *bringing down inflation and* ~~it~~ *this* ~~low, but also in combining it with steady growth.~~ For each of the past five years, ~~GDP has grown by almost three per cent a year on average~~ *but have economic growth has actually declined* ~~(by between 2½ and 3½ per cent)~~, and is set to continue at this steady rate ~~next year.~~ *~ 1987* *3% a year*

MOM:

20. Again, there has been no shortage of predictions that ~~this~~ growth was about to peter out. Indeed ~~this~~ *these predictions have* has

MOM

ever since
→ Govt. since

occurred consistently, year in year out. ~~Even some~~ (364 economists claimed that the economy could never recover from the 1981 Budget - which actually coincided with the start of the upswing.

21. As recently as a few months ago, I was told that the halving of the oil price would spell the end of the upswing unless I engaged in a vigorous expansion of the economy. Instead, I ventured the view that the pause in growth was just that. Subsequent events have proved that view right. ~~Growth next year is expected to pick up to~~

RPC:

C

~~3 per cent.~~ And before hon Members opposite put that down simply to what they dismissively describe as a "consumer boom", let me remind them that growth in consumer spending is actually set to slow down somewhat next year, that exports are picking up well, and that investment is expected to grow at least in line with the economy as a whole.

22. This year more than most, the critics seem to have found it hard to know what to think. First, they predicted a slump and urged me ~~to expand the economy.~~ I declined to take their advice. ~~BUT,~~ as I predicted, growth duly picked up. Then ~~[the] commentators~~ changed their tune and told me the economy was overheating and I should ~~rein it back.~~

take action

AND,

some (they)

damp it down.

Mr Tyrer (otherwise looks as though all disagree with us)

MOM

take action to

23. It is still not clear to me what is the Opposition's reaction to the public spending plans spelled out in the Autumn Statement. Do the Labour Party want us to spend more next year? Or less? Or the same as is in our plans?

24. On the opening day of this debate the RHG the leader of the Opposition seemed to believe the projected spending increase would ignite what he called a pre-election boom. In almost the same breath he asserted that there ^{is} ~~is~~ no hope of the economy growing ^{next year} at the 3 per cent rate forecast in the ~~S~~ Statement.

25. Given that the economy has grown at an average rate of nearly 3 per cent for the last five years, it seems odd to characterise a sixth year of the same as either unattainable or some special pre-election boom. Unless, of course, he believes that every year this Parliament has been a pre-election boom year.

26. Meanwhile we have fostered the conditions in which ^{during the lifetime of Mrs. Thatcher} ~~over~~ a million jobs have been created ^{since 1983}. Yet the Opposition have persistently criticised our policies as bringing no hope to the unemployed. What could bring more hope than the knowledge that more jobs are being created? I have already drawn to the House's attention the latest figures suggesting that ^{there is now a downward trend in unemployment} ~~the continuing growth~~ ~~in jobs is at last outpacing the growth in the number of~~ ~~people seeking work.~~

MoM

MoM:
Original could mean simply fewer people ~~seeking~~ joining the workforce.

27. Thus we have achieved a combination of low inflation, sustained growth, and rising employment. And we have achieved this by the consistent pursuit of an economic strategy based on sound money and free markets.

x 28. In operating monetary policy, we have all ^{along} ~~always~~ taken account of all the indicators of monetary conditions. It was as far back as 1980 that we said in the Green Paper on Monetary Control, that "No single measure of the money supply can be expected fully to encapsulate monetary conditions". So anybody who imagines that policy was ever ^r determined simply on the basis of £M3, or any other single indicator for that matter, has failed to understand the policy. We shall continue to watch broad money closely, while being fully aware of the difficulties in interpreting £M3 which the Governor of the Bank of England has recently described, and indeed as I myself have done on a number of occasions. We shall continue to watch MO, which has proved a particularly reliable indicator of monetary conditions in recent years. And of course we shall continue to take account of the exchange rate.

RPC: 29. As I have said before, ^{and shown by my actions,} short-term interest rates are the key instrument of monetary policy, ^h and they will ^{continue to} be kept ^{on average,} ^h at whatever level is necessary to secure monetary conditions that bear down on inflation. ~~[Examples from track record to show good judgement.]~~

Mr Perety:

RPC:

30. On fiscal policy, too, we can point to a record of consistency. Throughout my time as Chancellor I have stuck firmly to the path mapped out in the Medium Term Financial Strategy, and apart from 1984-85, when I allowed public borrowing to expand to finance the one-off expenditure needed in successfully resisting the coal strike, the outturn has been ^{broadly} in line with the PSBR envisaged at the time of the Budget. ~~Figures published yesterday show that this year's PSBR is~~ ^{As yesterday's figures confirm} ~~on track.~~ ^{will} ~~on track.~~

MOM/RPC:
N.B. £1½ bn
overrun in
1983-84.

⊕
⊕

31. Much of the press reaction to the Autumn Statement has been fairly predictable. On ^{most} ~~any~~ subjects they seem to have only two headlines to choose from. And on public spending it's either "Cut, Cut, Cut " or "Spend, Spend, Spend".

32. On this occasion they chose the latter. But the truth, unfortunately for the headline writers, is that we are continuing on the path we have pursued throughout this Parliament.

33. Our primary objective has been to reduce the proportion of national income taken by the public sector. This we have achieved every year since 1982. And we plan to do so over the next three years.

34. In the decade prior to our election in 1979 public sector spending grew at an average annual rate of about 3 per cent. In our first parliament, because of the world recession and the bills we inherited, we only

managed to slow the growth of spending to an average rate of $2\frac{1}{4}$ per cent. But so far during this parliament we have managed to curb the growth in spending to $1\frac{3}{4}$ per cent. The ~~forecast~~ ^{Buridan} increase over the next three years is at the still slower rate of 1 per cent ~~per annum~~. a year.

35. The second element of continuity is our determination that spending should not be financed by ~~inflationary~~ ^{EXCEPT} borrowing. That is why I spelled out that in the coming year we will not allow the public sector borrowing requirement to exceed the $1\frac{3}{4}$ per cent of GDP indicated in the Medium Term Financial Strategy.

36. I can understand that "continuity" may be an unfamiliar concept in the RHG's party. The last Labour Government's spending policies consisted of a massive increase - ¹³ ~~x~~ ^{in real terms} per cent in the first two years - which had to be dramatically reversed when the IMF took over from the RHG the Member for Leeds East.)

Other Measures

37. In the new session, we shall continue to follow the economic strategy which has brought the ~~successes~~ ^{achievements} I ^{have} described. But the Government's objectives go deeper than simply continuing our economic advance.

38. In particular, we ~~want~~ ^{are determined} to encourage the spread of ownership in society. This means wider home ownership and wider share ownership.

APH:

In 1978-79, total spending was 4 per cent lower ~~than~~ in ~~1977~~ real terms than in 1975-76. ^{But} look at what they chose to cut. Roads and hospitals - both down by 30 per cent in real terms over Labour's period in Government, with overall capital spending down by a fifth.

39. The number of shareholders has doubled under this Government, not least because of the opportunities arising out of the privatisation programme. Some [8 million] people have shown interest in the British Gas sale alone.

40. Nonetheless, many people still find the idea of share ownership complicated and daunting. To make it more attractive, I announced in the Budget the new Personal Equity Plans. These will enable small investors to invest in UK shares free of tax, in a simple way, with no need for record-keeping or dealings with the Inland Revenue.

41. A number of commentators couldn't wait to predict that this initiative would never get off the ground. In fact, it is ^{now} clear that it will be a great success. I can announce today the Inland Revenue have received a hundred applications from firms who want to run Personal Equity Plans. I am laying the draft regulations for the scheme before the House today, so that subject to approval, it can begin on 1 January next year.

[including add ref. to list, not yet received]

42. A second area where we are building on success is privatisation. Our privatisation programme is a historic achievement. It has brought benefits to consumers, investors, employees, management, and the economy as a whole. It is being ~~copied~~ ^{emulated throughout} around the world.

John of Parliament,
43. This session, British Gas, British Airways, Rolls Royce, and the British Airports Authority will be privatised, so that by the end of it the State commercial sector will be down to little more than half of what we inherited in 1979.

44. This, of course, is a policy the Labour Party can't stand. They don't like the opportunities it has brought for millions of people to own shares. They don't like the idea that management - and not politicians - are running the companies. No wonder the heads of these newly privatised companies point to the dangers of renationalisation. [quote from Sir G Jefferson or others].

Mr Tyrie:
Labour don't want to see the extension of share ownership any more than they want to see the extension of ^{home} share ownership.

As Sir George Jefferson said of British Telecom, "the return to a state monopoly... would clearly be incompatible with continued progress in customer choice and a disincentive to improved efficiency."

45. For areas which remain in the public sector, many of the benefits of privatisation can be secured by putting out to competitive tender services which were previously provided in house. This has already brought savings of £100 million a year - much of it available to improve patient care in the Health Service. This session, as was announced in the Gracious Speech, we shall legislate to make competitive tendering compulsory for a wide range of local authority services, including street cleaning and refuse collecting.

Again, he can't say we will be privatised
46. *Impact for the* ~~Third, this will be another momentous year for the~~ City and the financial world, as it adjusts to the new competitive environment.

RFC says N.B. crisis of "Collier". Suggested redraft meet this is APH.

h

47. The House devoted a good deal of time in the previous session to the Financial Services Act, and the Building Societies Act. ^{what are now} To complement these, I introduced on Friday a new Banking Bill to modernise and strengthen the rules for banking supervision. Effective supervision is essential throughout the financial sector, ^{as recent events have shown,} and as a Government we are determined to do what is necessary to achieve it.

48. The growth of the financial services sector has brought great benefits to the economy, not least in terms of jobs - two million people are now employed in banking, finance, and insurance. ~~And it may surprise some Opposition members to learn that~~ ^(in fact,) ^(growth) the number of extra jobs ~~by~~ that sector since 1979 is more than twice as great as the job losses in the motor vehicle industry.

Conclusion

49. Mr Speaker, in the year ahead we shall continue to pursue the economic policies set out in the Gracious Speech. They are the policies which have already brought five years of steady growth and inflation down to the lowest levels for a generation. They are policies which the Opposition are committed to reverse. But I am confident that they will never get the chance to do this, for they are policies which have captured the imagination of the British people.

CONFIDENTIAL

FROM: ROBERT CULPIN

DATE: 17 NOVEMBER 1986

MR HUDSON

cc Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Scholar
Miss O'Mara
Mr Pickford

REVISED (17 NOVEMBER) DRAFT OF SPEECH IN DEBATE ON THE ADDRESS

This reads very well.

2. We ought to refer to tomorrow's PSBR and Wednesday's GDP, both of which are helpful. The GDP number, in particular, supports "end of pause".
3. I attach suggestions on those and a couple of other points. I have marked where they go on my copy below.
4. Other points:-
 - a. Paragraph 16: "we have gradually brought down" rather than "our aim has been".
 - b. Paragraph 29: "As I have said before, and shown by my actions". I don't, on reflection, think we need specific examples of the actions.
 - c. Paragraph 30: The last two lines look too strong, but I leave that to Miss O'Mara.
 - d. Paragraph 46: invites cries of "Collier".



ROBERT CULPIN

CONFIDENTIAL

Encs

A

With faster world trade and better cost competitiveness, I see nothing outlandish in forecasting a 4% rise in manufacturing output next year. We have seen it before and we shall see it again.

But the big difference between this Government and the last, so far as manufacturing is concerned, is in productivity. Over the last ^[6]X years, manufacturing productivity has shot up by ^[nearly 5% a year] 4%. And, after a short pause, it is now improving again.

The result is that the growth in unit labour costs is slowing down. The year on year rise was almost 8% in the first half of this year, but was down to about 4½% in the third quarter. That is still too high, but it is getting better.

B

To give them their ¹⁰⁰due, it used to be the case in this country that you couldn't have sustained growth without a pick-up in inflation. At least, that ~~is~~ what the record seemed to show. We used to debate the trade-off between growth and inflation as if they were bound to go together. But we

I think 5 is
Ok here.

have shown over the last ~~five~~ years that we can have growth - steady and substained growth - without a revival in inflation - indeed, while inflation continues to come down.

In each of the three years I have been Chancellor, the growth rate and the inflation rate have been within ²⁰⁰ two percentage points of each other. In no Labour year was that true. And in one infamous year under Labour, the gap between the two was getting on for 30%.

C

CONFIDENTIAL

Figures published this morning show that the total value of output in the economy rose more than 1% in the third quarter, and is now about 3% higher than a year ago.

Next year I expect growth of another 3%.

D

CONFIDENTIAL

Figures published yesterday show that this year's PSBR is ~~on~~ track.

APH: 12.87

E

APPH

The RHG the Leader of the Opposition alleged that we were the "highest borrowing, highest spending, highest taxing Government ever". This is pretty rich, I must say, coming from the Leader of a party whose last spell in Government saw public borrowing reach £35 billion in today's ~~terms~~^{money}, public spending take the highest share of national output for a generation, and income tax at 35 pence ^{the} in _h pound for everybody.

14/11/86.

FOURTH DRAFT OF SPEECH FOR DEBATE ON THE ADDRESS

19 NOVEMBER

Response to Hattersley

~~MCS~~
~~SPK~~

As we begin our eighth Parliamentary session in office, ~~I~~
~~we see a clear~~ ~~am forced to acknowledge~~ ~~the consistency~~ ~~exhibited by the~~ ~~in the behaviour of~~
Opposition throughout all that time. Not once have they
deviated from the failed nostrums of the past.

Not that we heard much about the Opposition's policies
today. The RHG the Member for Sparkbrook declined to
discuss, let alone to defend, them. ~~Evidently the Labour~~ ~~Party's passion for unilateral disarmament has been~~
~~extended to the sphere of parliamentary debate.~~
The RHM, as a
Member of the
House of Commons & Unilateral Disarmament, has evidently
shown so authoritative that he has

(if)

As always, the RHM expounded on the ~~decline~~ *all (gr)* of
manufacturing industry, and implied that this would be
terminal without a return to the policies his Government
pursued.

x

I will come onto our record in a moment. But look at how
manufacturing actually fared under the last Labour
Government. Output fell. Productivity rose only very
slowly, and the world recession of 1980-81 cruelly
exposed the extent of the overmanning and hidden
unemployment. And Britain's ~~share~~ *(volume share)* of world exports of
manufactured goods steadily declined - a decline which
under this Government has been ~~unequivocally arrested~~ *stopped*.

