

THE RIGHT APPROACH TO
THE ECONOMY

(An outline of the economic strategy of the
next Conservative Government)

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INTRODUCTION

In the 1950s, 'Tory freedom' worked.

When the achievements of Conservative governments in the 1950s are compared with what was happening before the 1951 election, there can be no disputing that. And if it seems strange now to be recalling the events of a quarter-century ago in a work which is primarily about the future, we make no apology for it. Another 'break for freedom' is needed now: yet now our opponents are repeating with remarkable fidelity what was being said by the leaders of the Labour Party about the policy proposals which won the 1951 election for the Tories and were subsequently carried out.

The late Mr. Aneurin Bevan forecast 'housing riots' and - in one speech - civil war. When they were not saying that a Tory government would be at war with Soviet Russia 'within six months', Labour Ministers were threatening the British people with starvation and vastly increased prices if food rationing and subsidies were abolished. Indeed, the then Prime Minister, Mr. Attlee, in a revealing aside in one speech, actually said that if food rationing had been 'good for the people' in wartime it must surely be good for them in peacetime. And - of course - the Tories would create 'massive unemployment'.

Apart from the customary aberrations of Socialist politicians, there were many businessmen in industry and commerce who were less than enthusiastic about the prospect of losing the certainties of regulated markets and being freed from familiar restraints on competition and enterprise.

In the event, of course, the real living standards of the British people rose rapidly. Everyone - not least the pensioners, who had fared very badly under Labour - was better off. At the same time, public spending was reduced and taxes cut. The housing programme surged ahead, people were better fed, and goods became available in the shops - not only for the rich - which had been absent for a decade.

We may be forgiven, then, for regarding with some amusement the precisely similar prognostications being made now by Labour Ministers and others about the likely results of our proposals to reverse - yet again - the familiar Socialist policies of massive public spending and borrowing, high taxation, controls and over-detailed planning.

Of course we are not so simple as to imagine that the circumstances of today are exactly similar to those of 1951 - or that history ever precisely repeats itself. Indeed, in many respects, the economic plight of Britain in 1977 is considerably worse than that of 1951.

But a flashback to 1950-51 is a salutary exercise; for it shows that Labour governments always create the same kind of problems and frustrations - and that Socialists never really learn from their failures in the past. They may be pushed by events - or the IMF - into temporary conformity with the policies needed in a crisis. But their ideology remains unaltered - and next time in office they are at it again.

CHAPTER 1

THE TASKS AHEAD

A golden decade has been promised by the Labour Government to the people of Britain if only they will continue to support Socialist policies. The Conservative Party does not share this complacent view of the future, based, as it is, on exaggerated hopes about the likely benefits of North Sea oil and (we suspect) on an intention to squander these benefits for short-term political advantage. Nor do we rest our policy proposals on such a prospect. We prefer to set out the sober truth about the future.

North Sea oil gives us an opportunity, but only an opportunity, to recover our national strength. In the meantime Britain's economic situation remains extremely serious. In many ways our problems are still getting worse. Between the present day and any better times ahead lies a period of immense difficulty, requiring a change of attitude and some changes of policy.

Yet at least the last three years, while they have brought humiliations and setbacks, have also served to open some eyes and minds to the economic realities in a way that no speeches or warnings could ever do.

The role of inflation as the great destroyer - of jobs, living standards and a stable order - is now much more widely recognised. More realistic views about public expenditure are replacing the naive belief that "government money" can be drawn from some bottomless well, and the imperatives of the IMF have forced the Government to retrench. The evils of high taxation are now much more widely appreciated, and the paramount need for restored incentives more fully recognised. Very recently, it has begun to be understood that there can be no government administered alternative to realistic and free collective bargaining - no escape from responsible bargaining behaviour by both employees and employers in a free society. In this sense the common ground upon which to build new policies has grown encouragingly.

And, despite low morale and a climate deeply hostile to enterprise, some areas of remarkable economic success have continued to thrive and prosper. Not only among the established giants of industry, but in unsung areas of commerce and smaller business up and down the land, outstanding results have been registered. This is especially so in the case of financial, insurance and other services, in agriculture and in many small and medium sized firms whose names never hit the headlines but whose performance continues to show what can be done by a people of ingenuity and strong commercial instinct - if only they can be given the chance.

