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LABOUR PARTY

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TEN DOWNING STREET
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INTERVIEW WITH GERALD KAUFMAN

Programme: WORLD AT ONE
Station: BBC RADIO 4
Date: 17.06.91
Time: 13.04
Duration: 4 minutes 50 seconds



JAMES NAUGHTIE: (Presenter)

So what do the Opposition parties here at home make of the latest proposals, and how do they fit into the overall political debate here about Britain's role in Europe? In our Westminster studio now is the Shadow Foreign Secretary Gerald Kaufman. Mr Kaufman, first of all, do you support the Government in blocking what appears to be the Luxembourg proposal for a move to some kind of federal structure?

GERALD KAUFMAN MP: (Shadow Foreign Secretary)

The government reacts in a negative way to everything that is proposed at the European Community. What Luxembourg is proposing is a proposal by one country of the twelve. Others may support her, others may not. We have to look at these proposals in the context of moving forward in the two intergovernmental conferences. We're nowhere near ready to consider the possibility of a federal Europe, and as far as the Labour party's concerned, we first of all want to get the two intergovernmental conferences now going on to be right. Any consideration of huge sweeping changes isn't on the agenda at the moment.

JAMES NAUGHTIE:

But you see, Mr Kaufman, I think those words could have come from the mouth of the Foreign Secretary Douglas Hurd.

GERALD KAUFMAN:

Far from it, because Mr Douglas Hurd is in Luxembourg today and his representatives will be at the intergovernmental conferences on both economic and monetary union, and on political union, without a single positive proposal of their own, and this Government is constantly in the position where it has to react to proposals that other countries make, and it therefore, it always is negative. We



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in the Labour party want to make positive proposals, positive proposals for political accountability and a central bank and convergence, positive proposals about greater powers for the European Parliament and more majority voting in the ministerial council. That's the way to go forward. If you're always negative, then you're never going to look positive at all and you're always going to look as though you're blocking things.

JAMES NAUGHTIE:

But what's negative about the hard ecu plan, for example, Mr Major's plan, which is novel, which has been pushed, which has been talked about with other countries, under which he's trying to get a bandwagon moving - I mean, you may not like it, you may think it's wrong, but it's certainly not negative.

GERALD KAUFMAN:

Come off it, Jim. That's been dropped, they're scarcely mentioning it now, they know that it isn't a runner, and it was put forward not as a positive proposal, it was put forward as a way of blocking a central bank and a single currency. The Labour party believes that we should try to get proposals on the central bank which would enable us all to go forward to support such a bank, and we've got support among certain other countries for our proposal that the economic and finance ministers should frame economic policy, which is then administered by the central bank, and is positive.

JAMES NAUGHTIE:

Can you pinpoint the moment for us, Mr Kaufman, when the Labour party decided that a central bank and a single currency was a good idea?



GERALD KAUFMAN:

You evolve, you don't pinpoint a moment. That's the whole point. Our policy has evolved. We were in advance of the Government in advocating membership of the Exchange Rate Mechanism, and if they'd done it when we said they should have done it, this country wouldn't now be in the depths of the recession from which we're suffering. What we have done is to consider proposals, consider that Europe is going to go forward on economic and monetary union whether Britain is involved at all. The question is, do we want them to make the decisions and leave us behind, though our economy and jobs and business will be completely affected by the decisions, or do we want those decisions ones that we can support? The Labour party's made proposals whereby we could become part of economic and monetary union. The Government is just blocking it and is negative.

JAMES NAUGHTIE:

So, to sum up what the prescription is, Mr Kaufman, it is a stronger European Parliament, more majority voting in the Council of Ministers, and a central bank and a single currency which are policed, as it were, by that stronger democratic structure across Europe?

GERALD KAUFMAN:

A central bank, provided that the Ecofin has control of the policy under which it operates, and from then you can consider moving forward to the single currency which is at the end of this process, and nobody has suggested otherwise. Let's get it right, let's move forwards positively, step by step, and we'll get somewhere. But I tell you this, if we go along as this Government's going on, we'll be totally isolated, they'll make their decisions, and just as in the case of ERM, we will be left behind reacting and our economy damaged. And I must say one



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other thing, you gave Mr Major his say, and I was astounded to hear him talk about the charm with which Mrs Thatcher had run the country. He really must be running scared of her.

JAMES NAUGHTIE:

Gerald Kaufman, Labour's Foreign Affairs spokesman, thank you very much.

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10 DOWNING STREET
Our Ref. BOK.16711

PETER DEAN
Your Ref.

*NEIL KINNOCK INTERVIEWED ON MONETARY
CONVERGENCE AND OTHER ISSUES*

Programme: CHANNEL 4 NEWS
Station: CHANNEL 4
Date: 11.06.91
Time: 1909
Duration: 11 mins 30 secs



JON SNOW (Presenter):

Neil Kinnock, if you were Prime Minister now, would you be signing up to European Monetary Union?

NEIL KINNOCK MP (Leader of the Opposition):

No I wouldn't be signing up. I would have been, and would be now, making a very strong case for real economic convergence; not the very limited version that the Conservatives are offering - so we understand - a conversion [sic], mainly of inflation rates, important though that is, but of convergence across a range of indicators: growth rates, deficits and of course unemployment, together with a number of indexes of what the real performances of economies are.

The reason I do that, and the reason why that is an argument that must be won before there is any significant achievement of union, is not only a British reason - though it's very important to us - it is a European Community reason. If we were to move towards an accomplished form of union over a very rapid timetable, without this convergence taking place, it would result in a two-speed Europe, even to a greater extent than now, fast and slow, rich and poor, and the fragmentation of the Community, which is the very opposite of what those people who most articulate the view in favour of integration and union really want. When I put that argument, to my colleagues, for instance, in the Confederation of Socialist Parties, many of whom form the governments in the European Community, there is a real understanding, and a sympathy, an agreement for that point of view.

JON SNOW:

You're playing for the same kind of time, then, as John



Major is.

NEIL KINNOCK:

I don't think that there are timetables, and I think the mistake that's been made is to try and fix dates. Already, what we've seen as a consequence of that is the Germans, because of the huge, seismic change in their country and in their economy, consequent upon their unification, having to argue for the movement of originally postulated dates for the beginning of Phase Two of the so-called Delors Process. And I think, as I made the argument for a long time before, it is issues of substance, performance that must decide what the course is going to be and not the invention of what can be quite synthetic dates that don't bear a real relationship either to the movement of economies in the European Community or the reality of the world state of economy.

JON SNOW:

But the picture we have is of a Conservative government apparently dragging its heels whilst all the other governments in Europe are ready to move forward: where do you differ?

NEIL KINNOCK:

I think that the Conservatives have got difficulties with every part of their anatomy, not just their heels. We're seeing them confused, to the point almost of paralysis, with John Major's policies and Norman Lamont's attitudes being dictated, not by the welfare of Britain in the European Community, or the wider Community argument, but by the need to try and keep disparate factions in the Conservative Party at bay. That's not a good basis on which to conduct strategy.



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So far as the difference between us is concerned, there is a very significant difference - I wish there wasn't. But the difference is that, whilst they are willing to wait for convergence, we will work for convergence; and that's what our industrial policies for strengthening the competitive economy, for improving education and training, for investing in R & D and new technology are all about. We've got to make our way.

JON SNOW:

But you'll still be standing alone, in that sense.....

NEIL KINNOCK:

No...

JON SNOW:

...because other people in Europe don't seem to be seeing it that way.