~~PJC:~~
~~FST would debate~~
~~"unequivocally"~~
~~SPK~~

Today, the outlook for manufacturing industry is encouraging. The first half of this year was a difficult period because of the pause in world economic growth. But that pause is now over, and at the same time the competitive position of British manufacturers has been improved by the inevitable adjustment of the exchange rate which followed the oil price fall. Indeed, the pick-up is already well under way. In the third quarter of this year, manufacturing output was more than 1 per cent higher than in the second quarter, and exports were some 3 per cent higher than in the first half of the year. With faster world trade and ~~better~~ ^{improved} cost competitiveness, I see nothing outlandish in forecasting ^{an even stronger} ~~a 4 per cent~~ rise in manufacturing output next year. ^{of the order of 4 per cent.} ~~We~~ ^{perhaps} ~~have seen it before and we shall see it again.~~

But the big difference between this Government and the last, so far as manufacturing is concerned, is in productivity. Over the last 6 years, manufacturing productivity has shot up by ^{second only to Japan among} ~~nearly 5 per cent~~ a year. ^{major industrialised} ~~countries~~. And, after a short pause, it is now improving again.

The result is that the growth in unit labour costs is slowing down. The year on year rise was almost 8 per cent in the first half of this year, but was down to about 4½ per cent in the third quarter. That is still too high, but it is getting better.

PJC
[APH: don't like
"best"]

As I have often stressed, a reduction in the growth of unit labour costs is ~~the best route to more jobs.~~ of the first importance to the prospect for jobs. And here, too, recent figures are encouraging. On a seasonally adjusted basis, last week's figures showed a drop of 25,000 in the number of adults out of work; and the fall over the past three months has been the largest three-monthly fall for 13 years. I am sure the RHG will join me in welcoming this encouraging trend.

PJC
PJC

The way to achieve further falls in unemployment is to continue the economic policies which have ^{already} created a million new jobs since 1983, ~~that was the year~~ when the electorate last had the opportunity to choose the Opposition's approach to the problem and emphatically rejected it.

Yet the Opposition are still trying to peddle the same combination of high borrowing, high spending, and high taxation, as the alleged answer to unemployment. Despite the fact that it was the RHG the Member for Sparkbrook himself who said, shortly after the last Election,

"Last month, our economic policy ... was a net vote loser. Nobody believed that our theories could be put into practice."

Not that the views of the RHG count for much any more, not even in the eyes of his own Leader. The RHG the

Leader of the Opposition has made it quite clear that, in his opinion - and I quote -

"The primary role in British strategic planning must be performed by the Department of Trade and Industry."

PJC would omit.
~~[and that the role of the Treasury is to "manage the short-run circumstances of the economy".]~~ So in the highly unlikely event of a Labour Government, the RHG would become the only man ever to have been the Shadow Chancellor in Opposition and in Government alike.

But then the Opposition are at sixes and sevens on most issues these days. Let me take just three examples.

First, and most recently, on training. The HM for Hull East called the other day for a 1 per cent levy on firms to fund new training initiatives - in effect, a new tax on turnover, which he thinks would raise £6 billion from British business. Asked about this the RHM for Sparkbrook somewhat tetchily replied:

"The idea that there should be a 1 per cent levy is not policy, it wasn't described as policy by John, and I can't imagine it's going to be policy."

last night, in this very debate, only as for the opp. for Hull East
Yet ~~on the very first day of this debate,~~ his HF insisted

~~- albeit from a sedentary position - that the levy would~~

reaffirms his commitment to a 1 per cent levy on business turnover.

be "~~at least 1 per cent~~". It is always refreshing to have the contribution of the HM for Hull East to Labour's internal debates. The House will recall how earlier this year he said this of the RHM for Sparkbrook's pledge to create a million jobs:

"How did we get this policy of one million jobs? Who worked on the programme? Promises such as this simply label us with targets we cannot achieve and expose our credibility."

Second, income tax. The RHG tried for some weeks to maintain that while Labour's plans would mean a savage increase in the higher rates of income tax, there would be no increase in the basic rate. Needless to say, nobody ever really believed him. But his cover was well and truly blown by his NEC colleague Mr David Blunkett, who said

"In my view there will have to be a return to a higher standard rate of income tax and people will respect us for saying so."

Third, ~~on~~ National Insurance contributions. Last year, the RHG the Member for Sparkbrook was somewhat dismissive about the reductions I announced in the Budget in the rates of National Insurance contributions for the lower paid. In the debate on the Second Reading of the Finance Bill he said this:

FS7 prefers Blunkett's second sentence:
"You can't sustain a credible drive for socialism if you only say you will increase taxation for those over £28000 - £29000 a year."

"The Labour Party has never believed that such changes to the cost of labour and employment could contribute to the solution of the central problem of the economy, which is the reduction of unemployment."

Yet within a year, he was on the air telling Mr Jimmy Young - and I quote -

"If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay, then they'll take on more labour. So we'd like to cut the National Insurance contributions."

About the only area of economic policy where we do get a measure of unity and clarity from the Opposition is public spending. They all want as much of that as they can get. My RHF the Chief Secretary carefully added up their pledges, and the cost reached at least £28 billion.

As a result, the cost of their irresponsible pledges is rising all the time. their irresponsible
~~But I have to tell the House that this figure is now out of date.~~

the Party
Labour's Conference was always likely to be an expensive week for the RHM for Sparkbrook. In conjunction with my RHF the Chief secretary, I have carefully costed five new pledges ^{they} made at Blackpool: *getting on 7200 million for for* (that's nearly 7200 million;)
~~for~~ a winter heating premium; *(- another 7100 million;)*
a higher Christmas bonus for pensioners; *7550 million;*
the abolition of standing charges for pensioners; *(at least 7350 million;)*
new policies on energy; and the latest

[See separate note]

(a year.)

(a cool £8 billion)

pension increase promised by the HM for Oldham West:

~~Together, these cost some £10 billion. So the overall~~

~~cost of Labour's programme now stands at almost [about~~

~~£38] billion. Once again, the RHG the Member for~~

Sparkbrook has been knocked over in the rush to spend

more, and the HM for Dagenham has been brought in, far

too late, to ~~try to pick up the pieces.~~

[MCS: If we quote a big figure, must be ready to break it down.]

~~All in all, that means ~~increase~~ yet further ~~commitments~~ of ~~the~~ ~~Government~~ ~~of~~ ~~£8~~ ~~billion~~ ~~a~~ ~~year~~.~~

~~pick him up again.~~ put things ~~together~~ again.

PJC
An expensive
week
in H.W.

~~So Labour's Conference was indeed expensive for the RHM for Sparkbrook. It cost his and Labour's fading credibility dear.~~

Continuity of Government Policy

Mr. ~~Spinks~~ ~~Spinks~~,

The economic strategy set out in the Gracious Speech continues the strategy we have pursued consistently since 1979.

Over the past seven years, we have gradually brought down the growth of money GDP, so as to squeeze inflation out of the system and hence make room for real growth.

We have brought inflation down from the appallingly high levels generated by the policies of the previous Government, ~~in which the RHG served as Minister for Prices,~~ when it averaged more than 15 per cent, to the lowest levels seen for a generation. ~~Mr. Rising Price~~ they called him.

PJC

Ever since inflation first dropped into single figures in April 1982, the Opposition have made confident predictions that it would rise again. During the last general election campaign, the RHM for Sparkbrook told the nation that "Inflation is ready to rocket again. By this time next year, it will be back in double figures." ^h *, I said at the time.* Poppycock. And so it proved. Each time they have predicted higher inflation, and each time they have been wrong.

PJC

To give them their due, it used to be the case in this country that you couldn't have sustained growth without a pick-up in inflation. At least, that is what the record seemed to show. We used to debate the trade-off between growth and inflation as if they were bound to go together. But we have shown over the last five years that we can have growth - steady and sustained growth - without a revival in inflation - indeed, while inflation continues to come down.

In each of the three years I have been Chancellor, the growth rate and the inflation rate have been within two ^{and a half} percentage points of each other. In no Labour year was that true. ^{remotely} ~~And in one infamous year under Labour, the gap between the two was getting on for 30 per cent.~~ *And in one Labour year the gap was as much as 25 actually reached 25 as much as 25 times as much! 25 per cent.*

NOM:
Technically 2½
for cal. yrs.

~~NOM~~ X

For the past five years, economic growth has averaged almost 3 per cent a year and is set to continue at this steady rate in 1987.

Again, there has been no shortage of predictions that growth was about to peter out. Indeed these predictions have occurred ^{regularly} consistently, year in, year out - ever since 364 economists claimed that the economy could never recover from the 1981 Budget ^{that} ~~which actually coincided with the start of the upswing.~~

PEM:
about of fine tuning
by increased
borrowing or increased
printing of money,
or both.

(Effects of No
boosted Government borrowing or
cut interest rates or both.)
(what we were seeing was simply a
which wd soon come to an end.)

As recently as a few months ago, I was told that the halving of the oil price would spell the end of the upswing unless I engaged in a vigorous expansion of the economy. Instead, I ventured the view that the pause in growth was just that. Subsequent events have proved that view right. Figures published this morning show that the total value of output in the economy rose ^{by} ~~more than~~ 1 per cent in the third quarter, and is now about 3 per cent higher than a year ago.

MOM x

Next year I expect growth of another 3 per cent. And before hon Members opposite put that down simply to what they dismissively describe as a "consumer boom", let me remind them that growth in consumer spending is actually set to slow down somewhat next year, that exports are picking up well, and that investment is expected to grow ^{broadly} at least in line with the economy as a whole.

S. Davies:
Investment 2½%
GDP 3%

This year more than most, the critics seem to have found it hard to know what to think. First, they predicted a slump and urged me to take action to expand the economy. I declined to take their advice. And, as I predicted,

growth duly picked up. Then they changed their tune and told me the economy was overheating and I should take action to damp it down. I have not responded to that either. And now the Opposition are trying to maintain that the economy is both declining and overheating at one and the same time.

It is still not clear to me what is the Opposition's reaction to the public spending plans spelled out in the Autumn Statement. Do the Labour Party want us to spend more next year? Or less? Or the same as is in our plans?

On the opening day of this debate the RHG the leader of the Opposition seemed to believe the projected spending increase would ignite what he called a pre-election boom. In almost the same breath he asserted that there was no hope of the economy growing next year at the 3 per cent rate forecast in the Statement.

Given that the economy has grown at an average rate of nearly 3 per cent for the last five years, it seems odd to characterise a sixth year of the same as either unattainable or some special pre-election boom. Unless, of course, he believes that every year ^{of} this Parliament has been a pre-election boom year.

Meanwhile we have fostered the conditions in which a million jobs have been created during the lifetime of this Parliament. Yet the Opposition have persistently

criticised our policies as bringing no hope to the unemployed. What could bring more hope than the knowledge that more jobs are being created? I have already drawn to the House's attention the latest figures suggesting that there is now a downward trend in unemployment.

Thus we have achieved a combination of low inflation, sustained growth, and rising employment. And we have achieved this by the consistent pursuit of an economic strategy based on ~~sound money and free markets.~~ *a firm monetary & fiscal policy.*

ACSA thinks these 2 paras do not flow easily one to the other. How about amending the first para to end "strategy based on firm monetary and fiscal policies."

In operating monetary policy, we have all along taken account of all the indicators of monetary conditions. It was as far back as 1980 that we said in the Green Paper on Monetary Control, that "No single measure of the money supply can be expected fully to encapsulate monetary conditions". So anybody who imagines that policy was ever determined simply on the basis of £M3, or any other single indicator for that matter, has failed to understand the policy. We shall continue to watch broad money closely, while being fully aware of the difficulties in interpreting £M3 which the Governor of the Bank of England has recently described, ^{as} ~~and~~ indeed ~~as~~ I myself have done on a number of occasions. We shall continue to ^{target} watch MO, which has proved a particularly reliable indicator of monetary conditions in recent years. And of course we shall continue to take account of the exchange rate.

APH

PEM
Other countries are experiencing similar difficulties.

PEM

As I have said before, and shown by my actions, short-term interest rates are the key instrument of monetary policy. They will continue to be kept ~~on average,~~ at whatever level is necessary to secure monetary conditions that ~~with~~ ^{with} ~~steadily~~ ^{steadily} bear down on inflation.

PJC [But DLCP wanted it in.]
PJC

On fiscal policy, too, we can point to a record of consistency. Throughout my time as Chancellor I have stuck firmly to the path mapped out in the Medium Term Financial Strategy. ~~And~~ ^{and} apart from 1984-85, when I allowed public borrowing to expand to finance the one-off expenditure needed in successfully resisting the coal strike, the outturn has been broadly in line with the PSBR envisaged at the time of the Budget. And yesterday's figures confirm that this year's PSBR is well on track.

Indes,
Each year
I have set the
PSBR at or
slightly below
the figure
indicated in
the previous
year's MTFs.

A. Tyrie says Kinnock said this on the Today programme. I'm afraid I haven't found a ref. in Parliament.
AHH

claimed in a recent radio broadcast

The RHG the Leader of the Opposition ~~alleged~~ ^{claimed} that we were the "highest borrowing, highest spending, highest taxing Government ever". This is pretty rich, I must say, coming from the Leader of a party whose last spell in Government saw ~~public borrowing reach £35 billion in today's money,~~ ^{the PSBR rise to the thousand million equivalent of £35 billion in today's terms;} public spending take the highest share of national output ~~for a generation,~~ ^{in peace time,} and ~~income tax at~~ ^{basic rate of} 35 pence in the pound for everybody. ~~and which~~ ^{states to do the same all over again.}

PJC
MCS: Opp will not shout "foreign borrowing": see figures below, from previous debate.

Much of the press reaction to the Autumn Statement has been fairly predictable. On most subjects they seem to have only two headlines to choose from. And on public

spending it's either "Cut, Cut, Cut" or "Spend, Spend, Spend".

ACSA thinks this para gives Opp the chance to shout will provoke a laugh or shouts of "Cut, cut, cut". Draft APH suggested redraft.

The truth is more prosaic.

PTC On this occasion they chose the latter. But ^{used} the truth ^{is that we are} unfortunately for the headline writers, ^{consistently} continuing on the path we have pursued throughout this Parliament. Our declared

ACSA/APH

~~Consistent~~ Our primary objective has been to reduce the proportion of national income taken by the public sector. This we have achieved every year since 1982. And we plan to do so ^{again} over the next three years.

In the decade prior to our election in 1979 public sector spending grew at an average annual rate of about 3 per cent. In our first parliament, because of the world recession and the bills we inherited, we ^{only} managed to slow the growth of spending to an average rate of 2 1/4 per cent. But so far during this parliament we have managed to curb the growth in spending to 1 3/4 per cent. The increase envisaged over the next three years is at the still slower rate of 1 per cent a year.

MOM: and that's excluding the proceeds of privatisation.

have made it clear

1987-88

The second element of continuity is our determination that spending should not be financed by excessive borrowing. That is why I ~~spelled out~~ ^{have} that in the coming year, ~~we~~ will not allow the public sector borrowing requirement to exceed the 1 1/4 per cent of GDP indicated in the Medium Term Financial Strategy.

~~has made it clear~~ All these figures, inevitably, exclude the proceeds of privatisation, so as to show no imbalance here.

I can understand that "continuity" may be an unfamiliar concept in the RHG's party. The last Labour Government's spending policies ^{were like the giant dipper. First,} ~~consisted~~ of a massive increase - ² 18 per cent in real terms in the first two years, ~~which~~ ^{Then a dramatic reversal} ~~had to be dramatically reversed~~ when the IMF took over from the RHG the Member for Leeds East. ~~In 1978-79,~~ ^{By the end of} total spending was 4 per cent lower in real terms than in ~~1975-76.~~ ^{And} But look at what they chose to cut. Roads and hospitals - both down by 30 per cent in real terms over ⁷ Labour's period in Government, with overall capital spending down by a fifth.

PJC

GGE = 12%
Planning total = 13%

PJC

While if

Other Measures

In the new session, we shall continue to follow the economic strategy which has brought the achievements I have described. But the Government's objectives go ^{wider than growth and stability - welcome as they are to fair most} ~~deeper than simply continuing our economic advance.~~ ^{fair minded citizens.}

In particular, we are determined to encourage the spread of ownership in society. This means wider home ownership and wider share ownership.

The number of shareholders has doubled under this Government, not least because of the opportunities arising out of the privatisation programme. ^{Over} ~~Some~~ ⁷ 18 million people have ^{registered an} ~~shown~~ interest in the British Gas sale alone.

Mrs Brown
(PE2)

Even so,

~~Nonetheless,~~ many people still find the idea of share ownership complicated and daunting. To make it ^{simpler and} more attractive, I announced in the Budget the new Personal Equity Plans. These will enable small investors to invest in UK shares ~~free of tax~~, in a simple way, with no need for record-keeping or dealings with the Inland Revenue.

Capital gains and reinvested dividends will be ~~tax free~~.
Completely free of tax.

A number of commentators couldn't wait to predict that this initiative would never get off the ground. In fact, it is now clear that it will be a great success. I can announce today ^{that} the Inland Revenue have ^{already} received ^{over} a hundred applications from firms who want to run Personal Equity Plans, I am laying the draft regulations for the scheme before the House today, so that subject to approval, it can begin on 1 January next year.

A second area where we are building on success is privatisation. Our privatisation programme is a historic achievement. It has brought benefits to consumers, investors, employees, management, and the economy as a whole. It is being emulated throughout the world.

During this session of Parliament, British Gas, British Airways, Rolls Royce, and the British Airports Authority will be privatised, so that by the end of it the State commercial sector will be down to little more than half of what we inherited in 1979.

Mr Corlett
Miss Sinclair

h
They cover a wide range of financial institutions across the country, including the Big Four clearing banks, [8] other banks, unit trusts, [over 30] stockbrokers, and [more than 50] investment consultants.

~~any firm~~ each of the big four clearing banks

as over thirty firms of stockbrokers.

This, of course, is a policy the Labour Party can't stand. They don't like the opportunities it has brought for millions of people to own shares. Labour don't want to see the extension of share ownership any more than they want to see the extension of home ownership. They don't like the idea that management - and not politicians - are running the companies. No wonder the heads of these newly privatised companies point to the dangers of renationalisation. As Sir George Jefferson said of British Telecom, "the return to a state monopoly ... would clearly be incompatible with continued progress in customer choice and a disincentive to improved efficiency."

For areas which remain in the public sector, many of the benefits of privatisation can be secured by putting out to competitive tender services which were previously provided in house. This has already brought savings of £100 million a year - much of it available to improve patient care in the Health Service. This session, as was announced in the Gracious Speech, we shall legislate to make competitive tendering compulsory for a wide range of local authority services, including street cleaning and refuse collection.

Again, the coming year will be particularly important for the City and the financial world, as it adjusts to the new competitive environment.

Effective supervision is essential throughout the financial sector, as recent events have shown, and as a Government we are determined to do what is necessary to achieve it. The House devoted a good deal of time in the previous session to what are now the Financial Services Act, and the Building Societies Act. To complement these, I introduced on Friday a new Banking Bill to modernise and strengthen the rules for banking supervision. Effective supervision is essential throughout the financial sector, and as a Government we are determined to do what is necessary to achieve it.

The growth of the financial services sector has brought great benefits to the economy, not least in terms of jobs - two million people are now employed in banking, finance, and insurance. Indeed, the number of extra jobs generated by that sector since 1979 is more than twice as great as the job losses in the motor vehicle industry.

Conclusion

Mr Speaker, in the year ahead we shall continue to pursue the economic policies set out in the Gracious Speech. They are the policies which have already brought five years of steady growth and inflation down to the lowest levels for a generation. They are policies which the Opposition are committed to reverse. But I am confident that they will ^{not} ~~never~~ get the chance to do this, ^{for a long time to come, if ever; ours} ~~for they~~ are policies which have captured the imagination of the British people.

PJC

14/11/86.

PWP
(Deb. on the
Address)**ECONOMIC DEBATE: DEFENSIVE BRIEFING****Floating Rate Note - REVISED VERSION**

1. The RHG mentioned the Floating Rate Note which we issued in September.
2. Let him reflect on these facts. The terms were the finest available to any borrower for an issue of this type. Moreover, the UK Government's status as a lender proved so attractive that the market asked for the issue to be increased from \$3 billion to \$4 billion.
3. The contrast with Labour's borrowing could scarcely be greater. They had to go cap in hand to the IMF. This is a market operation. It is a step taken from a position of strength not weakness.
4. Even after the FRN our international borrowings are still \$3 billion less than when we took office in 1979 and \$7 billion below the Labour Government peak, while the level of the gross reserves is little different from 1979.

FRN

3002/025

Level of Reserves and Official Debt

	\$ billion, end period		
	Official reserves	Official debt	Net
End-Con Labour Q1 1974	6.4	[7.8*] 8.7	-1.4 -2.3
End-Labour Conservative Q2 1979	22.1	21.9	+0.2
Conservative Q2 1983	17.7	11.9	+5.8
Now (October 1986)	22.0	19.1	+2.9

* end 1973

Peaks and Troughs

		\$ billion	
		Reserves	Official debt
Under Labour	High	21.9 (Mar '79)	25.5 (Dec '77)
(March 1974-April 1979)	Low	4.1 (Dec '76)	8.7 (Mar '74)
Under Conservatives	High	28.5 (Mar '81)	22.0 (May '79)
(May 1979 to date)	Low	14.0 (May '85)	11.0 (Sept '84)



OVERSEAS
ASSETS

C.

OVERSEAS ASSETS

The figures are measured at
end-year.

End of	£bn	% of GDP
1973	5½	7
1978	12½	7
1983	55½	18
1985	80	22

AMH

ECONOMIC DEBATE: DEFENSIVE BRIEFING**ERDF Report**

The RHG referred to the ERDF paper as evidence that the Government has neglected capital spending. There are some deep-seated problems, not least because his Government cut public sector capital spending by 20 per cent in real terms. The plans I announced today will mean approaching £1 billion extra capital spending a year. The ERDF paper shows that we have an impressive list of measures to tackle specific problems, and are aiming to maximise ERDF benefits for which other countries are competing.

ERDF
REPORT

CUSTOMS AND EXCISE STAFF ON PREVENTION OF DRUG TRAFFICKING

1. Kinnock referred to "900 Customs Officers that the Government has taken away in recent years".

Defensive Points

2. Number of Specialist drugs investigators already more than doubled since 1979; planned increases mean it will treble by 1988.

3. Customs effort on drug smuggling control in fact much greater;

- increased priority for this work;
- improved efficiency eg greater use of intelligence material;
- number of preventive staff being increased.

CUSTOMS

CONFIDENTIAL
until after Oral Statement
then UNCLASSIFIED

H19

(vi) More now on and below poverty line? Do not accept (and neither did Labour Government) that DHSS low income family tables measure numbers of people "in poverty". Because tables measure low income against supplementary benefit level, real terms increases in benefit will inevitably mean rise in number of families in tables. So the more Government does to help poor, the greater the numbers supposedly 'in poverty'.

(vii) Inflation and unemployment assumptions for April 1989 imply Government expecting little deceleration: Assumptions not forecasts. (See also C3.)

(viii) New benefit structure (from April 1988) means cuts: Decision on benefit rates for new income support, housing benefit and family credit schemes will be taken nearer time. Review, as implemented in Social Security Act 1986, makes social security system more capable of meeting genuine need eg new family credit scheme will direct extra help to some 200,000 more working families with children.

(ix) What assumptions about rates for new benefits from April 1988? Illustrative figures for new benefits (at November 1985 rates) were included in Technical Annex to Social Security White Paper (Cmnd 9691) and programme total is consistent with these. Final decisions on rates for new benefits from April 1988 will be taken nearer time. But on basis of illustrative figures, family credit would cost twice as much as FIS, while rates of income support used would imply some increase as compared to present rates of supplementary benefit and weekly additions to them. Cost of housing benefit would be reduced by about £450 million in 1988-89, though greater part of this reduction is not classified as public expenditure.

(x) Increased provision simply reflects increased unemployment. No. Increases in planned expenditure on social security since 1986 PEWP (£1.7 billion in 1987-88) due to rising number of people receiving benefit, pensioners, disabled, families (child benefit) as well as unemployed. Worth emphasising that only one-third of increase of £11 billion real increase in social security benefit expenditure between 1978-79 and 1985-86 due to higher unemployment. Remainder comes from real improvements in benefits paid and growth in numbers of pensioners, long term sick and disabled and single parent families receiving benefit.

(xi) What provision for uprating child benefit? Programme does allow for increases in child benefit but in future years, as in past, will need to balance money going to all mothers as child benefit against money going to low income families as family credit (from 1988). [NB important to stick to precise form of words.]

(xii) What is impact of availability testing? See H9.

(xiii) Why is overall expenditure in 1988-89 up only 3 per cent compared with inflation assumption of 3.75 per cent? Many of factors introduced to restrain spending in 1986-87 and 1987-88 (eg, limits on board and lodging payments, curbs on single payments and their replacement in 1988-89 with loans from Social Fund and change to statutory maternity allowance from April 1987) will be working through fully in 1988-89. [IF PRESSED: detailed decisions on rates for family credit, income support etc yet to be taken; these will involve higher levels of support than at present for some groups, but Government made no secret of fact that changes to housing benefit will produce savings.]

COMPETITION FOR LOCAL AUTHORITY SERVICES

The Queen's Speech will have announced the Government's intention to legislate to extend compulsory competition to a range of local authority services. It has already been announced that these will include refuse collection, street cleansing, building cleaning, catering (including school meals), vehicle maintenance, ground maintenance, and ~~£~~ probably waste disposal and the management of sport and leisure facilities.

This is not an attack on local democracy, as the unions and local authority associations are keen to imply; it is an attack on inefficiency, aimed simply at obtaining better value for ratepayers' money. It is not compulsory contracting out either - merely compulsory competition.

Mr Ridley has been accused of adding many services, without consultation, to the list which originally appeared in the DOE's consultation paper in February 1985. This accusation is largely based on newspaper scaremongering. The only likely additions are waste disposal and leisure management, and further consultation on these has not necessarily been ruled out. [Mr Ridley will shortly announce that he intends to consult on waste disposal, though the message hitherto put over has been that in view of the many responses already received following the consultation paper, further consultation was seen as unnecessary.]

Mr Ridley has announced that legislation will also include a ban on non-commercial conditions in local authority contracts and tender lists. This will help prevent authorities both from protecting their direct labour organisations from fair competition and from using contractual relationships, wholly inappropriately, as a platform for their wider political stance on such issues as nuclear weapons or trading with South Africa.



FROM: A P HUDSON
DATE: 14 NOVEMBER 1986

MR CULPIN

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Turnbull
Mr Sedgewick
Miss O'Mara
Mr S J Davies
Mr Bottrill
Mr Allan
Mrs Brown
(paras 35-37)
Mr Pirie
(para 38)
Mr Ilett
(paras 39-45)
Miss Sinclair
(paras 41-42)
Mr M A Hall
(para 44)
Mr Romanski
(paras 46-47)
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Corlett (IR)

C.

As I said, a rough draft.
Robert has a lunch with a journalist,
but will ~~be~~ be ~~ready~~ back at or
shortly after 2.30 pm.

use latest jss

AH



FIRST DRAFT OF SPEECH IN DEBATE ON THE ADDRESS

... I attach a first draft.

2. I have not yet polished this myself, nor yet incorporated some helpful material from EB on failed predictions by Opposition spokesmen, or Mr Ross Goobey's suggestion (his 13 November minute).

3. Please could I have comments by 3pm today if at all possible, so as to take them in before putting a draft to the Chancellor tonight.

AH

A P HUDSON

FIRST DRAFT OF SPEECH FOR DEBATE ON THE ADDRESS

19 NOVEMBER

Introduction

1. The Debate on the Address is first and foremost an occasion for looking forward to the year ahead of us, at the start of what will be the [eighth session of] Parliament since we took office in 1979. But it is also a time to pause and reflect on the record so far, and how the proposals for the coming session take forward the policies pursued in the past.

2. Looking at economic policy, I am forcibly struck by two things.

Hattersley

- First, the consistency with which we have pursued our broad economic strategy based on firm fiscal and monetary policies, combined with a series of radical measures to improve the working of the economy.] *JNS*

- And second, the consistency with which the Opposition have stuck to the failed nostrums of the past.

Response to Hattersley

[Will clearly depend on what Hattersley raises, but likely to include some or all of the following.]

3. Today's speech by the RHG the Member for Sparkbrook is no exception.

4. As always, he expounded on the decline of manufacturing industry, and implied that this would be terminal without a return to the policies his Government pursued.

5. But look at how manufacturing actually fared under the last Labour Government. Output fell. Employment in manufacturing fell by over 500,000. [Is this right?] Productivity barely rose at all, causing, in effect, hidden unemployment which was exposed by the world recession of 1980-81. [Do we believe this?] And British manufacturing exporters' share of world trade fell. The RHG did not accept this in our last debate on the economy, but here are the figures. In 1973, the volume share of UK manufacturers in UK export markets was 12.1 per cent. By 1979, it was down to 10.¹/₂ per cent. The trend continued until 1981, when the share fell to 8.8 per cent, but since then it has recovered, and now stands at 9.4 per cent.

x

6. The RHG chooses to ignore these and other statistics which show the prospects for manufacturing to be improving. Next year manufacturing output is forecast to

grow by 4 per cent. [Point from latest production statistics?] Exports of manufactures in the third quarter of this year were some 3 per cent higher than in the first half of the year, and this vigorous growth is set to continue. So the Opposition's forecasts for the manufacturing sector are clearly based on prejudice rather than fact.

7. As always, the RHG asked me when unemployment was going to fall. And the answer is, that the fall over the past three months has been the largest 3 monthly fall since 1973, and the prospect is for a further fall in the coming months.

8. Of course, we want to see unemployment lower still. And the way to achieve that is by continuing the economic policies which have created over a million new jobs since 1983, when the electorate last rejected the Opposition's approach to the problem.