NEIL KINNOCK:

No, they're not carried away by a tide of enthusiasm for some abstract vision of constitutional rearrangement or the implantation of a monetary union. They actually want movement in that direction because they perceive it as being of advantage to their individual economies and the regions of their economies and the overall economy of the European Community. Alright, it's a fair argument that they make, and one can have sympathy with parts of the argument; I still maintain, and secure agreement to the view, that it is in the realities of performance and the degree of upward convergence, improvement and convergence, that we should be finding the real basis for the impetus towards a different shape in the European Community and the integration of economies. That's the sensible thing. As I say, I repeat it in order to emphasise, the alternative is some system of



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contrived union with....limited to a number of countries of the Community, which is a guaranteed formula for the fracturing of the economy.

JON SNOW:

So December and next year are really out of the question?

NEIL KINNOCK:

I think that, by December, what the British government will be sucked into is some form of dirigation: I think there are huge differences built into that, because what they are then doing is giving away the most basic negotiating stance that they should have, in order to play their full part in the determination of the pace and direction of movement in the European Community. If the rest of the countries know, somehow, due to deals done between themselves and collectively, that they can set aside a country that is making a strong argument for convergence, then, of course, our influence - which is vital to the future welfare of our economy and our society, as well as the part we play in the Community - our influence is demoted, and we are much more the subject of the ebbing and flowing of the tides of the European Community economy and the wider world economy. I think that that would inflict disadvantage. We are part of the Community, we must play our full part in the Community, but the idea of standing aside and then being overborne by a shadow of a more united Community is something that would work to everybody's disadvantage.

JON SNOW:

Domestically, within the Party though, you're only a bit more united than his is.

NEIL KINNOCK:

No, that's not the case; and I think that, on any measure,



there are people in our Party, residually, who are antagonistic to membership of the European Community and use the tactical argument - they've got every right to do so - that further movement in the direction of integration would work to our disadvantage. They constitute a very small number, and certainly we don't have the schism that runs right down through the Conservative Party, with hostility between the different factions that you can actually taste when you get close to them.

JON SNOW:

Another good poll showing, a ten-point lead, but the closer inspection of the polls doesn't reveal the same confidence in your capacity to handle, for example, the Health Service, or the economy - the economy shows less well than health, for example.

NEIL KINNOCK:

Yeah, that not's surprising, we're in Opposition. As it happens, today's standing, and I think, I think it was the Gallup standing recently, I'm not sure which one it was, actually was an advance on people's perception of the Wilson Opposition, Labour Party Opposition, back in the early '60s, and their competence to deal with the economy. So I think it's partly being in Opposition. What is interesting I think is the way in which you then look at the components of what would constitute a competent and successful economic policy, and people's attitudes then are rather different. If you look at investment, training, employment, education, commitment to the infrastructure and so on, we have leads, some of them quite sensational leads, over the Conservatives in that; and really what's being tested with the question about competence is a measure of sentiment - and I think I understand the reasons why it comes out in the way that it does: on the hard individual



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issues of component policies required to produce a competent economic performance, we do not only better, but much, much better than the Conservatives, rightly so after twelve years of utter waste.

JON SNOW:

What would you be doing about the banks?

NEIL KINNOCK:

So far as the banks are concerned, they are only in part, I think, to blame for the present, awful pressures being felt by business generally and small businesses in particular. The main, basic cause of course for the heavy interest charges being cripplingly employed against small businesses is the very high rate, the very high base rate, which has been higher for longer than under any government. Now that means that everything above that, there's an extra impasse; and the second reason why there's particular difficulty now of course is financial deregulation. The idea behind it was that it would promote competition, and so to an extent it did, but a competition in lending. So we've got overlending. The other effective deregulation....

JON SNOW:

But what would you do?

NEIL KINNOCK:

Well I think it's important to put it in context, and I'll tell you exactly what we would do and will do immediately after - this is the last point on the description, as it were. Deregulation has meant that, instead of having separate borrowing - or separate lending accounts between strictly defined international lending and domestic lending, the banks have got the two together, with the result that when losses or difficulties are encountered in



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the international sector, then they are recouped in the domestic centre and the consequences are obvious. It's one of the reasons why, as the Bank for International Settlements judged yesterday, British margins are the second highest in Europe and amongst the highest in the whole world.

Now, what would we do? The major - the major - thing to do is to introduce our National Investment Bank, for two reasons. One is, it would provide the form of advice and association with borrowers in business that is sadly lacking too often, not always, in banks now; and secondly, and even more importantly, we wouldn't subsidise lending, but what we would do is to have lower margins so that we were actually sponsoring and assisting, by lower margin - still the loan repayments coming in of course - the....

JON SNOW:

No tax breaks on mortgages?

NEIL KINNOCK:

...the opportunities. Tax breaks on mortgages? Business mortgages?

JON SNOW:

Domestic mortgages.

NEIL KINNOCK:

No, the proposition we've made over several years, now picked up in this year's Budget by the government, was to limit mortgage tax relief to the standard rate. This was condemned just exactly a year ago, funnily enough, by John Major in the Tory Conference in Wales - all seven of them - as being a dreadful possibility of these awful socialists; and, of course, they did it in the Budget this year.



JON SNOW:

One last, quick question: have you peaked too soon? Could be an election next year, could be a year from now.

NEIL KINNOCK:

No. I'm glad it can't be more than a year from now, because I think that Britain has just about had enough of Conservative government and suffered long enough. I hope it's much earlier than that, I hope now that it will be in the autumn. We haven't peaked too soon, in fact I think we probably haven't peaked yet. We have got a rhythm, an impetus, an energy, as you've seen from the number of launches, the repetition of policies, the development of policies, that means we can extend our run from, if you like, the 8000 metres to the half-marathon to the marathon and still get through the winning tape first.

JON SNOW:

Neil Kinnock, thankyou very much indeed for joining us.



Press Information

from the office of
Rt Hon Neil Kinnock MP
Leader of the Opposition

Embargo:

STATEMENT BY RT. HON. NEIL KINNOCK M.P., LEADER OF
THE LABOUR PARTY, AT A MEETING OF THE LEADERS OF
THE SOCIALIST PARTIES OF THE EUROPEAN COMMUNITY.

LUXEMBOURG, 3RD JUNE 1991

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Labour

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delivery basis and any portion of the speech not
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and confidential.



Economic and Monetary Union

It is clear that the EC partners are moving toward agreement on the establishment of a single currency. It is also clear that the way in which that goal is to be reached, and the institutions by which it should be managed have not yet been finalised.

I emphasise, as I have on previous occasions, that in these circumstances it is more vital than ever that there should be no concession to the idea that Britain would or should accept second division status in the Community of the future. To make such a concession would clearly be to reduce Britain's influence - both on the form and substance of any Economic and Monetary Union treaty, and on any activities in the periods preceding and following such a development.

So much is obvious. But from all recent reports it seems that the Conservative Government's approach to these negotiations is to go on sending mixed messages from speeches made on the sidelines and clinging onto its "hard ECU" expedient whilst having no real firmness of purpose. Such activities do not constitute effective participation in vital decisions affecting the future of our country and the future of the Community.

That cannot be acceptable to any shade of opinion. It risks marginalising our country, putting us not "at the heart of the Community", but near its tail.

Labour's objectives for the IGC are, as we have made clear:

1. The linkage of progress toward Monetary Union to real convergence within the Community.

To ensure the long-term stability of the Community, convergence must be defined in terms of the ability of all member states to maintain adequate rates of growth and employment without incurring unsustainable current account deficits. This Confederation's commitment to an EC monetary policy whose "first aim is stability . . . and maintaining currency value" pursued with account taken for "the promotion of a high level of employment" is, of course, a direct expression of that view of convergence.

Achieving such convergence will, of course, take time. But since such progress must be the major determinant of the value and success of any Economic and Monetary Union, it must also be the factor which determines the pace of movement towards Union.

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2. The strengthening of the role of ECOFIN - the Council of the Finance Ministers of member countries, all of whom are accountable to their national legislatures.