9. What is so puzzling is that the Opposition are still trying to peddle the same approach of "spend, spend, spend" - as if unemployment could somehow be eliminated by that. After all, it was the RHG the Member for Sparkbrook who said, after the last Election,

["The electorate simply did not find our economic policy credible" - or whatever he actually said.]

10. Why, then, has the policy not changed? Could it be because it is no longer the RHG who is really in the driving seat, but his RHF the Member for Monklands East and his HF the Member for Kingston upon Hull East? After all, the RHG the Leader of the Opposition has said that

"The primary role in British strategic planning must be performed by the Department of Trade and Industry."

and that the role of the Treasury is to "manage the short-run circumstances of the economy". So it looks as though, in the unlikely event of a Labour Government, the RHG would become the only man ever to have been the Shadow Chancellor both in Government and in Opposition.

11. Perhaps this is why it is so difficult to get a clear line from the Opposition on so many issues these days. Let me take just three examples.

X 12. First, and most recently, on training. The HM for Kingston upon Hull East called for a 1 per cent ^{levy} ~~levy~~ on firms to fund new training initiatives. The RHM for Sparkbrook replied, and I quote,

"The idea that there should be a 1 per cent levy is not policy, it wasn't described as policy by John, and I can't imagine it's going to be policy."

x
(Hansard?)
So he must have got a surprise last Wednesday on the first day of this debate, when his ~~H~~F confirmed - albeit from a sedentary position - that the levy would be "at least 1 per cent".

13. Second, on income tax. The RHG tried for some weeks to maintain that Labour's plans would not mean any increase in the basic rate of income tax. But his cover was blown by his colleague [on the NEC] Mr David Blunkett, who said

"In my view there will have to be a return to a higher standard rate of income tax and people will respect us for saying so."

x
14. Third, on National Insurance contributions. Last year, the RHG the Member for Sparkbrook was rather dismissive about my reductions in the rates of National Insurance contributions for the lower paid. He said:

x
"The Labour Party has never believed that such changes to the cost of labour and employment could contribute to the solution of the ~~contra~~^e problem of the economy, which is the reduction of unemployment."

(Hansard, 29 April 1985, column 35.)

However, last March, he said:

"If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay, then they'll take on more labour. So we'd like to cut the National Insurance contributions."

(Jimmy Young Show, 20 March 1986).

[Can anybody find any changes of mind on economic policy, eg. interest rates, backed by quotations?]

15. In so many areas, we search in vain for clarity from the Opposition. But not on public spending. They all want as much of that as they can get. My RHF the Chief Secretary has added up their pledges, and the cost has now reached £28 billion. [And it is still rising.] Once again, the RHG the Member for Sparkbrook has been knocked over in the rush to spend more, and the HM for Dagenham has been brought in to try to pick up the pieces. [Does Mr Tyrie want to expand or change this?]

Continuity of Government Policy

16. Fortunately for the nation, the Opposition will not get the change to put any of their policies - confused or clear - into operation for a good many years yet, if ever. And the economic strategy set out in the Gracious Speech - the strategy we have pursued consistently since 1979 - is in stark contrast to the one they pursued when they were last in office.

x

17. Discussion of economic matters, both in this House and outside, sometimes becomes very complicated. This is not surprising, since running the economy is a complicated business. But over time, what matters is a Government's record on inflation, on growth, and on employment.

18. We have brought inflation down from the high levels generated by the previous Government, when it averaged over 15 per cent, to the lowest levels seen for a generation. The Forecast I announced in the Autumn Statement shows inflation staying low.

19. Ever since inflation dropped into single figures in [], the Opposition have made gloomy predictions that it would rise again. [RHM Sparkbrook, ? David Steel, in 1983 Election campaign. Anything since?] Each time they have predicted higher inflation, they have been wrong.

20. We are now in our sixth year of steady growth, averaging close to 3 per cent. Again, there has been no shortage of predictions that this growth was about to peter out. Indeed, 364 economists predicted that the economy could never recover from the 1981 Budget - which actually coincided with the start of the upswing!

21. Earlier this year, I was told that the halving of the oil price would spell the end of the upswing unless I

engaged in vigorous expansion of the economy. Instead, I ventured the thought that the pause in growth was just that - a pause while adjustment took place to the lower^{oil} price. Subsequent events have proved that right. Growth next year is expected to pick up to 3 per cent. And before the Opposition put that down simply to their "so called" consumer boom, let me remind them that growth in consumer spending is actually set to slow down next year, and that investment will continue to grow broadly in line with the economy as a whole.

upman { 22. I am struggling to follow the Opposition's thinking. First, they predict a slump and tell me to expand the economy. I do not take their advice. But when growth picks up, they tell me the economy is overheating. They don't know whether they are coming or going.

23. We have fostered the conditions in which over a million jobs have been created since 1983. Yet the Opposition have persistently criticised our policies as bringing no hope to the unemployed. What could bring more hope than the knowledge that more jobs are being created? [I have already drawn to the House's attention the latest figures suggesting that the continuing growth in jobs is at last outpacing the growth in the number of people seeking work.]

24. Thus we have achieved a combination of low inflation, sustained growth, and rising employment. And

we have achieved this by the consistent pursuit of an economic strategy based on sound money and free markets.

25. The prime aim of monetary and fiscal policy has been and remains [to bring about a gradual reduction in the growth of money GDP over the medium term so as] to squeeze inflation out of the system. This has been our consistent policy, and it has worked.

26. There are those who suggest that monetarism has been abandoned, generally basing their argument on the difficulties in interpreting one particular target aggregate, ~~in~~ EM3. But anybody who imagined that we were guided solely by one particular indicator is confusing the aims of monetary policy with the means of judging monetary conditions. We have always looked at all the indicators and will continue to do so.

x

*gms
(MTR/2002)*

rephrasing

27. Similarly, some people suggest that an increase in interest rates marks a failure of policy. Far from it. As I have said before, short-term interest rates are the key instrument of monetary policy, and my aim is to keep them at a level that secures monetary conditions that bear down on inflation. [Examples from track record to show good judgement.]

x

28. People have often predicted that our fiscal policy would be abandoned. In last year's Debate on the Address, the RHG the Member for Sparkbrook accused us of

Explan

"reflation ... not by intention but by incompetence". In the event, the Public Sector Borrowing Requirement for 1985-86 turned out to be rather lower than had been forecast at the start of that year.

29. In the Autumn Statement, I said that the forecast for this year's PSBR is the same as I set in the Budget. And I made clear that there will be no expansion of next year's PSBR.

30. We have shown continuity in our monetary and fiscal policy, not out of blind commitment to any particular theory, but because it has worked. The record on inflation is the evidence.

31. Finally, public expenditure. The comment and discussion that has followed the Autumn Statement has generated a good deal of heat but rather less light, and this is not the first time that this has happened. In the early years of this Government, we were accused of making cuts - most of all by the Opposition. In fact, because of the effects of the severe world recession, public spending was growing as a share of national output. Now, following the Autumn Statement, I am accused of going on a spending spree. In fact, public spending has fallen as a proportion of national output since 1982, and my plans mean that it will continue to do so over the next three years. [The steady growth of the economy has enabled us to finance extra spending in

certain priority areas, consistent with our objective that the State should take up a smaller share of the nation's resources.]

32. So there has been no U turn. [I was interested to see that the HM for Stockton South accused me of a U turn this year and last. Presumably he thinks I am now pursuing the track I started out on.] The Government that did perform a U turn were the last Labour Government, who were forced into it when they discovered that what they thought was a high road to socialism turned out to be a cul-de-sac with the IMF waiting at the end. Public spending soared in their early years in office, only to be cut back drastically when this became the only way to balance the books.

Other Measures

33. In the coming session, we shall continue to follow the economic strategy which has brought the successes I described.

34. We shall also build on successes in other policies: some will be the subject of legislation outlined in the Gracious Speech; others have already come before the House, and will come to fruition over the next twelve months. I should like to single out four areas.

X 35. First, privatisation. Our privatisation programme is a historic achievement, already. It has brought benefits to consumers, ~~the~~ investors, employees, management, and the economy as a whole. It is being copied around the world.

36. This session, British Gas, British Airways, Rolls Royce, and the British Airports Authority will be privatised, so that the State commercial sector will be down to three-fifths of what we inherited in 1979.

37. This, of course, is a policy Labour don't like. They don't like the opportunities it has brought for millions of people to own shares. They don't like the idea that management - and not politicians - are running the companies. No wonder the heads of these newly privatised companies point to the dangers of renationalisation [quote from Sir G Jefferson or others].

X 38. Many of the benefits of privatisation can be secured by putting out to ^{competitive tender} ~~contract~~ services which were previously a public sector monopoly. This has already brought savings of £100 million a year - much of it available to improve patient care in the Health Service. This session, as was announced in the Gracious Speech, we shall legislate to make competitive tendering compulsory for a range of local authority services.

39. The second area where we shall be building on success is wider share ownership.

40. The number of shareholders has doubled under this Government, not least because of the opportunities arising out of the privatisation programme. Some [8 million] people have shown interest in the British Gas sale.

41. Nonetheless, many people still find the idea of share ownership complicated and daunting. To make it more attractive, I announced in the Budget the new Personal Equity Plans. These will enable small investors to invest in shares free of tax, and will minimise dealings with the Inland Revenue.

42. Labour were opposed to this initiative, but it has proved very popular. I can announce today we have received [a hundred] applications from people who want to become Plan Managers. I am laying the draft regulations for the scheme before the House [today], so that subject to approval, the scheme can begin on 1 January next year.

43. Third, this will be another momentous year for the City and the financial world, as it adjusts to the competitive environment following the Big Bang.

44. The House devoted a good deal of time in the previous session to the Financial Services Bill, and in

the coming session I shall be putting forward a Banking Bill [to consolidate and modernise the rules for banking supervision].

45. The growth of the financial services sector has brought enormous benefits to the economy, not least jobs - two million people are now employed in banking, finance, and insurance. [And it may surprise some Opposition members to learn that the number of extra jobs in that sector since 1979 more than outweighs the job losses in motor vehicles and ?.]

46. Fourth, a theme of the Gracious Speech is our commitment to law and order, and the issue of drug control involves one of my Departments, Customs and Excise.

47. I have no major announcement to make here. But I would like to put the RHG the Leader of the Opposition right on one point. He said in his speech last Wednesday that we had taken away 900 customs officers from this work in recent years. In fact, [Mr Romanski to supply, please].

Conclusion

48. Mr Speaker, in the year ahead we shall continue to pursue the economic policies set out in the Gracious Speech. They are the policies which have brought five

years of steady growth and low inflation. They are policies which the Opposition are committed to reverse. But they are policies which have taken hold of the public mind, so that the Opposition will never get the chance to reverse them.

PWP

FROM: A G TYRIE
DATE: 14 NOVEMBER 1986

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Cropper
Mr Ross Goobey
Andrew Hudson
Mr Culpin
Miss O'Mara
Mr Turnbull

- Few comments passing.
AHH

DEBATE ON THE ADDRESS

I attach a draft on Labour spending plans which can be added in lieu of ^{para 14 of new draft} paragraph 15 of Andrew Hudson's draft, beginning with a linking passage on the preceding theme of disarray and confusion in Labour ranks.

2. This is already more than long enough. There are several points at which you may well be asked to give way:

- Mr Prescott may claim he has patched up his differences over the jobs package, in which case you can ask him to reconfirm his commitment to Southwark Council's £20 billion plan for local authority job creation. "Now we know, the implementation of Labour's economic strategy will rest with Derek Hatton and Bernie Grant etc".

- Mr Prescott may say that he has not abandoned the retirement age and 35 hour week pledges, in which case, with some contrition, you reluctantly put them back into the £28 billion total.

- Mr Meacher or others may try and wriggle out of the extra [£X] billion. It will consist of Winter Premium (£180m) and Christmas bonus (£110m) from the Meacher add-on, abolition of standing charges (£540m), new energy pledges (c£2 billion), and the latest Meacher pension pledge (c£8 billion). On Tuesday night I should be able to submit a detailed note on the new number. If Mr Meacher intervenes you may care to refer to his letter of 10 November to the Prime Minister, attached, in which he commits Labour to between £50 and £100 million extra spending on AIDS.

3. Other possible lines of attack would be a comparison of Labour's spending plans with their record in the mid-1970s, when they had an equivalent PSBR of over £30 billion and when they increased spending by 13 per cent in their first year (£28 billion is just under 20 per cent of this year's spending).

4. Another possible line would be to tease Labour on their minimum wage pledge. Is it a priority, is it a long term aim, is it a pledge at all? At what level would the minimum wage be set? etc. But I can see some advantage in not forcing

Do we want to suggest they're dropped. See below. \$
AHH

I'm sure they will challenge a new figure, so our calculations ~~defence~~ will have to be watertight.

I've now brought ~~the~~ Labour's PSBR into para 27, as a contrast to your record as Chancellor.

So I think
keep off minimum
wage, except
perhaps to tease
them on whether
it's a priority or
not. (Andrew
Turnbull tells me
Hattersley once
said it had the
"highest priority",
but Prescott is
now changing the
line. But I
think it suits
us for them to be
hooked on minimum
wage:

them to relegate it to a longer term objective, largely because the pledge as it stands enables Lord Young to claim that it is putting 600,000 jobs at risk.

5. Finally would it be too unparliamentary to suggest that the RHG for Oldham West's promises are scarcely more credible than those of Napoleon and Snowball in Animal Farm? He has at least fallen short of offering a four day week. Of course under Labour all spending priorities are equal. But some priorities are more equal than others.

- (a) because it's part of the £28bn;
- (b) because it gives us Lord Young's 600,000 job losses;
- (c) because it contrasts with our stress on the need for flexibility in pay as a way to more jobs, PRL, Geog Pay etc.

AG

A G TYRIE

DEBATE ON THE ADDRESS : SUGGESTED PASSAGE

1. In February the HM for Hull East drew attention to the RHG for Islwyn's absurd suggestion that Labour's policies could reduce unemployment by one million in two years. He said:

"How did we get this policy of one million jobs? Who worked on the programme? Promises such as these simply label us with targets we cannot achieve and exposes our credibility."

2. Credit where credit is due. The HM for Hull East was making a brave attempt to restore some of Labour's credibility by jettisoning this wild pledge.

3. Last week the HM for Hull East tried to keep the RHG for Sparkbrook afloat. He tried to jettison some of Labour's spending plans, the cost of which have all but sunk the RHG for Sparkbrook.

4. The HM for Hull East appeared to abandon Labour's commitment to introduce a 35-hour week and to early retirement. The RHGS opposite will correct me if I am wrong.

5. [Depending upon response - 'Even if the RHGs opposite are accepting the abandonment of these pledges'] All this good work has been set at nought by the RHG for Oldham West. While the HM for Hull East was bravely manning the pumps at Blackpool the ~~RHG~~^{HM} for Oldham West was drilling holes in the bottom of the boat.

6. As the whole House knows Labour's spending plans already add up to £28 billion. I can tell the House that five new pledges made by Labour spokesman since July now add a further [£X billion] to the total.

C.

1. Paras 1 & 2 are useful if we want to continue the theme of disarray.
2. But paras 3-5 may muddy the water on the £28 bn. If we suggest that they have ~~done what we asked~~ i.e. dropped pledges, or they will snap back that they have merely allocated priorities, as we asked.
3. Para 6 could create a stir - the first announcement of new pledges. But we'd have to draft carefully to make sure the point got across, e.g. "last week in last debate, said £28 bn. Have to ~~apologise~~ apologise. Figure out of date. Because ⁵/₄ new Lab. pledges [list] ~~amount~~ & total cost is now £~~28~~X bn."

AMH



HOUSE OF COMMONS
LONDON SW1A 0AA

Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

10 November 1986

Dear Prime Minister,

There is already now very widespread public concern about the spread of AIDS, and I write now to request, first, that there should be an early debate on this whole issue and, secondly, that a full statement be made at the first opportunity, either in the debate or before, setting out in detail the Government's plans to deal with this problem.

I am, of course, aware that a Cabinet Sub-Committee under Viscount Whitelaw has been set up, but frankly the litmus test of the Government's seriousness about this critical problem lies in funding. Whilst there is as yet no cure for this condition, a very great deal can and must be done in terms of public education, advice and counselling, research and screening, which can only be carried out with much increased public funding.

It is clear that money spent now will save money in the future, and yet the Government's approach so far has been piecemeal and support miniscule. After four years of inaction, DHSS finally allocated a paltry £1.89 million to combatting AIDS, and then topped this up with a further trifling £6.3 million in December 1985. As a proportion of the total NHS budget, this is precisely 0.04%, which is ridiculous for what many people throughout the West have seen as the biggest threat to health this century. In addition, the Government's dribs-and-drabs approach has meant that all the relevant services have lived from hand to mouth since AIDS was first recognised in this country, and this has prevented any national planning of services.

In the spring of this year I called for (article reproduced in Medicine and Society, March 1986) a Government commitment of at least a further £30-35 million for research funds, AIDS awareness and prevention programmes, increasing treatment and counselling costs for hospitals and clinics, and for support for the Terence Higgins Trust and other voluntary agencies. I believe that the latest figures now show that this is a considerable under-estimate of requirements. There are now estimated to be some 40,000 HIV - positive carriers in Britain today, and the number is expected to rise exponentially to about 1 million by 1990, with perhaps 18,000 AIDS victims by that date, i.e. a 70-fold increase in just four years. Since health economists in Britain believe that the care of each AIDS patient, including all related public expenditure, costs £10-20,000, the total cost could well rise very sharply indeed in the next few years to some £180-360 million.



HOUSE OF COMMONS

LONDON SW1A 0AA

Page 2

Against this background, it is absolutely clear that (i) the current Government spending on AIDS is simply footling, and (ii) postponement or under-provision of prevention, counselling and research facilities would be the grossest form of false economy. I would estimate that expenditure of some £50-100 million over this next year would be needed to secure maximum cost benefit. Will the Government guarantee this by setting up a central fund of at least this amount on which DHAs can draw for approved schemes?

I should add that this money should, of course, be earmarked for AIDS alone. There is no use whatever the Government announcing a figure for expenditure for this purpose and then declaring that it is to be found out of existing budgets or from what are euphemistically called 'cost improvement programmes'. That simply means the Government's commitment is a hollow one, or that needed action is only bought at the expense of yet further postponing treatment of angina, cataracts, bone marrow complaints, hip-joints, kidney failure, etc. It must be additional money. Will you therefore commit for this purpose one-sixth of the extra £600 million which the Chancellor said in his Autumn statement he was putting into the NHS?

With this money, and only with this money, a number of options would become available which are now desperately needed:

1. An explicit, cogent and persisting health education programme designed for everyone, not just those in the high-risk categories. A programme of hard-hitting TV commercials is needed which will be totally frank and direct. Over-moralistic caution will simply in the long run be counter-productive.
2. Since contraceptive sheaths are probably the best protection against transmission of the virus, they should be made freely available from doctors and clinics. Since infected needles are another major source of transmission, free needles and syringes should be similarly made available.
3. Screening should be widely and freely available for those who wish to use it. Sexually transmitted disease clinics are ideally suited to retain confidentiality, providing free, walk-in services which do not require referral and guarantee anonymity.
4. Special emphasis needs to be urgently given to a campaign aimed at students and school-leavers to ensure that everyone in this age range is fully made aware of the risks.
5. All screening should be accompanied by appropriate, sensitive and adequate counselling on the social, economic, employment and emotional consequences, and support should be available where necessary over a period of years, not months. This requires a substantial investment in these services.

I repeat again, I hope that a full Government statement will be forthcoming on all these points as a matter of urgency.

Yours sincerely,

Michael Meacher

prep



FROM: A P HUDSON
DATE: 17 NOVEMBER 1986

MR CULPIN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Turnbull
Mr Sedgewick
Miss O'Mara
Mr S J Davies
Mr Bottrill
Mr Allan
Mrs Brown
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Corlett (IR)
Mr P Lilley MP

REVISED DRAFT OF SPEECH IN DEBATE ON THE ADDRESS

I attach a revised draft, incorporating the Chancellor's amendments.

2. Please could I have comments as soon as possible?

APH

A P HUDSON

THIRD

~~SECOND~~ DRAFT OF SPEECH FOR DEBATE ON THE ADDRESS

19 NOVEMBER

Response to Hattersley

1. As we begin our eighth Parliamentary session in office, I am forcibly struck by the consistency exhibited by the Opposition throughout all that time. Not once have they deviated from the failed nostrums of the past.

2. Today's speech by the RHG the Member for Sparkbrook is no exception. He refused to discuss his own party's economic policies. He has left them completely undefended. Is this simply an application of the Labour Party's unilateralist defence policy to the sphere of parliamentary debate? Or is it because he finds his own policies indefensible?

3. Instead of explaining his own policies, the RHG has ^again concentrated on attacking the Government. As always, he expounded on the decline of manufacturing industry, and implied that this would be terminal without a return to the policies his Government pursued.

4. But look at how manufacturing actually fared under the last Labour Government. Output fell. Productivity rose only very slowly, and the world recession of 1980-81 cruelly exposed the extent of the overmanning and hidden

unemployment. And British manufacturing exporters' share of world trade fell, too.

5. Today, the outlook for manufacturing industry is encouraging. The first half of this year was a difficult period because of the pause in world economic growth. But that pause is now over, and at the same time the competitive position of British manufacturers has been improved by the inevitable adjustment to the exchange rate which followed the oil price fall. Indeed, the pick-up is already well under way. In the third quarter of this year, manufacturing output was more than 1 per cent higher than in the second quarter, and exports were some 3 per cent higher than in the first half of the year. This has been matched by an improved performance on unit labour costs: the year-on-year rise was almost 8 per cent in the first half of this year, but was down to 4.4 per cent in the third quarter. Next year, manufacturing output is forecast to grow by 4 per cent, with a continued growth in both productivity and exports.

X 6. As I have often stressed, a reduction in the growth of unit labour costs is of the first importance to the prospect for jobs. And here, too, recent figures are encouraging. On a seasonally adjusted basis, last week's figures showed a drop of 25,000 in the number of people out of work; and the fall over the past three months has been the largest three-monthly fall for 13 years. I am sure the RHG will join me in welcoming this encouraging trend.

7. The way to achieve further falls in unemployment is to continue the economic policies which have created over a million new jobs since 1983, when the electorate last had the opportunity to choose the Opposition's approach to the problem and emphatically rejected it.

8. Yet the Opposition are still trying to peddle the same combination of high borrowing, high spending, and high taxation, as the alleged answer to unemployment. Despite the fact that it was the RHG the Member for Sparkbrook himself who said, shortly after the last Election,

"Last month, our economic policy ... was a net vote loser. Nobody believed that our theories could be put into practice."

9. Not that the views of the RHG count for much any more, not even in the eyes of his own Leader. The RHG the Leader of the Opposition has made it quite clear that, in his opinion ^{and} -_h I quote -

"The primary role in British strategic planning must be performed by the Department of Trade and Industry."

and that the role of the Treasury is to "manage the short-run circumstances of the economy". So in the highly unlikely event of a Labour Government, the RHG

would become the only man ever to have been the Shadow Chancellor in Opposition and in Government alike.

10. But then the Opposition are at sixes and sevens on most issues these days. Let me take just three examples.

11. First, and most recently, on training. The HM for Hull East called for a [£m] 1 per cent levy on firms to fund new training initiatives. Asked about this the RHM for Sparkbrook somewhat ^{tetchily} ~~tediously~~ replied:

"The idea that there should be a 1 per cent levy is not policy, it wasn't described as policy by John, and I can't imagine it's going to be policy."

Yet on the very first day of this debate, [in response to ...], his HF confirmed - albeit from a sedentary position - that the levy would be "at least 1 per cent". But I pay tribute to the honesty of the HM for Hull East. In February, he said of one of Labour's other pledges,

"How did we get this policy of one million jobs? ^{Who} worked on the programme? Promises such as this simply label us with targets we cannot achieve and expose our credibility."

12. Second, income tax. The RHG tried for some weeks to maintain that while Labour's plans would mean a savage increase in the higher rates of income tax, there would

be no increase in the basic rate. Needless to say, nobody ever really believed him. But his cover was well and truly blown by his NEC colleague Mr David Blunkett, who said

"In my view there will have to be a return to a higher standard rate of income tax and people will respect us for saying so."

13. Third, on National Insurance contributions. Last year, the RHG the Member for Sparkbrook was somewhat dismissive about reductions I announced in the Budget in the rates of National Insurance contributions for the lower paid. In the debate on the Second Reading of the Finance Bill he said this:

"The Labour Party has never believed that such changes to the cost of labour and employment could contribute to the solution of the central problem of the economy, which is the reduction of unemployment."

Yet within a year, he was on the air telling Mr Jimmy Young - and I quote -

"If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay, then they'll take on more labour. So we'd like to cut the National Insurance contributions."

14. About the only area of economic policy where we do get a measure of unity and clarity from the Opposition is public spending. They all want as much of that as they can get. My RHF the Chief Secretary carefully added up their pledges, and the cost reached at least £28 billion. But I have to tell the House that this figure is now out of date. Because Lab^our have made five new pledges, over and above the ones in the original costing: for a winter heating premium, a higher Christmas bonus for pensioners, the abolition of standing charges for pensioners, new policies ^{on} ~~of~~ energy, and the latest pension increase ^{promised by} ~~from~~ the HM for Oldham West. Together, these cost £10.8 billion. So the overall cost of Labour's programme now stands at almost [£39] billion. Once again, the RHF the Member for Sparkbrook has been knocked over in the rush to spend more, and the HM for Dagenham has been brought in to try to pick up the pieces.

Continuity of Government Policy

15. Fortunately for the nation, the Opposition will not get the chance to put any of their policies - confused or clear - into operation for a good many years yet, if ever. And the economic strategy set out in the Gracious Speech - the strategy we have pursued consistently since 1979 - is in stark contrast to the one they pursued when they were last in office.

16. Over the past seven years, our aim has been gradually to bring down the growth of money GDP, so as to squeeze inflation out of the system and hence make room for real growth.

17. We have brought inflation down from the appallingly high levels generated by the policies of the previous Government, in which the RHG served as Minister for Prices, when it averaged more than 15 per cent, to the lowest levels seen for a generation.

18. Ever since inflation first dropped into single figures in April 1982, the Opposition have made confident predictions that it would rise again. During the last general election campaign, the RHM for Sparkbrook told the nation that "Inflation is ready to rocket again. By this time next year, it will be back in double figures." Poppycock. And so it proved. Each time they have predicted higher inflation, and each time they have been wrong.

19. Since 1982 we have succeeded not merely in keeping inflation low, but also in combining it with steady growth. For each of the past five years, GDP has grown [by between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent], and is set to continue at this steady rate next year.

20. Again, there has been no shortage of predictions that this growth was about to peter out. Indeed this has

occurred consistently, year in year out. Even some 364 economists claimed that the economy could never recover from the 1981 Budget - which actually coincided with the start of the upswing.

21. As recently as a few months ago, I was told that the halving of the oil price would spell the end of the upswing unless I engaged in a vigorous expansion of the economy. Instead, I ventured the view that the pause in growth was just that. Subsequent events have proved that view right. Growth next year is expected to pick up to 3 per cent. And before hon Members opposite put that down simply to what they dismissively describe as a "consumer boom", let me remind them that growth in consumer spending is actually set to slow down somewhat next year, that exports are picking up well, and that investment is expected to grow at least in line with the economy as a whole.

22. This year more than most, the critics seem to have found it hard to know what to think. First, they predicted a slump and urged me to expand the economy. I declined to take their advice. But, as I predicted, growth duly picked up. Then the commentators changed their tune and told me the economy was overheating and I should rein it back. I have not responded to that either. And now the Opposition are trying to maintain that the economy is both declining and overheating at one and the same time.

23. It is still not clear to me what is the Opposition's reaction to the public spending plans spelled out in the Autumn Statement. Do the Labour Party want us to spend more next year? Or less? Or the same as is in our plans?

24. On the opening day of this debate the RHG the leader of the Opposition seemed to believe the projected spending increase would ignite what he called a pre-election boom. In almost the same breath he asserted that there is no hope of the economy growing at the 3% rate forecast in the statement.

25. Given that the economy has grown at an average rate of nearly 3% for the last five years, it seems odd to characterise a sixth year of the same as either unattainable or some special pre-election boom. Unless, of course, ^hhe believes that every year this Parliament has been a pre-election boom year.

26. Meanwhile we have fostered the conditions in which over a million jobs have been created since 1983. Yet the Opposition have persistently criticised our policies as bringing no hope to the unemployed. What could bring more hope than the knowledge that more jobs are being created? I have already drawn to the House's attention the latest figures suggesting that the continuing growth in jobs is at last outpacing the growth in the number of people seeking work.

27. Thus we have achieved a combination of low inflation, sustained growth, and rising employment. And we have achieved this by the consistent pursuit of an economic strategy based on sound money and free markets.

28. In operating monetary policy, we have all always taken account of all the indicators of monetary conditions. It was as far back as 1980 that we said in the Green Paper on Monetary Control, that "No single measure of the money supply can be expected fully to encapsulate monetary conditions". So anybody who imagines that policy was even determined simply on the basis of £M3, or any other single indicator for that matter, has failed to understand the policy. We shall continue to watch broad money closely, while being fully aware of the difficulties in interpreting £M3 which the Governor of the Bank of England has recently described, and indeed as I myself have done on a number of occasions. We shall continue to watch M0, which has proved a particularly reliable indicator of monetary conditions in recent years. And of course we shall continue to take account of the exchange rate.