ECOFIN should be responsible for overseeing monetary co-ordination in stage 2 - however long that stage proves to be in practice and whether it really starts in 1996 or 1997 or even later. This would be far more effective than leaving the task to the nascent European Central Bank (Eurofed).

Monetary policy strongly influences all aspects of economic policy and therefore cannot and should not be completely detached from democratic decision making. The day-to-day management of monetary policy must be the responsibility of Eurofed. However, having acquired strategic experience during stage 2, ECOFIN should be designated as the agency which formulated the medium-term monetary strategy of the Community, and to which the Eurofed is statutorily responsible.

The fact that ECOFIN is to be responsible for the exchange rate policy of the Community is another reason why it must also have a strategic role in the formulation of domestic monetary policy. The pretence that the Community can somehow separate internal and external monetary policy ignores the reality that exchange rates and interest rates are interdependent. All participants in the current discussion must face up to that fact. It is basic to the conduct of a coherent monetary policy for the Community, just as it is for an individual country.

To fulfil these tasks it will be necessary for ECOFIN's authority to be enhanced, its consultation procedures extended, its secretariat strengthened, and its deliberations made subject to public scrutiny.

3. To achieve new measures to strengthen economic and social cohesion within the Community.

The completion of the Single Market will obviously produce significant restructuring in European industry. Because of the consequent changes it will be essential to ensure that measures to strengthen economic and social cohesion go beyond enhancement of the regional and structural funds, to include direct measures to tackle unemployment. This is not just in the interests of the poorer members of the Community: it is necessary to achieve balanced growth, to limit large-scale migration, to avoid deflationary pressures in the Community as a whole, and to prevent fragmentation of the EC.

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4. To secure the location of the Eurofed in London.

Given the predominant role of London as a monetary centre, particularly for dealings outside the EC, and given the need for effective monetary regulation within the EC, it is clear that Eurofed should be in London.

It is obvious that monetary union cannot be imposed upon any of the democracies which make up the European Community. The possibility of Monetary Union will necessarily be subject to the approval of the new treaty by each member state and its legislature. Equally, it is the responsibility of every government to state clearly in the meantime whether it is prepared to recommend acceptance of the programme which it has ostensibly helped to negotiate.

The British Government should tell the British people how it proposes to exert the influence necessary to safeguard the interests of the British people, and to tackle the related issue of preventing great disparities across the member states which would threaten the integrity and progress of the Community.

The Chancellor of the Exchequer has not done that.

Instead of engaging in the substance of the debate, he has declared that there are two - and only two - alternative routes to Monetary Union. He says that his Government rejects the route of "imposition" of Monetary Union "prescribed by the centre or by governments", and favours the alternative of a "market-based and market-driven" route to Monetary Union.

It is a false choice, of course.

In a Community of democracies, no member could or should accept prescription or imposition by other countries. And, equally, no member should accept dictation by the market.

The market has many qualities in shaping and direction commercial and economic decisions by producers, traders and consumers. But it would not be fitting for developments which shaped a gigantic and historic enterprise like the establishment of a Monetary Union in the European Community to be left to market mechanisms, market sentiments, market behaviour, and market makers who are under no obligation to serve any public purpose or account to the public will.

The Chancellor may well argue that greater economic convergency is a necessary pre-requisite of Monetary Union - although frankly we in the Labour Party have been making that case rather longer and with greater force than he has. But what he cannot then do is to declare that if his motor for Monetary Union was the market - not known, of course, for its interest in real economic convergence - all would be well.

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To leave movement toward a single currency to a process which is "market-based and market-driven" is not to retain sovereignty.

It is not even to pool and share sovereignty through a mechanism of joint decisions, strategy and accountability.

It is to award sovereignty wholesale to the market and thereby to accept imposition and prescription by the "hidden hand".

Surely no government which claims to want to ensure that acceptance of a single currency is made dependent upon the will of its parliament, and which rightly abhors "imposition", could possibly accept that such prescription by the market was tolerable. At least, no Government could take such a view with any consistency or integrity.

That is, I suppose, what explains Mr Lamont's position. His declarations are not made in order to specify a coherent strategy. They are made to try to keep the factions in his Party at bay. Since everyone inside and outside the Conservative Party knows that, he is unlikely to succeed with the tactic for long. Much more important, he is unlikely to do much to advance the valid case for convergence of real economic performance and to firmly impress upon Community partners the view that a two-speed Community would not just be bad for individual members, but severely damaging to the Community as a whole.

Enlargement of the European Community

I said earlier that the pace of progress in the European Community must be determined largely by the speed and breadth of convergence in economic performance. There is also another consideration which will influence the pace of change.

In this decade the issue of enlargement of the Community to include other western European and Nordic countries will be decided. Clearly it is not a matter of whether, but of when. The whole rationale of the European Community forbids the idea that it should be confined to twelve members. And that is particularly true when neighbouring economies that have long been integrated with those of the Community are now eager to enjoy full Community status.

There are those, of course, who have offered arguments for the enlargement of the Community because it suited their real purpose of securing delay in integration at any price. There are others who have taken a position against the enlargement of the Community because they desire to accelerate integration at any price.

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But the case for enlargement stands on its own and is propelled by its own logic of interdependent economies and the community of democracies.

And the case for integration stands on its own feet because it is a recognition of the facts of modern economic life and a coherent attempt by a Community to ensure that the market works in the service of humanity and is not sovereign over humanity.

The encouragement of a steady and controlled course of integration simultaneously with a negotiated and prudent enlargement is the combination which will most benefit the current Community of Twelve and the future Community which, as it embraces more countries, will become more thoroughly European.

The G7 and the Soviet Union

The relationships between the European Community and the nations of Central and Eastern Europe, and also of the Soviet Union, require rather different and separate consideration, and we will doubtless return to that on other occasions.

I want to take the opportunity of this Confederation meeting, however, to say that I hope the members of the G7 will invite President Gorbachev to attend their London Summit. He could not, of course, be there as a full participant. But it would be the place to discuss the current circumstances of the Soviet Union, the prospects and possibilities of reform and reconstruction, and conditions for the extension and specific use of Western economic support.

President Gorbachev said last Wednesday that he favoured making the Soviet economy serve the needs of the individual rather than being "overburdened with military spending". His words are not simply offered with the seal of good intentions, they are offered with the force of desperate necessity. If the Soviet Union does not get money and methods from the Western economies it will slip deeper into complete economic breakdown and social and political turmoil. The effect of both would not be felt only by the people of the geographical expression still known as the USSR - a fact which is clearly recognised in NATO and the EC, as well as in individual countries, West and East.

It is against that background that it would be sensible for the G7 to have Mr Gorbachev present for discussion of a "Grand Bargain", which must, in effect, be a business plan - the kind of agreement which, on a smaller scale, financiers would make with an enterprise seeking to invest in restructuring for the purpose of increasing efficiency and production. Since reform and disarmament must be inextricable parts of action to improve performance in the Soviet Union, they must be central to any agreement.

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That is the constructive basis on which relations between the G7 and the Soviet Union should be conducted. And, lest anyone think that the only advocates of this sort of approach are the German Chancellor, the French President, Jacques Attali and the British Labour Party, I offer these words:

"I often hear the question: how can the West help us today? My reply is as paradoxical as the whole of my life has been. You can help us most of all if you help the Soviet Union on its irreversible, but immensely complicated road to democracy".

That was President Havel of Czechoslovakia speaking to a joint session of the United States Congress. Nothing could be more articulate than the words of the former victim of Soviet repression. Nothing could be more wise than the counsel of a democrat, a believer in the market system and the mixed economy, and a man of unsurpassed humanity, who leads a nation placed between the Western economies with their vitality and advanced technology and the crumbling giant of the Soviet Union.

I have made calls before for the establishment of a new "Marshall Plan" for the Soviet Union that is related to economic and constitutional reform. It is now my Party's policy. And we take the view that careful, linked, targetted and monitored though the application of such an aid plan must be, it should not be so slight or slow as to be ineffectual.