29. As I have said before, short-term interest rates are the key instrument of monetary policy, and they will be kept at whatever level is necessary to secure monetary conditions that bear down on inflation. [Examples from track record to show good judgement.]

30. On fiscal policy, too, we can point to a record of consistency. Throughout my time as Chancellor I have stuck firmly to the path mapped out in the Medium Term Finance ^{ial} Strategy, and apart from 1984-85, when I allowed ~~the~~ public borrowing to expand to finance the one-off expenditure needed in successfully resisting the coal strike, the outturn has been in line with ^{the} PSBR ~~expenditure~~ ^{engaged} at the time of the Budget.

31. Much of the press reaction to the Autumn Statement has been fairly predictable. On any subject they seem to have only two headlines to choose from. And on public spending it's either "Cut, Cut, Cut" or "Spend, Spend, Spend".

32. On this occasion they chose the latter. But the truth, unfortunately for the headline writers, is that we are continuing on the path we have pursued throughout this Parliament.

33. Our primary objective has been to reduce the proportion of national income taken by the public sector. This we have achieved every year since 1982. And we plan to do so over the next three years.

34. In the decade prior to our election in 1979 public sector spending grew at an average annual rate of about 3%. In our first parliament, because of the world recession and the bills we inherited, we only managed to slow the growth of spending to an average rate of 2½%.

But so far during this parliament we have managed to curb the growth in spending to 1 $\frac{3}{4}$ %. The forecast increase over the next three years is at the ~~slightly~~^{still} slower rate of 1% per annum.

x 35. The second element of continuity is our determination that spending should not be financed by inflationary borrowing. That is why I spelled out that in the coming year we will not allow the public sector borrowing requirement to exceed the 1 $\frac{3}{4}$ % of GDP indicated in the ~~Medium~~ Term ~~Financial~~ Strategy.

x 36. I can understand that "continuity" may be an unfamiliar concept in the RHG's party. The last Labour Government's spending policies consisted of a massive increase - x% in the first two years - which had to be dramatically reversed when the IMF took over from the RHG the ~~Member~~ for Leeds East.

Other Measures

37. In the new session, we shall continue to follow the economic strategy which has brought the successes I described. But the Government's objectives go deeper than simply continuing our economic advance.

38. In particular, we want to encourage the spread of ownership in society. This means wider home ownership and wider share ownership.

39. The number of shareholders has doubled under this Government, not least because of the opportunities arising out of the privatisation programme. Some [8 million] people have shown interest in the British Gas sale alone.

40. Nonetheless, many people still find the idea of share ownership complicated and daunting. To make it more attractive, I announced in the Budget the new Personal Equity Plans. These will enable small investors to invest in UK shares free of tax, in a simple way, with no need for record-keeping or dealings with the Inland Revenue.

x 41. A number of commentators couldn't wait to predict that this initiative would never get off the ground. In fact, it is clear that it will be a great success. I can announce today the Inland Revenue have received a hundred applications from firms who want to run Personal Equity Plans. I am laying the draft regulations for the scheme before the House today, so that subject to approval, it can begin on 1 January next year.

42. A second area where we are building on success is privatisation. Our privatisation programme is a historic achievement. It has brought benefits to consumers, investors, employees, management, and the economy as a whole. It is being copied around the world.

43. This session, British Gas, British Airways, Rolls Royce, and the British Airports Authority will be privatised, so that by the end of it the State commercial sector will be down to little more than half of what we inherited in 1979.

44. This, of course, is a policy the Labour Party can't stand. They don't like the opportunities it has brought for millions of people to own shares. They don't like the idea that management - and not politicians - are running the companies. No wonder the heads of these newly privatised companies point to the dangers of renationalisation [quote from Sir G Jefferson or others].

45. For areas which remain in the public sector, many of the benefits of privatisation can be secured by putting out to competitive tender services which were previously provided in house. This has already brought savings of £100 million a year - much of it available to improve patient care in the Health Service. This session, as was announced in the Gracious Speech, we shall legislate to make competitive tendering compulsory for a wide range of local authority services, including street cleaning and refuse collecting.

46. Third, this will be another momentous year for the City and the financial world, as it adjusts to the new competitive environment.

47. The House devoted a good deal of time in the previous session to the Financial Services Act, and the Building Societies Act. To complement these, I introduced on Friday a new Banking Bill to modernise and strengthen the rules for banking supervision. Effective supervision is essential throughout the financial sector, and as a Government we are determined to do what is necessary to achieve it.

48. The growth of the financial services sector has brought great benefits to the economy, not least in terms of jobs - two million people are now employed in banking, finance, and insurance. And it may surprise some Opposition members to learn that the number of extra jobs in that sector since 1979 is more than twice as great as the job losses in the motor vehicle industry.

Conclusion

49. Mr Speaker, in the year ahead we shall continue to pursue the economic policies set out in the Gracious Speech. They are the policies which have already brought five years of steady growth and inflation down to the lowest levels for a generation. They are policies which the Opposition are committed to reverse. But I am confident that they will never get the chance to do this, for they are policies which have captured the imagination of the British people.

AMH
 MR HUDSON

FROM: COLIN MOWL
 DATE: 18 November 1986

cc Sir Peter Middleton
 Sir Terence Burns
 Mr Cassell
 Mr Sedgwick
 Mr Culpin

REVISED DRAFT OF SPEECH IN DEBATE ON THE ADDRESS

We spoke about the sentence in paragraph 30 of the draft of 17 November which stated that throughout the present Chancellor's period in office, apart from 1984-85, the 'outturn has been in line with the PSBR envisaged at the time of the Budget'. You said that it had already been agreed to amend this so that it was in terms of the outturn being broadly in line with the forecast. This qualification seems to me to be essential.

2. In case there is further discussion of this, and in view of the possibility that it might come up at the TCSC, it might be helpful if I set out the relevant figures:

PSBR FORECASTS AND OUTTURNS

	FSBR Forecast £b	Outturn £b	Error (Actual less forecast) £b	% of GDP
1983-84	8.2	9.8	+ 1.6	+ 0.4
1984-85	7.2	10.2	+ 3.0	+ 0.9
1985-86	7.1	5.8	- 1.3	- 0.4

1986-87	7.1	7.1	-	-

3. The table shows very clearly that even in its amended form the draft is not on particularly strong ground. 1984-85 is excluded on the grounds that it is affected by the coal strike. The current year, 1986-87, should strictly also be excluded on the grounds that it is far from over and the average error on the forecast is at this stage £3 billion. (This does not mean of course that we cannot justifiably argue that borrowing is on track). This only leaves two years 1983-84 and 1984-85, the first of which overshot the FSBR 'target' by £1½ billion.

The Chancellor can of course take credit for the package of public expenditure cuts in 1983-84 shortly after the election but this does not alter the fact that there was still a sizeable overshoot.

4. The average error on PSBR forecasts for the year ahead is $1\frac{1}{4}$ per cent of money GDP. The forecast errors in 1983-84 and 1985-86 were well within this but this does not seem to me to be relevant to this particular argument.

Colin Mowl

COLIN MOWL

SPEECH FOR DEBATE ON THE ADDRESS

19 NOVEMBER

AS WE BEGIN OUR EIGHTH PARLIAMENTARY SESSION IN OFFICE, I AM FORCED TO ACKNOWLEDGE THE CONSISTENCY EXHIBITED BY THE OPPOSITION THROUGHOUT ALL THAT TIME.

NOT ONCE HAVE THEY DEVIATED FROM THE FAILED NOSTRUMS OF THE PAST.

NOT THAT WE HEARD MUCH ABOUT THE OPPOSITION'S POLICIES TODAY.

THE RHG THE MEMBER FOR SPARKBROOK DECLINED TO DISCUSS, LET ALONE TO DEFEND, THEM.

THE RHG, AS A RECENT CONVERT TO UNILATERAL DISARMAMENT, HAS EVIDENTLY BECOME SO ENTHUSIASTIC THAT HE HAS EXTENDED IT TO THE SPHERE OF PARLIAMENTARY DEBATE.

*Present
A VERY WORRIED MAN*

AS ALWAYS, THE RHM EXPOUNDED ON THE ALLEGED DECLINE OF MANUFACTURING INDUSTRY, AND IMPLIED THAT THIS WOULD BE TERMINAL WITHOUT A RETURN TO THE POLICIES HIS GOVERNMENT PURSUED.

I WILL COME ON TO OUR RECORD IN A MOMENT.

BUT LOOK AT HOW MANUFACTURING ACTUALLY FARED UNDER THE LAST LABOUR GOVERNMENT.

OUTPUT FELL.

PRODUCTIVITY ROSE ONLY VERY SLOWLY, AND THE WORLD RECESSION OF 1980-81 CRUELLY EXPOSED THE EXTENT OF THE OVERMANNING AND HIDDEN UNEMPLOYMENT.

AND BRITAIN'S VOLUME SHARE OF WORLD EXPORTS OF MANUFACTURED GOODS STEADILY DECLINED - A DECLINE WHICH

UNDER THIS GOVERNMENT HAS BEEN UNEQUIVOCALLY ARRESTED.

*BALANCE OF PAYMENTS: UNDER LAB, CUM DEFICIT OF £5 bn
UNDER THIS GOVT, CUM SURPLUS OF £21 bn*

TODAY, THE OUTLOOK FOR MANUFACTURING INDUSTRY IS ENCOURAGING.

THE FIRST HALF OF THIS YEAR WAS A DIFFICULT PERIOD BECAUSE OF THE PAUSE IN WORLD ECONOMIC GROWTH.

BUT THAT PAUSE IS NOW OVER, AND AT THE SAME TIME THE COMPETITIVE POSITION OF BRITISH MANUFACTURERS HAS BEEN IMPROVED BY THE INEVITABLE ADJUSTMENT OF THE EXCHANGE RATE WHICH FOLLOWED THE OIL PRICE FALL.

INDEED, THE PICK-UP IS ALREADY WELL UNDER WAY.

IN THE THIRD QUARTER OF THIS YEAR, MANUFACTURING OUTPUT WAS MORE THAN ONE PER CENT HIGHER THAN IN THE SECOND QUARTER, AND EXPORTS WERE SOME THREE PER CENT HIGHER THAN IN THE FIRST HALF OF THE YEAR.

WITH FASTER WORLD TRADE AND IMPROVED COST COMPETITIVENESS, I SEE NOTHING ~~OUTLANDISH~~ ^{IMPLAUSIBUS} IN FORECASTING AN EVEN STRONGER RISE IN MANUFACTURING OUTPUT NEXT YEAR OF THE ORDER OF FOUR PER CENT.

BUT THE BIG DIFFERENCE BETWEEN THIS GOVERNMENT AND THE LAST, SO FAR AS MANUFACTURING IS CONCERNED, IS IN PRODUCTIVITY.

OVER THE LAST SIX YEARS, MANUFACTURING PRODUCTIVITY HAS SHOT UP BY NEARLY FIVE PER CENT A YEAR, SECOND ONLY TO JAPAN AMONG THE MAJOR INDUSTRIALISED COUNTRIES.

AND, AFTER A SHORT PAUSE, IT IS NOW IMPROVING AGAIN.

THE RESULT IS THAT THE GROWTH IN UNIT LABOUR COSTS IS SLOWING DOWN.

THE YEAR ON YEAR RISE WAS ALMOST EIGHT PER CENT IN THE FIRST HALF OF THIS YEAR, BUT WAS DOWN TO ABOUT 4½ PER CENT IN THE THIRD QUARTER.

THAT IS STILL TOO HIGH, BUT IT IS GETTING BETTER.

AS I HAVE OFTEN STRESSED, A REDUCTION IN THE GROWTH OF UNIT LABOUR COSTS IS OF THE FIRST IMPORTANCE TO THE PROSPECT FOR JOBS.

AND HERE, TOO, RECENT FIGURES ARE ENCOURAGING.

ON A SEASONALLY ADJUSTED BASIS, LAST WEEK'S FIGURES SHOWED A DROP OF 25,000 IN THE NUMBER OF ADULTS OUT OF WORK; AND THE FALL OVER THE PAST THREE MONTHS HAS BEEN THE LARGEST THREE-MONTHLY FALL FOR THIRTEEN YEARS.

~~I AM SURE~~ ~~(THE RHG WILL JOIN ME IN WELCOMING~~ ~~(THIS~~
~~BECAUSE~~ ~~DEPLORES~~ ~~THE~~ ~~FACT~~ ~~THAT~~ ~~I~~ ~~FELT~~ ~~UNABLE~~ ~~TO~~ ~~WELCOME~~ ~~IT~~
ENCOURAGING TREND.

THE WAY TO ACHIEVE FURTHER FALLS IN UNEMPLOYMENT IS TO CONTINUE THE ECONOMIC POLICIES WHICH HAVE ALREADY CREATED A MILLION NEW JOBS SINCE 1983, WHEN THE ELECTORATE LAST HAD THE OPPORTUNITY TO CHOOSE THE OPPOSITION'S APPROACH TO THE PROBLEM AND EMPHATICALLY REJECTED IT.

YET THE OPPOSITION ARE STILL TRYING TO PEDDLE THE SAME COMBINATION OF HIGH BORROWING, HIGH SPENDING, AND HIGH TAXATION, AS THE ALLEGED ANSWER TO UNEMPLOYMENT.

DESPITE THE FACT THAT IT WAS THE RHG THE MEMBER FOR SPARKBROOK HIMSELF WHO SAID, SHORTLY AFTER THE LAST ELECTION,

"LAST MONTH, OUR ECONOMIC POLICY ... WAS A NET VOTE LOSER.

NOBODY BELIEVED THAT OUR THEORIES COULD BE PUT INTO PRACTICE."

NOT THAT THE VIEWS OF THE RHG COUNT FOR MUCH ANY MORE, NOT EVEN IN THE EYES OF HIS OWN LEADER.

THE RHG THE LEADER OF THE OPPOSITION HAS MADE IT QUITE CLEAR THAT, IN HIS OPINION - AND I QUOTE -

"THE PRIMARY ROLE IN BRITISH STRATEGIC PLANNING MUST BE PERFORMED BY THE DEPARTMENT OF TRADE AND INDUSTRY."

SO IN THE HIGHLY UNLIKELY EVENT OF A LABOUR GOVERNMENT, THE RHG WOULD BECOME THE ONLY MAN EVER TO HAVE BEEN THE SHADOW CHANCELLOR IN OPPOSITION AND IN GOVERNMENT ALIKE.

BUT THEN THE OPPOSITION ARE AT SIXES AND SEVENS ON MOST ISSUES THESE DAYS.

LET ME TAKE JUST THREE EXAMPLES.

FIRST, AND MOST RECENTLY, ON TRAINING.

THE HM FOR HULL EAST CALLED THE OTHER DAY FOR A ONE PER CENT LEVY ON FIRMS TO FUND NEW TRAINING INITIATIVES - IN EFFECT, A NEW TAX ON TURNOVER, WHICH HE THINKS WOULD RAISE £6 BILLION FROM BRITISH BUSINESS.