There are natural hesitations about making a comprehensive aid commitment and the advice that money should not be given to someone with holes in his pocket is valid.

But equally valid is the view that it is not much use offering bricks to someone on condition that their house is soundly built first. And that is specially true when their unsound building could collapse and cause damage to yours.

The task of securing change and progress in the Soviet Union inevitably involves great stress and it will not be accompanied by an easy consensus.

But the alternatives for the peoples and governments of the USSR are between upheaval and unemployment with development, and collapse and endemic poverty without development.

They are stark choices. A middle way of uncomfortable but relatively calm stagnation is not, in reality, open. Whatever the illusion of the conservatives and the time-servers, standing still means sliding backwards.

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In the West we have a direct and material vested interest in doing what is possible to help to stop this slide. Now is the time properly to test the Gorbachev government's declaration that they "do not want to have untied loans and credits. That is not", they say, "the main channel to support us. It should be co-ordinated and linked with our move to the market".

And the time and the place to pursue that prospect is at the G7 Summit. If that much is not ventured, little will be gained - by West or East.

Press Information


from the office of
Rt Hon Neil Kinnock MP
Leader of the Opposition

Embargo: 7.30 pm

SPEECH BY THE RT HON NEIL KINNOCK MP, LEADER OF THE LABOUR PARTY,
IN THE GORDON THOMAS SUITE, MANCHESTER AIRPORT

21st February 1991, 7.30pm

Press and Broadcasting Secretary:
Julie Hall 01-219 4151 01- 672 6188 (home)

Labour 

All news releases are issued on a check against

TAXATION AND PUBLIC EXPENDITURE : THE FINANCIAL POWERS
AND LIMITS OF GOVERNMENT.

In recent months, the Government, to its considerable discomfort, has had to recognise fact that its financial and political powers are more severely limited than it previously believed.

It is being forced to face the fact that it cannot maintain what the previous Prime Minister called the "flagship policy" of the Conservative Party. They cannot keep the Poll Tax.

The task of trying to produce a feasible alternative is resulting in considerable contortion and not a little stage management.

From what we read in the Press it now appears that something is emerging. There are ideas of a mixed tax. In best Hollywood epic style - from the Government that brought you the Poll Tax to replace the Rates comes a new spectacular : the Poll Tax plus the Rates.

Anyone who thinks that improbable had better exercise caution.

When Michael Heseltine can say without a blush "it is not for me to take my personal views and try to elevate them over those of the Cabinet", anything is possible.

Clearly the power to introduce that double charge or any another charge exists.

When the system has increased local taxation for a huge majority of people, has cost more than £10 billion to administer, rather than producing extra public services has done the opposite, the need to make a change certainly exists.

The only question is whether the right form of charge will be chosen. That is an inescapable question.

To govern is to make choices.

And whilst the choices that a democratic Government must make display its powers, they also show clearly the limits to those powers.

Nowhere is this more clear than in the choices which must be made in setting the balance between taxation

and public expenditure - between getting and spending.

It is what defines the nature and purposes of a Government.

A Government with the intention of using its democratic power to promote economic efficiency and social justice will use both its ability to tax and its ability to spend in pursuit of those objectives, in a co-ordinated fashion that recognises the limits as well as the possibilities of both.

A Government that believes that it exists to reduce both taxes and spending in the conviction that the result will - of itself - promote efficiency and - indirectly and residually - social justice, will act accordingly.

That, clearly, has been the choice of the present Government.

Every year as the economy has grown and new resources have become available this Government's reaction has been "cut taxes" - whether those resources, the "growth harvest", could have been better used for other purposes or not.

And, simultaneously, their policy has been to cut the value of public spending whatever the result in terms of effects on hospital wards, schools, transport congestion, or increased poverty.

The results have been negative and contradictory.

The Government that declared itself to be on a mission to cut public expenditure, to "roll back the State" and to cut taxes has in each case achieved the opposite.

Public expenditure as a proportion of GNP first went up, then down, and is now on the way up again. In 1979 when the Conservative Government took office, it was 43%. By 1983 it had gone up to 47%. By 1987 it had fallen back to 43% again. Now, after a dip it is rising sharply again, and will exceed 43% in 1991.

But those rises in public expenditure have been not been on combatting want or raising standards of production and performance. They have been almost entirely due to the social results of economic policies which brought higher unemployment and the costs and losses associated with it. And those policies have also, of course, made more people than ever dependent on the State.

Meanwhile, the highest pennant on the Government's

flagstaff has carried the legend "cut taxes". But, as I shall show in detail later, tax as a proportion of GNP is higher now than when this Government came into office in 1979 - 37% instead of 34%.

In short, the consequence of a dozen years of policies that treated both public spending and taxation as inhibiting of enterprise and general prosperity and so inherently wrong, has been a rise in the proportion of public expenditure and a greater burden of taxation.

Clearly, there has to be a different direction and I want this evening to outline the Labour Party's approach to getting and spending, our approach to the financial powers and limits of Government. I want particularly to spell out the criteria which we believe should be applied to taxation and to public spending in our pursuit of economic efficiency and social justice.

An important point of departure is that taxation and public expenditure should be considered together. Treating taxation on its own, without considering its consequences for spending makes it appear that taxation is a deadweight loss, a levy that makes people poorer.

But modern roads, decent education, a National Health Service, police and fire services do not make either individuals or the country poorer. On the contrary it is deficiencies in any of those or other vital services that impoverish society.

The error of discussing taxation and spending separately is easily exposed by the basic facts of modern life.

The mistake of separating consideration of taxation and of spending is further shown - indeed it is compounded - by the way in which the Government runs the national finances.

In November the Government presents its Autumn Statement outlining its spending plans.

Then 4 months later, in March, the taxation necessary to finance those plans is spelt out in the Budget.

This is not a sensible way of organising our public affairs.

It would be far better to use the Autumn Statement as a means of opening up economic debate, assessing the state of the economy and spelling out priorities and options. And then at Budget time the content of taxation and spending should be determined together.

TAXATION

I will turn now to Labour's approach to taxation.

Any Government coming into office has to make changes to the tax system.

This is not only because its objectives will be different from those of its predecessor - as ours most certainly shall be - but also because the economy is changing.

Stamp duty may have been a prize-winning idea in the reign of William and Mary, but it would be a stupid way to try to raise a high proportion of revenue in a modern economy.

The challenge of making our way in Europe will also change the way in which we think about taxation.

When considering the way in which change must be made the first matter-of-fact point to make is that there is something that neither we nor anyone else can do, and that is to say, in advance of our first Budget, what will be the precise structure of a future tax system

When asked to do a something similar on behalf of the current Government last June, Sir Geoffrey Howe said that such a question "beats all records for stupidity" and that "One matter that Chancellors of the Exchequer like ... to reserve to their Budget statement is the level at which income tax will be fixed for the year ahead"¹.

Whatever the reasonable difficulty of announcing income tax levels in advance, however, three general features of taxation are clear to all.

First, taxes are unpopular. Nobody actually likes paying taxes.

Second, as my father long ago advised me - with of unemployment and low income to give him authority - "There is only one thing worse than having to pay taxes, and that is not being able to pay taxes".

Third, taxes are inevitable.

And that being the case, taxation policy should at very least be focussed strongly on mobilising the country's

¹ Hansard, 7 June 1990, col. 783.

resources in the fairest and most efficient way to pay for those goods and services which can most efficiently be provided by Government.

Remembering that Government's money is the people's money, not its own, what we are after is the most efficient combination of taxation and spending - a combination which has a beneficial effect not only on the quality of our society, but on the workings of our economy too.

The benefits of tax-financed expenditures for essential public services are obvious to anyone who compares, for example, the cost of our Health Service with the manifestly inefficient and enormously expensive American health system - a system from which the present British Government seems to believe we have something to learn.

But equally there is no doubt that taxation at the wrong levels and in the wrong places can damage economic efficiency. Excessively high taxation can demotivate and encourage evasion. That is why Labour favours an approach in which moderate tax rates are applied to a wide tax base, as opposed to a system in which very high taxes are applied to a few activities - the main consequence of which is the appearance of lots of loopholes.

Of course there are some "loopholes", some concessions, which can have positive purposes and positive effects.

The discriminatory lower rate of taxation on lead-free petrol is an obvious example.

And there will be tax advantages in Labour's scheme to allow companies to reduce their corporation tax payments by increasing their investment in training or research or the new technologies. If companies make use of that "loophole", that incentive to invest, they and our economy will be made more competitive.

But the use of the tax system in this way should always be approached with care. Too often tax allowances for seemingly useful purposes are used to shift what should be a fair share of the tax burden from best off to the rest.

Knowing that one person's tax allowance is another's tax obligation any system of allowances must be justifiable on grounds of social equity and economic efficiency. If that is not the case, allowances become arbitrary and preferential.

They become a form of patronage unfitting in a modern society.

With these considerations in mind a Labour Government will apply three basic principles in operating its tax policies.

First, taxes must be seen to be fair, which means they must be related to the ability to pay.

Nothing is more certain to create public cynicism and demotivation than a tax which is obviously unfair. That is graphically demonstrated by the experience of the Poll Tax.

But the Poll Tax is now just the very prominent tip of an unfair tax iceberg.

The overall tax burden - as I indicated earlier - is now higher under the present Government than under any other peace-time government.

Comparing the current burden of taxation to the level when Labour left office, taxes are about £14 billion a year higher. That is the equivalent of £650 a year - £13 a week - in extra taxes from every man, woman and child in this country.

And not only has there been an increase in the overall tax burden, there has also been a shift in that burden.

Before the past decade, the top 10% of income earners paid a higher proportion of their incomes in taxes than did someone on average earnings.

They now pay a significantly lower rate of tax than the average.

Every change the Conservative Government has introduced, whether it was the rise and extension of VAT, the changes in income tax rates, the increases in national insurance contributions, or the replacement of rates by the Poll Tax has shown a consistent pattern:

Every change has manifested a preference for the very best-off and a resulting disadvantage for everyone else. They have operated a steady bias toward cutting taxes for the wealthiest, and consequently increasing the burden on the ordinary taxpayer.

That order of priorities clearly must be changed in the interests of equity. It must also be changed in the interests of efficiency.

The second principle of taxation that Labour will apply therefore is that taxation should promote economic efficiency.

For 12 years in Government - and more years before that - the Conservatives have claimed that their policy of transferring the tax burden away from the well-off and onto the ordinary taxpayer is economically efficient. They argued that cutting the taxes of the wealthy not only created incentives for them to produce more wealth and thus enhanced national prosperity, it also met social obligations by promoting a "trickle down" of income to the poorest members of our society. They claimed that making the rich richer, even made the poor richer as well.

The story is quite simply untrue in all respects.

A study of the reaction to top-rate tax cuts amongst, of all people, top accountants, published this week¹ has demonstrated that top-rate tax cuts did not result in them working harder. The study did find a small relationship between tax cuts and an increased number of holidays.

On a national scale, the decade of tax cuts for the wealthy has been the period with the lowest average rate of growth of our economy since the war - so there's not much evidence there of top tax cuts bringing improved national performance.

It has also been a decade in which there has been a sharp increase in poverty.

The Government used to produce figures for what it called "low income families" - the number of people living in families with incomes at below the living standard given by what is now Income Support. Between 1979 and 1987 the number of people in this position rose from 6.1 million to 10.2 million.

And not only has relative poverty increased. We now know from the Government's own figures that between 1979 and 1987, the poorest 10% in our society suffered an absolute drop income. And all that was before the so-called "Fowler Reforms" bit into the living standards of the poor, and it was also before the Poll Tax.

1. Prof. C. V. Brown and Prof. C. T. Sandford, *Taxes and Incentives: The effects of the 1988 cuts in the higher rates of Income Tax*. IPPR Economic Study no. 7, February 1991.

In short, the "trickle down" has not happened and will not take place. On the contrary, the poor have got poorer, the rich has got richer, and everyone else has, relatively, stayed just about the same.

The real product is, of course, that those on lowest incomes have not just moved into penury, they have moved nearer to powerlessness too. It means that millions of our fellow citizens are part of a materially disadvantaged and socially disenfranchised "underclass".

They are clearly not "citizens" in the full sense of that democratic word. They are perpetually short of necessities. And lest anyone think that this is the complaint of a well-intentioned progressive in the last decade of the twentieth century, I enter as evidence of a long lasting and well argued case for ensuring the provision of necessities :

"By necessities", said Adam Smith, "I understand not only commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for a creditable people, even of the lowest order, to be without."

We do not need to speculate on what would have been Master Smith's reaction to Mr Major's Social Fund. "Indecent" would have been the least of the charges.

The creation of the underclass - where adults are cut off from opportunities to better themselves, the capabilities of children are consequently stifled, and poverty of pocket and spirit becomes self perpetuating - is not just socially repugnant. Economically, it is grossly inefficient.

To recognise that is not to excuse fecklessness or irresponsibility where it exists. It is to say that even if the national taxing and spending system cannot be expected to raise those who do not want to be elevated, it really should not relegate those who deserve and aspire to do better. Now it is.

Our third principle to be applied in tax policy, is that a tax system should be simple and cheap to administer, with certainty about the revenues to be raised.

Nothing proves the case for that approach better than the Poll Tax and the prodigious waste of money spent on introducing it, collecting it, failing to collect it, and trying to dilute it.

Attempting to collect a tax from people who cannot

afford to pay it, or whose circumstances change more rapidly than the system can cope with, was bound to result in high collection costs. To date establishing, administering and trying to mitigate the Poll Tax system has cost central and local Government - that is the taxpayer - £10 billion, £7 billion more than the rates.

Someone, somewhere in the new liberal Right really should have heeded another of Adam Smith's maxims. "A Poll Tax upon free men," he declared 212 years before the Local Government Act of 1988, "is either altogether arbitrary or altogether unequal, and is in most cases both one and the other".

Taxes must be fair, simple and cheap to administer, and economically efficient. These are the principles which the Labour Government will apply in clearing up now facing Britain.

To that end, the Poll Tax will be abolished. It will be replaced by a modernised system of fair rates - a tax calculated on the basis of property, charged according to the ability to pay.

We will also ensure that the ordinary taxpayers' share of the tax burden will fall.

It is not at all unreasonable or excessive for top rates of income tax to rise to 50% - a level lower than top rates in all the major EC countries.

In Germany it's 56%. In France it's 56.8%. In Italy it's 62%.

And in addition to making that reform of top rate taxes, we will also tackle serious anomalies created by the upper-earnings limit on National Insurance contributions.

At present a family with one earner makes £40,000 pays National Insurance contributions on just half that income, the other half being above the upper earnings limit. That comes to £1,825.

Yet a family of two earners making £20,000 each pays national insurance contributions at 9% on its entire income. That comes to about £3,650 - £1,825 more.

That is quite simply unfair.

We will abolish the upper earnings limit and we will then be able to look at the whole structure of income tax and national insurance contributions in order to establish new tax bands which create a fairer and more

efficient structure of income taxation.

The combined effects of these changes will still leave Britain with one the lowest marginal tax rates on high incomes among the major EC countries, taking tax and social security contributions together. In France the rate is 62.4%. In Italy 62%.

And, as a matter of interest, the combined top rate in Japan is 65%.