ASKED ABOUT THIS, THE RHM FOR SPARKBROOK SOMEWHAT TETCHILY REPLIED:

"THE IDEA THAT THERE SHOULD BE A ONE PER CENT LEVY IS NOT POLICY, IT WASN'T DESCRIBED AS POLICY BY JOHN, AND I CAN'T IMAGINE IT'S GOING TO BE POLICY."

YET LAST NIGHT, IN THIS VERY DEBATE, WINDING UP FOR THE OPPOSITION HIS HF FOR HULL EAST REAFFIRMED HIS COMMITMENT

TO A ONE PER CENT LEVY ON BUSINESS TURNOVER.

IT IS ALWAYS REFRESHING TO HAVE THE CONTRIBUTION OF THE HM FOR HULL EAST TO LABOUR'S INTERNAL DEBATES.

THE HOUSE WILL RECALL HOW EARLIER THIS YEAR HE SAID THIS OF THE RHM FOR SPARKBROOK'S PLEDGE TO CREATE A MILLION JOBS:

"HOW DID WE GET THIS POLICY OF ONE MILLION JOBS? WHO WORKED ON THE PROGRAMME? PROMISES SUCH AS THIS SIMPLY LABEL US WITH TARGETS WE CANNOT ACHIEVE AND EXPOSE OUR CREDIBILITY."

AND TODAY THIS RHM WASN'T ABLE TO GIVE MY HF THE M

for SCUNTHORPE
A STRAIGHT
ANSWER
TO A
STRAIGHT
QUESTION

AND WHAT ABOUT

~~SECOND~~ INCOME TAX?

THE RHG TRIED FOR SOME WEEKS TO MAINTAIN THAT WHILE LABOUR'S PLANS WOULD MEAN A SAVAGE INCREASE IN THE HIGHER RATES OF INCOME TAX, THERE WOULD BE NO INCREASE IN THE BASIC RATE.

NEEDLESS TO SAY, NOBODY EVER REALLY BELIEVED HIM.

BUT ~~HIS~~ ^{THE GAFF} COVER WAS WELL AND TRULY BLOWN BY HIS NEC COLLEAGUE MR DAVID BLUNKETT, WHO SAID

"IN MY VIEW THERE WILL HAVE TO BE A RETURN TO A HIGHER STANDARD RATE OF INCOME TAX AND PEOPLE WILL RESPECT US FOR SAYING SO."

SO MUCH FOR THE RUK FOR SPARK BROOK
LASTLY, WHERE DO THEY STAND ON

~~THIRD~~ NATIONAL INSURANCE CONTRIBUTIONS.

LAST YEAR, THE RHG THE MEMBER FOR SPARKBROOK WAS SOMEWHAT DISMISSIVE ABOUT THE REDUCTIONS I ANNOUNCED IN THE BUDGET IN THE RATES OF NATIONAL INSURANCE CONTRIBUTIONS FOR THE LOWER PAID.

IN THE DEBATE ON THE SECOND READING OF THE FINANCE BILL HE SAID THIS:

"THE LABOUR PARTY HAS NEVER BELIEVED THAT SUCH CHANGES TO THE COST OF LABOUR AND EMPLOYMENT COULD CONTRIBUTE TO THE SOLUTION OF THE CENTRAL PROBLEM OF THE ECONOMY, WHICH IS THE REDUCTION OF UNEMPLOYMENT."

YET WITHIN A YEAR, HE WAS ON THE AIR TELLING MR JIMMY YOUNG - AND I QUOTE -

"IF WE MAKE JOBS LESS EXPENSIVE FOR COMPANIES BY REDUCING NATIONAL INSURANCE CONTRIBUTIONS THAT EMPLOYERS PAY, THEN THEY'LL TAKE ON MORE LABOUR.

SO WE'D LIKE TO CUT THE NATIONAL INSURANCE CONTRIBUTIONS."

IN OTHER WORDS, ITS QUITE CLEAR WHAT THE RHM for SPARK BROOK STANDS ON THIS ISSUE - AS ON MOST OTHERS. HE STANDS ON HIS HEAD.

ABOUT THE ONLY AREA OF ECONOMIC POLICY WHERE WE DO GET A MEASURE OF UNITY AND CLARITY FROM THE OPPOSITION IS PUBLIC SPENDING.

THEY ALL WANT AS MUCH OF THAT AS THEY CAN GET.

AS A RESULT, THE TOTAL COST OF THEIR IRRESPONSIBLE PLEDGES IS RISING ALL THE TIME.

THE LABOUR PARTY CONFERENCE WAS ALWAYS LIKELY TO BE AN EXPENSIVE WEEK FOR THE RHM FOR SPARKBROOK.

IN CONJUNCTION WITH MY RHF THE CHIEF SECRETARY, I HAVE COSTED FIVE NEW PLEDGES THEY MADE AT BLACKPOOL: A WINTER HEATING PREMIUM: THAT'S NEARLY £200 MILLION; A HIGHER CHRISTMAS BONUS FOR PENSIONERS - ANOTHER £100 MILLION; THE ABOLITION OF STANDING CHARGES FOR PENSIONERS: £550 MILLION; NEW POLICIES ON ENERGY: AT LEAST £350 MILLION; AND THE LATEST PENSION INCREASE PROMISED BY THE HM FOR OLDHAM WEST: A COOL £8 BILLION A YEAR.

ALL IN ALL, THAT MEANS YET FURTHER SPENDING COMMITMENTS OF SOME £9 BILLION A YEAR.

AN EXPENSIVE WEEK INDEED.

ONCE AGAIN, THE RHG THE MEMBER FOR SPARKBROOK HAS BEEN KNOCKED OVER IN THE RUSH TO SPEND MORE, AND THE HM FOR DAGENHAM HAS BEEN BROUGHT IN, FAR TOO LATE, TO TRY AND PUT HUMPTY DUMPTY TOGETHER AGAIN.

CONTINUITY OF GOVERNMENT POLICY

MR DEPUTY SPEAKER, THE ECONOMIC STRATEGY SET OUT IN THE GRACIOUS SPEECH CONTINUES THE STRATEGY WE HAVE PURSUED CONSISTENTLY SINCE 1979.

OVER THE PAST SEVEN YEARS, WE HAVE GRADUALLY BROUGHT DOWN THE GROWTH OF MONEY GDP, SO AS TO SQUEEZE INFLATION OUT OF THE SYSTEM AND HENCE MAKE ROOM FOR REAL GROWTH.

WE HAVE BROUGHT INFLATION DOWN FROM THE APPALLINGLY HIGH LEVELS GENERATED BY THE POLICIES OF THE PREVIOUS GOVERNMENT, WHEN IT AVERAGED MORE THAN FIFTEEN PER CENT, TO THE LOWEST LEVELS SEEN FOR A GENERATION.

EVER SINCE INFLATION FIRST DROPPED INTO SINGLE FIGURES IN APRIL 1982, THE OPPOSITION HAVE MADE CONFIDENT PREDICTIONS THAT IT WOULD RISE AGAIN.

DURING THE LAST GENERAL ELECTION CAMPAIGN, THE RHM FOR SPARKBROOK TOLD THE NATION THAT "INFLATION IS READY TO ROCKET AGAIN.

BY THIS TIME NEXT YEAR, IT WILL BE BACK IN DOUBLE FIGURES."

POPPYCOCK, I SAID AT THE TIME.

AND SO IT PROVED.

EACH TIME THEY HAVE PREDICTED HIGHER INFLATION, AND EACH TIME THEY HAVE BEEN WRONG.

TO GIVE THEM THEIR DUE, IT USED TO BE THE CASE IN THIS COUNTRY THAT YOU COULDN'T HAVE SUSTAINED GROWTH WITHOUT A PICK-UP IN INFLATION.

AT LEAST, THAT IS WHAT THE RECORD SEEMED TO SHOW.

COMMENTARIES

~~WE~~ USED TO DEBATE THE TRADE-OFF BETWEEN GROWTH AND INFLATION AS IF THEY WERE BOUND TO GO TOGETHER.

BUT WE HAVE SHOWN OVER THE LAST FIVE YEARS THAT WE CAN HAVE GROWTH - STEADY AND SUSTAINED GROWTH -WITHOUT A REVIVAL IN INFLATION - INDEED, WHILE INFLATION CONTINUES TO COME DOWN.

IN EACH OF THE THREE YEARS I HAVE BEEN CHANCELLOR, THE GROWTH RATE AND THE INFLATION RATE HAVE BEEN WITHIN TWO AND A HALF PERCENTAGE POINTS OF EACH OTHER.

IN NO LABOUR YEAR WAS THAT REMOTELY TRUE - INDEED IN ONE OF THEIR YEARS THE GAP WAS AS MUCH AS 25 PER CENT.

FOR THE PAST FIVE YEARS, ECONOMIC GROWTH HAS AVERAGED ALMOST THREE PER CENT A YEAR AND IS SET TO CONTINUE AT THIS STEADY RATE IN 1987.

AGAIN, THERE HAS BEEN NO SHORTAGE OF PREDICTIONS THAT GROWTH WAS ABOUT TO PETER OUT.

INDEED THESE PREDICTIONS HAVE OCCURRED REGULARLY, YEAR IN, YEAR OUT - EVER SINCE 364 ECONOMISTS CLAIMED THAT THE ECONOMY COULD NEVER RECOVER FROM THE 1981 BUDGET.

AS RECENTLY AS A FEW MONTHS AGO, I WAS TOLD THAT THE EFFECTS OF THE HALVING OF THE OIL PRICE WOULD SPELL THE END OF THE UPSWING UNLESS I BOOSTED GOVERNMENT BORROWING, OR CUT INTEREST RATES, OR BOTH.

INSTEAD, I VENTURED THE VIEW THAT WHAT WE WERE SEEING WAS SIMPLY A PAUSE IN GROWTH WHICH WOULD SOON COME TO AN END.

SUBSEQUENT EVENTS HAVE PROVED THAT VIEW RIGHT.

FIGURES PUBLISHED THIS MORNING SHOW THAT TOTAL OUTPUT IN THE ECONOMY ROSE BY ONE PER CENT IN THE THIRD QUARTER, AND IS NOW ABOUT THREE PER CENT HIGHER THAN A YEAR AGO.

NEXT YEAR I EXPECT GROWTH OF ANOTHER THREE PER CENT. AND BEFORE HON MEMBERS OPPOSITE PUT THAT DOWN SIMPLY TO WHAT THEY DISMISSIVELY DESCRIBE AS A "CONSUMER BOOM", LET ME REMIND THEM THAT GROWTH IN CONSUMER SPENDING IS ACTUALLY SET TO SLOW DOWN SOMEWHAT NEXT YEAR, THAT EXPORTS ARE PICKING UP WELL, AND THAT INVESTMENT IS EXPECTED TO GROW BROADLY IN LINE WITH THE ECONOMY AS A WHOLE.

THIS YEAR MORE THAN MOST, THE CRITICS SEEM TO HAVE FOUND IT HARD TO KNOW WHAT TO THINK.

FIRST, THEY PREDICTED A SLUMP AND URGED ME TO TAKE ACTION TO EXPAND THE ECONOMY.

I DECLINED TO TAKE THEIR ADVICE.

AND, AS I PREDICTED, GROWTH DULY PICKED UP.
THEN THEY CHANGED THEIR TUNE AND TOLD ME THE ECONOMY WAS
OVERHEATING AND I SHOULD TAKE ACTION TO DAMP IT DOWN.
I HAVE NOT RESPONDED TO THAT EITHER.
AND NOW THE OPPOSITION ARE TRYING TO MAINTAIN THAT THE
ECONOMY IS BOTH DECLINING AND OVERHEATING AT ONE AND THE
SAME TIME.

IT IS STILL NOT CLEAR TO ME WHAT ~~IS~~ ^{really is} THE OPPOSITION'S
REACTION TO THE PUBLIC SPENDING PLANS SPELLED OUT IN THE
AUTUMN STATEMENT.

DO THE LABOUR PARTY WANT US TO SPEND MORE NEXT YEAR? OR
LESS? OR THE SAME AS IS IN OUR PLANS?

ON THE OPENING DAY OF THIS DEBATE THE RHG THE LEADER OF
THE OPPOSITION SEEMED TO BELIEVE THE PROJECTED SPENDING
INCREASE WOULD IGNITE WHAT HE CALLED A PRF-FICTION BOOM.
IN ALMOST THE SAME BREATH HE ASSERTED THAT THERE WAS NO
HOPE OF THE ECONOMY GROWING NEXT YEAR AT THE THREE PER
CENT RATE FORECAST IN THE ^{AUTUMN} STATEMENT.

GIVEN THAT THE ECONOMY HAS GROWN AT AN AVERAGE RATE OF NEARLY THREE PER CENT FOR THE LAST FIVE YEARS, IT SEEMS ODD TO CHARACTERISE A SIXTH YEAR OF THE SAME AS EITHER UNATTAINABLE OR SOME SPECIAL PRE-ELECTION BOOM, UNLESS, OF COURSE, HE BELIEVES THAT EVERY YEAR OF THIS PARLIAMENT HAS BEEN A PRE-ELECTION BOOM YEAR.

MEANWHILE WE HAVE FOSTERED THE CONDITIONS IN WHICH A MILLION JOBS HAVE BEEN CREATED DURING THE LIFETIME OF THIS PARLIAMENT.

YET THE OPPOSITION HAVE PERSISTENTLY CRITICISED OUR POLICIES AS BRINGING NO HOPE TO THE UNEMPLOYED.

WHAT COULD BRING MORE HOPE THAN THE KNOWLEDGE THAT MORE JOBS ARE BEING CREATED? I HAVE ALREADY DRAWN TO THE HOUSE'S ATTENTION THE LATEST FIGURES SUGGESTING THAT THERE IS NOW A DOWNWARD TREND IN UNEMPLOYMENT.

THUS WE HAVE ACHIEVED A COMBINATION OF LOW INFLATION, SUSTAINED GROWTH, AND RISING EMPLOYMENT.

AND WE HAVE ACHIEVED THIS BY THE CONSISTENT PURSUIT OF AN ECONOMIC STRATEGY BASED ON A FIRM MONETARY AND FISCAL POLICY.

IN OPERATING MONETARY POLICY, WE HAVE ALL ALONG TAKEN ACCOUNT OF ALL THE INDICATORS OF MONETARY CONDITIONS. IT WAS AS FAR BACK AS 1980 THAT WE SAID IN THE GREEN PAPER ON MONETARY CONTROL, THAT "NO SINGLE MEASURE OF THE MONEY SUPPLY CAN BE EXPECTED FULLY TO ENCAPSULATE MONETARY CONDITIONS".

SO ANYBODY WHO IMAGINES THAT POLICY WAS EVER DETERMINED SIMPLY ON THE BASIS OF £M3 , OR ANY OTHER SINGLE INDICATOR FOR THAT MATTER, HAS FAILED TO UNDERSTAND THE POLICY.