In addition to these measures to achieve fairer taxation, we will also be dealing with the breadth of taxation. We want to establish as broad a base for taxation as possible, so that the wider collection of tax ensures that tax rates can be kept relatively low.

This will mean reviewing all the tax breaks and loopholes which the Tories have created within the tax system. The Business Expansion Scheme, for instance sounds like a device for encouraging industrial investment, but it first resulted in the expansion of antiques and fine arts businesses, and now - as we warned at the outset - it is providing tax relief for real estate deals. It must, of course, be changed.

Our purpose is to ensure that, in the instances where such tax reliefs are worth maintaining, no-one can pile relief on relief as they do now, with the consequence that some with the highest incomes and best accountants are able to reduce their tax liabilities to levels well below those paid by the vast majority of people.

As part of the effort to deal with this feature we will consider either setting a cash limit to the reliefs which any one taxpayer can claim, or following the US example of setting a "minimum tax" - a tax which people have to pay that is calculated on the basis of their incomes before reliefs and so prevents complete avoidance by those on very high incomes.

This principle of requiring that "all pay something" should not be unfamiliar to the Conservative Party.

The problem is that it is a principle which the Government vehemently asserts when it involves everyone - no matter how poor - in paying some Poll Tax, but vehemently resists when it involves everyone - no matter how rich - paying income tax. That truly is an upside-down view of taxation in a modern democracy.

In broadening the tax base it will be necessary to replace the Government's policy of under-staffing and under-resourcing tax collection, so that the means

exist to do the job properly. According to the National Audit Office, £5 billion due in tax last year simply was not collected. A few people - a despite the huge figure of tax loss it is a small fraction of the adult population - escape from paying their share. The result is that the rest - the huge majority - pay more. Improved staffing in order to achieve improved collection will clearly be - to say the least - cost efficient. £5 billion is, after all, the equivalent of 3p on the basic rate of income tax, and even the successful collection of half that sum would be a considerable asset.

Taxes on earning and owning, buying and spending, are the subscription universally paid for membership of a civilised and productive community.

The notorious exception to that rule is the Poll Tax, which is a tax on merely existing. Its only virtue is that it provides instruction - I hope for generations - that taxing excessively, using a system that guarantees resentment and has no certain base for its calculation is doomed by democracy itself.

PUBLIC EXPENDITURE

The principles of taxation which I have set out above must now be related to the main principles which will guide our decisions on public expenditure.

Those principles will be :

First, to distinguish between government investment and government consumption.

No private company would be allowed to organise its accounts in the way that the Government does, muddling up current expenditure and capital expenditure into a single cash-flow figure. Indeed, the World Bank does not allow Third World countries to make this elementary error.

Of course, we all know why this Government clings to this outdated accounting method - it is a device for allocating privatisation receipts (the result of capital transactions) to the current account, and so creating a spurious impression of low public expenditure.

With the Labour Government the Government Statistical Office will reorganise the government accounts on a rational basis.

Our second public expenditure principle will be that, as far as capital expenditures are concerned, the

Government must pay due care to the social rate of return generated by capital projects however they are financed, and should certainly only borrow to finance capital projects if they yield a rate of return higher than the rate of interest paid on the borrowing.

That is how, for instance, we should decide on spending on the high speed link between the Channel Tunnel and our major cities. And how we would make our decision on the best approach to financing the project - whether it should be financed by entirely by the Government, or whether our preferred option of a joint public-private sector venture should be pursued.

Third, as a principle guiding public expenditure, the government should ensure that its current expenditure achieves its objectives more efficiently than would be the case if the same goods and services were provided by the private sector, taking expenditure and taxation together. I have already referred to the obvious superior efficiency of a tax-financed Health Service. The same analysis should be applied, for instance, to the public provision of pensions, or public support for training.

It does not prohibit - or even significantly inhibit - private provision.

It does ensure that the resources are directed at the objective and not used up in administration and promotion, and it also ensures that a society and an economy which would be poorer and weaker if such provision was not made through public means.

There is plenty of evidence to show that if public provision did not exist in these and other areas, it simply would not exist at all for the majority of the public.

In a country which did not suffer mass poverty or need skills training that might not matter. Britain is not such a country. In the effort, therefore, to ensure breadth of provision and rising standards of provision the best bargain - product for product - is public provision through fair taxes and focussed and accountable expenditures.

THE POWERS AND LIMITS OF GOVERNMENT

Making choices in Government is obviously never only a matter of mathematical calculation. Government is by politicians and not by actuaries. Political preferences obviously have significance.

But having political preferences does not provide the power to defy arithmetic or the realities of

economics.

A Government which claims that it will make everyone less taxed by increasing the tax burden,

a Government which claims that it will help the poor by favouring the rich,

a Government which regardless of real economic needs seeks minimum charges and spending instead of efficient charges and spending, has neither arithmetic nor economics on its side.

Its preferences may be clear. Neither its prudence nor its numeracy are evident.

Against that background, and with that legacy, what is now needed is a Government that will operate with a strict sense of priority to determine what is needed socially and economically,

will then, with the necessary sense of restraint, determine what can be afforded from contributions that are fair across the breadth of society without demotivating those who have no alternative but to pay and without providing undue relief to those who have the means to avoid payment.

That approach has to be operated in conjunction with an expenditure policy that insists on value in terms of social and economic results, is subject to systematic monitoring and the constraints of affordability, and is exercised without the prejudices either of "cut at any cost" or of "spend regardless of cost".

They are elementary rules and repeating them now is only necessary because they have been so comprehensively neglected by those with the primary authority of taxing and spending, the Government.

Maintaining those basic rules means taking exacting decisions. But elsewhere - notably amongst our neighbours and competitors - those rules are followed and followed with success and with the products of social justice and economic efficiency.

A Labour Government, recognising the powers and limits of Government and the relationship between revenue raising and revenue spending can and will do the same.

UNCHECKED

DENZYL DAVIS - INTERVIEW ON LABOUR DEFENCE POLICIES

Transcript from: BBC Radio 4, Today, 30 September 1986

INTERVIEWER: (Brian Redhead) What is Labour's defence policy, or is there more than one? On BBC television's Panorama last night Mr Dennis Healey, in answer to the question "could we end up keeping American nuclear weapons here if that is what the NATO alliance wanted?" said I would doubt it but it's not inconceivable. Not inconceivable are two words which may haunt the Labour Party for some time. Mr Tebbit for one would not allow it to forget them. So would a Labour Government get rid of all nuclear weapons? Well with me is the Labour Party's Front Bench spokesman on defence, Denzyl Davis. Now, first of all, can you think of any circumstances in which it would not be inconceivable to keep American weapons?

DAVIS: I can't think of any. We have thought out our defence policy. People can disagree with it but we've thought it out on military and defence terms. And we think it's in the best interests of Britain within NATO that there should not be nuclear weapons on British soil or in British waters. That is a defence and a military decision as much as anything.

INTERVIEWER: But even if your other colleagues in the NATO alliance said please hang on to them for a while?

DAVIS: Well NATO - and a lot of this discussion is centring around NATO obviously - but NATO is not the Warsaw Pact. NATO is a confederation of Sovereign States. Now obviously we try and get agreement, and indeed on most things there usually is agreement, but NATO has never laid down that when a country decides, or a country's electorate, decides to back a certain defence policy and that Party gets into Government NATO doesn't say that then there is a veto by all the other countries. I mean there are 14 countries in NATO. It's an extraordinary proposition if one country can veto anything any of the other 14 do. NATO doesn't work

like that.

INTERVIEWER: Now Mr Healey was chopped off in that interview at the end of his sentence and the continuing paragraph which he'd actually recorded - it wasn't broadcast - went on to talk about certainly not under present arrangements. Meaning that he would doubt it that we wouldn't keep American nuclear weapons, certainly not under present arrangements. He went on about bombing Libya. Is he speaking with a difference voice from you or not?

DAVIS: No I don't think so. I think you know from these interviews - not criticising the people who did the programme - but of course I gave a long interview on this programme, no doubt Mr Healey gave a longer interview than what was reported and they have to be cut in the nature of things. So I don't think there's any doubt. He was talking about consultation. Obviously we will talk to our allies about these matters. But, as I've said, our defence policy is clear and we will carry it out.

INTERVIEWER: But is it therefore unwise to have more than one defence spokesman?

DAVIS: Ah well there's only one Brian, I mean I am the Defence spokesman and I am giving it to you straight this morning as it is.

INTERVIEWER: Well Mr Healey gave it to me yesterday morning and indeed accused at one point of not listening to him. But if I understood it properly he was saying that he would like to present a multi lateral policy to the electorate rather than simply a unilateral policy?

DAVIS: Well these are long words aren't they and Dennis is a bit of an intellectual. I try and avoid the words multi lateral and unilateral. Now what we are presenting is a defence policy for Britain within NATO. We are in fact taking into account the changes that have taken place in Europe over the last 30 years. NATO strategy is out of date frankly. It's a very old strategy, the generals like it and the admirals but they never change military strategy unless they have to.

INTERVIEWER: So it is inconceivable that you would cling to any nuclear weapons once you were in power?

DAVIS: Well that's right because we don't really believe that this whole notion of flexible response, first use - and now we're getting into long words again and long phrases - we don't think it makes any sense in Europe today. And if we look to see what happened at Chenovle for instance the idea that you can fire off these American nuclear weapons from British soil or from German soil to try and defend yourself is quite ridiculous. I mean the wind has only got to blow in your direction and you've destroyed 55,000 British troops in Germany. That's not a defence policy.

INTERVIEWER: But you would get rid of them even if you got nothing in exchange?

DAVIS: Well it's not a question of exchange. Obviously if there are discussions, as there will be between the Americans and the Russians, Britain is not at these discussions. These are super power discussions and if they come to an agreement in relation to missiles in Europe or indeed the missiles in America and Russia that is a very good thing. But we are not a party, we've got to decide also within the context of those negotiations our own defence policy. And we think the present strategy is not a good one.

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SPEECH BY RT HON ROY HATTERSLEY MP, DEPUTY LEADER OF THE
LABOUR PARTY AND SHADOW CHANCELLOR OF THE EXCHEQUER, TO AN
NUR/ASLEF CONFERENCE AT CONGRESS HOUSE, ON MONDAY 17 FEBRUARY
1986 AT 11 AM

Local Authorities should prepare their capital expenditure
plans

The overriding aim of the next Labour Government is the maximum reduction in unemployment. Central to our jobs programme is investment - investment in housing, in roads, in sewers, in railways, in hospitals, in schools and in industry. There is a definite and proven need for investment and repair, identified by the CBI, the TUC, NEDO, the Department of the Environment, the churches, the local authorities and the Duke of Edinburgh's working party on housing. Indeed, everyone except the Conservative Government seems to be aware that it makes economic sense to increase investment and make repairs. Unless we invest now we will not be able to generate wealth. Unless we carry out repairs to our roads, houses and sewers the cost to the taxpayer will escalate.

It is also costly to do nothing. Every man and woman kept on the dole by the Government's refusal to invest and prepare for the future costs the Exchequer between £6,300 and £7,000 per year in benefits and lost taxes.

Well before the next election local authorities, British Rail, the Water Authorities and the health authorities should prepare programmes of investment and repair that can be implemented immediately upon a Labour victory. The local authorities' £5 bn of accumulated capital receipts from the sales of council houses and other assets will be released, and will be supplemented with Central Government funds for expenditure which meets two criteria.

First, it must meet a real need

- for new houses where there is a net shortage
- for repairs and rehabilitation where the old housing stock can be improved
- for replacement of decaying hospitals which no longer fully meet the patients' needs
- for the replacement of delapidated schools in which adequate teaching grows increasingly difficult

We propose to produce real money for real jobs.

Second, to qualify, a project must result in the creation of extra jobs. Initially those jobs will be in the construction industry, its supporting services and its suppliers. And the additional demand that the new investment stimulates will work its way through into other sectors of the economy.

But to qualify for extra resources for capital spending a net direct increase in jobs will have to be demonstrated at the time of application. Funds will be provided under the scheme by either low interest rate loans or capital grants. Areas of greatest need will have the full cost of the project financed by central government.

Prudent authorities will be ready with details of carefully costed projects which demonstrate the number of new jobs directly created and the speed with which the work can be done. We will not guarantee investment for schemes which exist on paper without any certainty about the date on which the work will start. So prudent authorities will prepare more than plans. They will need to know that land is available, that management teams are ready, that the raw materials are to hand (where possible from UK suppliers), that training requirements are clearly spelt out and the current expenditure that will be necessary to complement the capital and maintenance schemes.

The funds available for the scheme will not be limitless. And in the drive to fulfil our greatest obligation - a reduction in unemployment - it will not be possible to spread them equally across the country on the basis of some complicated formula. The money will go to those public authorities and agencies which first demonstrate their ability to organise projects within the scheme. Within days of the election of

the Labour Government we will ask for bids within a special programme to expand investment expenditure on repair and maintenance.



10 DOWNING STREET

From the Private Secretary

28 November 1985

**ROYAL COLLEGE OF DEFENCE STUDIES:
LECTURE BY MR. NEIL KINNOCK, M.P.**

Thank you for your letter of 26 November about the Leader of the Opposition's intention to release the text of his lecture at the Royal College of Defence Studies on 29 November, in contravention of the College's normal practice. I am sure you are right that we are not in any position to challenge what Mr. Kinnock proposes to do.

I am copying this letter to Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster).

(C. D. POWELL)

Denis Brennan, Esq.,
Ministry of Defence.

DW

CP
0



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-836 7822 218 2111/3

MO 24/3

26th November 1985

Prime Minister
Agree Defence
Secretary's
view?
Yes
CDP 27/Ki
mt

Dear Charles,

ROYAL COLLEGE OF DEFENCE STUDIES:
LECTURE BY NEIL KINNOCK MP

The Prime Minister may wish to be aware that Mr Kinnock is lecturing at the Royal College of Defence Studies on 29th November on the subject "British Defence Policy - a Labour Party View". This is in accordance with the College's policy of inviting a wide range of speakers, but in this instance we understand that Mr Kinnock may release his lecture and state that it was given at the College.

Such attribution is most unusual and is indeed frowned upon by the College who prefer that all of their proceedings should be treated as strictly in confidence. My Secretary of State does not believe, however, that we are in a position to challenge what Mr Kinnock intends to do; the policy of non-attribution exists principally to protect the speakers not the College; and if speakers wish to take the unusual step of releasing their lectures, we can see no grounds on which we could object. I am sending a copy of this letter to Andrew Lansley (Chancellor of the Duchy of Lancaster's office).

Yours sincerely,
Dennis

(D BRENNAN)

Mr Charles Powell
No 10

MINISTRY OF DEFENCE
WAR BUILDING AUTHORITY, LONDON SW1A 2SR
Form No. 100 (Rev. 1964)



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Labour Party

DENNIS HEALEY -- INTERVIEW ON GOVERNMENT'S ECONOMIC STRATEGY

Transcript from BBC 2, News Night, 26 February 1980

INTERVIEWER : (Peter Hobday) Well Mr Healey how far do you think the Government is away possibly to being forced to change the policies that it's now determined, as we heard from the Chancellor, determined to pursue until inflation, which seems endemic in our system, is in fact eradicated once and for all?