WE SHALL CONTINUE TO WATCH BROAD MONEY CLOSELY, WHILE BEING FULLY AWARE OF THE DIFFICULTIES IN INTERPRETING £M3 WHICH THE GOVERNOR OF THE BANK OF ENGLAND HAS RECENTLY DESCRIBED, AS INDEED I MYSELF HAVE DONE ON A NUMBER OF OCCASIONS.

OTHER COUNTRIES ARE EXPERIENCING SIMILAR DIFFICULTIES.

WE SHALL CONTINUE TO TARGET M0, WHICH HAS PROVED A PARTICULARLY RELIABLE INDICATOR OF MONETARY CONDITIONS IN RECENT YEARS.

AND OF COURSE WE SHALL CONTINUE TO TAKE ACCOUNT OF THE EXCHANGE RATE, WHOSE NECESSARY FALL IN THE LIGHT OF THE OIL PRICE COLLAPSE HAS NOW GONE FAR ENOUGH.

AS I HAVE SAID BEFORE, AND SHOWN BY MY ACTIONS, SHORT-TERM INTEREST RATES ARE THE KEY INSTRUMENT OF MONETARY POLICY.

THEY WILL CONTINUE TO BE KEPT AT WHATEVER LEVEL IS NECESSARY TO SECURE MONETARY CONDITIONS THAT BEAR DOWN ON INFLATION.

ON FISCAL POLICY, TOO, WE CAN POINT TO A RECORD OF CONSISTENCY.

THROUGHOUT MY TIME AS CHANCELLOR I HAVE STUCK FIRMLY TO THE PATH MAPPED OUT IN THE MEDIUM TERM FINANCIAL STRATEGY.

INDEED, EACH YEAR I HAVE SET THE PSBR AT OR SLIGHTLY BELOW THE FIGURE INDICATED IN THE PREVIOUS YEAR'S MTF'S.

AND APART FROM 1984-85, WHEN I ALLOWED PUBLIC BORROWING TO EXPAND TO FINANCE THE ONE-OFF EXPENDITURE NEEDED IN SUCCESSFULLY RESISTING THE COAL STRIKE, THE OUTTURN HAS BEEN BROADLY IN LINE WITH THE PSBR ENVISAGED AT THE TIME OF THE BUDGET.

AND YESTERDAY'S FIGURES CONFIRM THAT THIS YEAR'S PSBR IS WELL ON TRACK.

THE RHG THE LEADER OF THE OPPOSITION CLAIMED IN A RECENT RADIO BROADCAST THAT WE WERE THE "HIGHEST BORROWING, HIGHEST SPENDING, HIGHEST TAXING GOVERNMENT EVER".

THIS IS PRETTY RICH, I MUST SAY, COMING FROM THE LEADER OF A PARTY WHOSE LAST SPELL IN GOVERNMENT SAW THE PSBR RISE TO THE EQUIVALENT OF £35 BILLION IN TODAY'S TERMS, PUBLIC SPENDING TAKE THE HIGHEST SHARE OF NATIONAL OUTPUT IN PEACE ^{(TIME OF} TIME, INCOME TAX AT A BASIC RATE OF 35 PENCE IN THE POUND [→] (AND WHICH SEEKS TO DO THE SAME ALL OVER AGAIN.

MUCH OF THE PRESS REACTION TO THE AUTUMN STATEMENT HAS BEEN FAIRLY PREDICTABLE.

ON MOST SUBJECTS THEY SEEM TO HAVE ONLY TWO HEADLINES TO CHOOSE FROM.

AND ON PUBLIC SPENDING IT'S EITHER "CUT, CUT, CUT" OR "SPEND, SPEND, SPEND".

THE TRUTH IS MORE PROSAIC.

WHAT WE ARE DOING IS TO CONTINUE ON THE PATH WE HAVE CONSISTENTLY PURSUED THROUGHOUT THIS PARLIAMENT.

OUR DELCARED OBJECTIVE HAS BEEN TO REDUCE THE PROPORTION OF NATIONAL INCOME TAKEN BY THE PUBLIC SECTOR.

THIS WE HAVE ACHIEVED EVERY YEAR SINCE 1982.

AND WE PLAN TO DO SO AGAIN OVER THE NEXT THREE YEARS.

EC CONTRIBUTIONS: ⁸⁷⁻⁹¹ -280M ⁸⁷⁻⁸⁹ -250M

IN THE DECADE PRIOR TO OUR ELECTION IN 1979 PUBLIC SECTOR SPENDING GREW AT AN AVERAGE ANNUAL RATE OF ABOUT THREE PER CENT.

IN OUR FIRST PARLIAMENT, BECAUSE OF THE WORLD RECESSION AND THE ~~BILLS~~ ^{POST-DATED CHEQUES} WE INHERITED, WE ONLY MANAGED TO SLOW THE GROWTH OF SPENDING TO AN AVERAGE RATE OF 2¼ PER CENT. **A YEAR.**

BUT SO FAR DURING THIS PARLIAMENT WE HAVE MANAGED TO CURB THE GROWTH IN SPENDING TO $1\frac{3}{4}$ PER CENT, A YEAR. THE INCREASE ENVISAGED OVER THE NEXT THREE YEARS IS AT THE STILL SLOWER RATE OF ONE PER CENT A YEAR. ALL THESE FIGURES, INCIDENTALLY, EXCLUDE THE PROCEEDS OF PRIVATISATION, SO AS TO SHOW THE UNDERLYING TREND.

THE SECOND ELEMENT OF CONTINUITY IS OUR DETERMINATION THAT SPENDING SHOULD NOT BE FINANCED BY EXCESSIVE BORROWING.

THAT IS WHY I HAVE MADE IT CLEAR THAT IN THE COMING YEAR, 1987-88, I WILL NOT ALLOW THE PUBLIC SECTOR BORROWING REQUIREMENT TO EXCEED THE $1\frac{3}{4}$ PER CENT OF GDP INDICATED IN THE MEDIUM TERM FINANCIAL STRATEGY.

I CAN UNDERSTAND THAT "CONTINUITY" MAY BE AN UNFAMILIAR CONCEPT IN THE RHG'S PARTY.

THE LAST LABOUR GOVERNMENT'S SPENDING POLICIES WERE LIKE THE GIANT DIPPER.

FIRST, A MASSIVE INCREASE - 12 PER CENT IN REAL TERMS IN THE FIRST TWO YEARS.

THEN A DRAMATIC REVERSAL WHEN THE IMF TOOK OVER FROM THE RHG THE MEMBER FOR LEEDS EAST.

AND LOOK ~~AT~~ WHAT THEY CHOSE TO CUT.

ROADS AND HOSPITALS - BOTH DOWN BY 30 PER CENT IN REAL TERMS OVER THE WHOLE OF LABOUR'S PERIOD IN GOVERNMENT, WITH OVERALL CAPITAL SPENDING DOWN BY A FIFTH.

OTHER MEASURES

IN THE NEW SESSION, WE SHALL CONTINUE TO FOLLOW THE ECONOMIC STRATEGY WHICH HAS BROUGHT THE ACHIEVEMENTS I HAVE DESCRIBED.

BUT THE GOVERNMENT'S OBJECTIVES GO WIDER THAN GROWTH AND STABILITY - WELCOME AS THEY ARE TO MOST FAIR MINDED ~~CITIZENS.~~ *PEOPLES.*

IN PARTICULAR, WE ARE DETERMINED TO ENCOURAGE THE SPREAD OF OWNERSHIP IN SOCIETY.

THIS MEANS WIDER HOME OWNERSHIP AND WIDER SHARE OWNERSHIP.

THE NUMBER OF SHAREHOLDERS HAS DOUBLED UNDER THIS GOVERNMENT, NOT LEAST BECAUSE OF THE OPPORTUNITIES ARISING OUT OF THE PRIVATISATION PROGRAMME.

OVER SEVEN MILLION PEOPLE HAVE REGISTERED AN INTEREST IN THE BRITISH GAS SALE ALONE.

EVEN SO, MANY PEOPLE STILL FIND THE IDEA OF SHARE OWNERSHIP COMPLICATED AND DAUNTING.

TO MAKE IT SIMPLER AND MORE ATTRACTIVE, I ANNOUNCED IN THE BUDGET THE NEW PERSONAL EQUITY PLANS.

THESE WILL ENABLE SMALL INVESTORS TO INVEST IN UK SHARES, IN A SIMPLE WAY, WITH NO NEED FOR RECORD-KEEPING OR DEALINGS WITH THE INLAND REVENUE.

CAPITAL GAINS AND REINVESTED DIVIDENDS WILL BE COMPLETELY FREE OF TAX.

A NUMBER OF COMMENTATORS COULDN'T WAIT TO PREDICT THAT THIS INITIATIVE WOULD NEVER GET OFF THE GROUND.

IN FACT, IT IS NOW CLEAR THAT IT WILL BE A GREAT SUCCESS. I CAN ANNOUNCE TODAY THAT THE INLAND REVENUE HAVE ALREADY RECEIVED OVER A HUNDRED APPLICATIONS FROM FIRMS WHO WANT TO RUN PERSONAL EQUITY PLANS, AMONG THEM EACH OF THE BIG FOUR CLEARING BANKS AND OVER THIRTY FIRMS OF STOCKBROKERS.

I AM LAYING THE DRAFT REGULATIONS FOR THE SCHEME BEFORE THE HOUSE TODAY, SO THAT SUBJECT TO APPROVAL, IT CAN BEGIN ON 1 JANUARY NEXT YEAR.

A SECOND AREA WHERE WE ARE BUILDING ON SUCCESS IS PRIVATISATION.

OUR PRIVATISATION PROGRAMME IS A HISTORIC ACHIEVEMENT. IT HAS BROUGHT BENEFITS TO CONSUMERS, INVESTORS, EMPLOYEES, MANAGEMENT, AND THE ECONOMY AS A WHOLE. IT IS BEING EMULATED THROUGHOUT THE WORLD.

ALONG,
DURING THIS SESSION OF PARLIAMENT, BRITISH GAS, BRITISH AIRWAYS, ROLLS ROYCE, AND THE BRITISH AIRPORTS AUTHORITY WILL BE PRIVATISED, SO THAT BY THE END OF IT THE STATE COMMERCIAL SECTOR WILL BE DOWN TO LITTLE MORE THAN HALF OF WHAT WE INHERITED IN 1979.

THIS, OF COURSE, IS A POLICY THE LABOUR PARTY CAN'T STAND.

THEY DON'T LIKE THE OPPORTUNITIES IT HAS BROUGHT FOR MILLIONS OF PEOPLE TO OWN SHARES.

LABOUR DON'T WANT TO SEE THE EXTENTION OF SHARE OWNERSHIP ANY MORE THAN THEY WANT TO SEE THE EXTENSION OF HOME OWNERSHIP.

THEY DON'T LIKE THE IDEA THAT MANAGEMENT - AND NOT POLITICIANS - ARE RUNNING THE COMPANIES.

NO WONDER THE HEADS OF THESE NEWLY PRIVATISED COMPANIES POINT TO THE DANGERS OF RENATIONALISATION.

AS SIR GEORGE JEFFERSON SAID OF BRITISH TELECOM, "THE RETURN TO A STATE MONOPOLY ... WOULD CLEARLY BE

INCOMPATIBLE WITH CONTINUED PROGRESS IN CUSTOMER CHOICE AND A DISINCENTIVE TO IMPROVED EFFICIENCY."

FOR AREAS WHICH REMAIN IN THE PUBLIC SECTOR, MANY OF THE BENEFITS OF PRIVATISATION CAN BE SECURED BY PUTTING OUT TO COMPETITIVE TENDER SERVICES WHICH WERE PREVIOUSLY PROVIDED IN HOUSE.

THIS HAS ALREADY BROUGHT SAVINGS OF £100 MILLION A YEAR - MUCH OF IT AVAILABLE TO IMPROVE PATIENT CARE IN THE HEALTH SERVICE.

THIS SESSION, AS WAS ANNOUNCED IN THE GRACIOUS SPEECH, WE SHALL LEGISLATE TO MAKE COMPETITIVE TENDERING COMPULSORY FOR A WIDE RANGE OF LOCAL AUTHORITY SERVICES, INCLUDING STREET CLEANING AND REFUSE COLLECTION.

AGAIN, THE COMING YEAR WILL BE PARTICULARLY IMPORTANT FOR THE CITY AND THE FINANCIAL WORLD, AS IT ADJUSTS TO THE NEW COMPETITIVE ENVIRONMENT.

But

EFFECTIVE SUPERVISION IS ESSENTIAL THROUGHOUT THE FINANCIAL SECTOR, AS RECENT EVENTS HAVE SHOWN, AND AS A GOVERNMENT WE ARE DETERMINED TO DO WHAT IS NECESSARY TO ACHIEVE IT.

THE HOUSE DEVOTED A GOOD DEAL OF TIME IN THE PREVIOUS SESSION TO WHAT ARE NOW THE FINANCIAL SERVICES ACT, AND THE BUILDING SOCIETIES ACT.

TO COMPLEMENT THESE, I INTRODUCED ON THURSDAY A NEW BANKING BILL TO MODERNISE AND STRENGTHEN THE RULES FOR BANKING SUPERVISION.

EFFECTIVE SUPERVISION IS ESSENTIAL THROUGHOUT THE FINANCIAL SECTOR, AND AS A GOVERNMENT WE ARE DETERMINED TO DO WHAT IS NECESSARY TO ACHIEVE IT.

THE GROWTH OF THE FINANCIAL SERVICES SECTOR HAS BROUGHT GREAT BENEFITS TO THE ECONOMY, NOT LEAST IN TERMS OF JOBS - TWO MILLION PEOPLE ARE NOW EMPLOYED IN BANKING, FINANCE, AND INSURANCE.

INDEED, THE NUMBER OF EXTRA JOBS GENERATED BY THAT SECTOR SINCE 1979 IS MORE THAN TWICE AS GREAT AS THE JOB LOSSES IN THE MOTOR VEHICLE INDUSTRY.

CONCLUSION

MR SPEAKER, IN THE YEAR AHEAD WE SHALL CONTINUE TO PURSUE THE ECONOMIC POLICIES SET OUT IN THE GRACIOUS SPEECH. THEY ARE THE POLICIES WHICH HAVE ALREADY BROUGHT FIVE YEARS OF STEADY GROWTH AND INFLATION DOWN TO THE LOWEST LEVELS FOR A GENERATION.

THEY ARE POLICIES WHICH THE OPPOSITION ARE COMMITTED TO REVERSE.

BUT I AM CONFIDENT THAT THEY WILL NOT GET THE CHANCE TO DO ~~THIS~~^{SO}, FOR A LONG TIME TO COME, IF EVER; FOR OURS ARE POLICIES WHICH HAVE CAPTURED THE IMAGINATION OF THE BRITISH PEOPLE.