HEALEY: I think that they will make some major changes of policy by the end of the year, but probably not till fairly near the end of the year. They've made some big changes already. I mean he has, Sir Geoffrey, reversed his monetary policy by giving the clearing banks £500 million last week to prevent interest rates from going up. And Mr John Nott has imposed import controls, quite rightly, on American artificial fibres. But I think the big change will come when the full horror of the Government's policies is felt by the small businesses and large businesses which the Government itself relies on for its political support. I think you are going to see a wave of bankruptcies in the second half of the year which will force a shift in policy. You see, the really worrying thing to me is that Sir Geoffrey's not telling the truth when he says that he inherited a bad situation. He published all the figures last week in answer to a question from his Conservative colleague Mr Du Cann in the Select Committee on Expenditure in the House of Commons. And he had to admit the truth, which is that under Labour the money supply supply grew only by 10% a year in the last 3 years, inflation was running under 10% for 18 months before he took office, we had a balance of payments surplus. Now he's telling us we're going to have a balance of payments deficit of £2billion, growth is going to fall 2% this year, although we have 4% extra extra growth on oil and £7,000 million extra from oil too.

INTERVIEWER: But wouldn't you accept that nevertheless that Government spending was getting out of hand despite the cuts that you had pushed through, we had got something like £9,000 million that the Government had to raise to pay if you like the deficit between what it could get in taxes and what it wanted to spend of the various goods and services. Surely we were overreaching ourselves and the Government was right to try and rein in those expectations that had been raised?

HEALEY: Absolute bunk, absolute bunk, the size of the public sector deficit a Government can carry without expanding money supply and creating inflation depends largely on the amount of money that people are saving. Now the savings ~~xx~~ ratio in Britain, as it's called, the amount of their income which people save, has risen substantially in the last 12 months to 17% compared with under 3% in the United States. So if the Government doesn't borrow some of that money and start spending it itself you're going to have the father and mother of all recessions. And what this Government is doing at a time when Sir Geoffrey rightly says the world is moving into recession, we're not using our full capacity, it's creating more unemployment, more bankruptcies, by not making use of our industrial capacity.

INTERVIEWER: Without bothering to debate the philosophy of whether it's monetary or Keynesian policies which cause inflation we have got inflation, it is endemic in the system?

HEALEY: No it isn't, with great respect.

INTERVIEWER: But it's taking off to 18% whatever measures are taken by every Government it seems that inflation takes off?

HEALEY: As you rightly said Mr Hobday, 6% of the inflation we have now is imposed by Sir Geoffrey by doubling the rate of Value Added Tax, by increasing rents and rates and rates

INTERVIEWER: That still leaves 12%?

HEALEY: I know, but we were bound to have some increase in ~~xx~~ inflation last year because of excessive pay increases in the previous year. But since Sir Geoffrey took over we've had pay increases rising to 20%, I mean the biggest earnings increase we've had since the lapse of Mr Heath's policy in 1974/75. We've had an increase in prices produced, as you rightly said, by the Government itself of 6%. Now it's no good the Government on the one hand increasing prices and then raising interest rates to try to bring them down which is what it's doing. It's madness.

INTERVIEWER: But if you were the Chancellor now and you were 4 weeks away from a Budget what sort of Budget would ~~you~~ you produce (introduce) under these circumstances - in a word would it be a very very tough one?

HEALEY: No. I think if I inherited the mess which Sir Geoffrey has created out of a very healthy situation which I left to him 9 months ago, I think the first thing is he has got far too strict a fiscal and monetary policy as the American economists pointed out a week or two ago. There's no country in the world which is trying to run such a tight fiscal and monetary policy as the British Government. I would certainly relax it and I think we could do so without creating inflation. And the most important thing I think is to start working with the British people and not against them to get output up and pay increases moderate. And everything Sir Geoffrey has done has been in the opposite direction.

INTERVIEWER: But you make it sound so easy, why didn't it work last time?

HEALEY: It did work last time. If I can say, we inherited 13% inflation, it rose to 27% as a result, as Sir Geoffrey admits now, o

of the previous Tory Government's monetary excesses and the threshold agreement by Mr Heath. We got it down to 10% at the beginning of 1978 and it was still there 15 months later when the Conservatives won the election and now it has shot up to nearly 20%.

*Support Party
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DENNIS HEALEY - INTERVIEW ON CHANCELLOR'S COMMENTS ON TAX CUTS

Transcript from ITN, News at One, 12 November 1979

INTERVIEWER: ... Mr Healey how do you interpret the Chancellor's remarks?

HEALEY: They're very worrying. He has frankly confessed now that his policy so far has been a failure. But instead of planning to change the policy he's simply going to intensify it and that means that we're going to have on Thursday the highest interest rates this country has ever had, the highest mortgage rate this country has ever had, at a time when we have higher inflation and lower growth than any other country in the industrial world. Now that's no good.

INTERVIEWER: You're talking about an increase in the minimum lending rate and what do you expect them to go up to?

HEALEY: I couldn't say but I think the speculation in the newspapers that it's likely to be at least 1½% to 15½% or maybe 2% to 16% are quite plausible.

INTERVIEWER: There's no other way is there for the Government to reassert control over the money supply,

HEALEY: Well the trouble is you see, that they're trying to run this country's economy with a single instrument; that's to say the control of the money supply. It's like trying to run a car with a brake and no accelerator.

INTERVIEWER: Now the Chancellor appears to be more optimistic about the prospect of an early cut in capital taxes according to his speech this morning. Now would that be a reasonable incentive for recovery say in the private sector?

HEALEY: That seems absolutely astounding to me. You see, the increase

in mortgage rates will take away any benefit which middle class people got from the last Budget. Ordinary people, working people, have never had any net benefit given the enormous increase in the Value Added Tax. Now he has told us ever since he was elected and before, that his aim was to increase incentives for people to work harder by cutting the tax on income and now he says he's not going to cut the tax on income but he's going to cut the tax on wealth. Now there's no incentive there whatever for anybody.

INTERVIEWER: Recently in the House of Commons Mr Tony Benn spoke, and some would say spoke luridly, of the social backlash to what the Conservative Government was doing. I recall a year or two ago you yourself expressed similar sentiments when you spoke of the possibility of there being rioting in the streets when you were under pressure to make massive cuts in public expenditure - are you and Mr Benn in agreement on this?

HEALEY: Mr Benn made some rather surprising remarks to me about the Government relying on the special patrol group of the police rather than the National Enterprise Board and I think that was the sort of rhetorical exaggeration which I would never be guilty of.

INTERVIEWER: No the point I'm making is would you expect thereto be social consequences of that kind from measures which the present Government are taking?

HEALEY: I hope very much not. I myself believe that Len Murray was absolutely right in saying yesterday in Newcastle that whatever the temptation people must not give way to hysterical reactions to this situation. But he also said that the trade union movement must face the real problems of the economy and be prepared to talk about them. Now to me that was an offer to the Government to cease ignoring the trade unions movement and see if they can't find a better way of running this railroad. And it seems to me the most important single thing

the Government can do at this time is to start talking to the trade unions and see if they can't succeed in doing what we did for 3 years, get more common sense on pay, more co-operation in the factories.

INTERVIEWER: Briefly Mr Healey, from your point of view how do you see the economic prospect?

HEALEY: I think they are, to use Sir Geoffrey's word, 'frightening' because I think inflation is likely to reach 20% early next year and will fall very slowly, if at all, in the rest of the year. That, as you know, is a view taken by many forecasting organisations in the City. I think that unemployment is likely to rise by at least the 300,000 which the Government's talking about. And this of course is one reason why it's having to borrow more because it costs £300 million in unemployment pay to look after these extra 300,000 people who are out of work. And I see no chance of an improvement unless the Government is prepared to adopt a more balanced policy, manage demand as well as try to control the money supply and talk to the unions about a more sensible approach to pay. You see they thought they could do it all through controlling the money supply, they haven't even succeeded in controlling the money supply, and the average wage increases this round so far are running at about 18% which is terrifying.

Grey Scale #13



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