How then, can this talent and vitality be encouraged to flow back through the whole system? Is there really a single, simple formula which will somehow defeat inflation, create jobs and restore expansion where Labour's "social contract" has failed? Is it just a matter of devising another "industrial strategy" to replace the present one?

Of course not. These policies have collapsed because they have been aimed at the wrong objectives. The diagnosis itself is wrong. A narrowly devised "contract", struck between Government and the trade union leadership, provides no lasting cure for inflation and no basis upon which the whole community can work towards economic recovery. An "industrial strategy", full of internal contradictions and concerning itself only with the impersonal structure and organisation of the economy, is equally unlikely to succeed if it fails to recognise the true springs of business enterprise and the central importance of individual motivation.

The New Context

Reluctantly, the dying Labour Government has been forced to face reality. The attempt to cope with "the pay problem" by sitting on it has given way, quite suddenly, to the restoration of free collective bargaining.

But we have arrived in this new situation in the worst possible way. If free collective bargaining is to work it must be realistic. Those who negotiate round the table must understand and be aware of the restraints within which they are operating, and must have a responsible attitude to those restraints.

Constraints

There must be patient preparation, patient explanation and patient efforts to foster the right climate for responsibility. Government policies - in particular those policies which affect the wage packet directly, such as tax policies - must be carefully shaped to give maximum incentive for realistic pay settlements in both the public and the private sectors.

But what has happened in practice? After insisting for months that the social contract would continue, that a "phase 3" would somehow safely channel all the dangerous pay currents, the Labour Government suddenly finds that it has been washed out to sea. There have been no preparations for this rougher voyage, no warnings, no adaptation of policies, no sign of the new skills required to grapple with this changed environment.

In short, the Labour Government is completely unequipped to deal with the new challenges. It does not understand them. It does not believe in the measures necessary to meet them.

Conservative Policies

By contrast, the Conservative party in opposition has carefully prepared for the kind of situation we now face. We welcome the return to free collective bargaining, although we share the nation's fears at the circumstances in which it has come about.

All our ideas and proposals are designed to reinforce responsibility at work, not to undermine it. To this end the next Conservative Government will bring forward realistic and helpful policies for earnings, incentives and ownership in order to encourage industry and enterprise.

We must reduce substantially the burden of taxation on work and enterprise. Britain has some of the highest personal and capital taxes in the world. This is one league in which we do not intend to remain at the top.

The key condition for success will be an unshakeable commitment to the strictest financial prudence and the tightest control of government spending. This is essential to the control of inflation, and unless inflation can be controlled, nothing will come right.

In everything we seek to do we must recognise the unique importance of each individual in the scheme of things. That is our instinctive outlook and it comes from the roots of Conservative belief. We shall look to people, not corporate bodies and institutions, to individual flair and drive, not to committee analyses and sector plans, to provide the spearhead of industrial and commercial recovery.

All the pressures of modern society are in favour of the big interests, the big bureaucracies, the big labour organisations. All the more need to have a Parliament and a Government of men and women whose instinct is constantly to lean the other way - towards the human scale, the independent spirit, the free environment.

A year ago, in The Right Approach, we set out the principles upon which our policies would be based. And we pointed the way in which the Conservative Party intends to right the balance which has tilted dangerously towards 'big brotherdom' and against freedom.

In this present document we develop our proposals for the economic sphere in more detail. There are no speedy solutions to be offered and no slick phrases to be paraded as the Conservative "answer". But if we work away with patience and understanding at the policies here outlined, then it is possible, indeed probable, that our economic successes will grow and our economic problems be contained.

This may not be a statement of spectacular ambition from a political party, but there need be no apology for that. Enough cynicism and enough scepticism have been bred in our country by the recurring failure of Government achievements to match Government predictions and promises. A new spirit of cautious realism is demanded.

Our New Policies

This then is the context in which we put forward our ideas. The main features of our proposals are these:

- (1) An attempt to provide a more stable economic climate with as few sudden changes as possible and a firm brake on legislation.

- (ii) Strict control by the Government of the rate of growth of the money supply and of its own spending (both central and ~~local~~) to reduce the burden on the economy and leave more in the pockets of the people.
- (iii) Unless public spending is reduced, price inflation cannot be contained.
- (iii) Full explanation by Government and managements of their economic aims in the light of independent and authoritative forecasts of the inescapable financial constraints within which a solvent nation - like a solvent company - must operate.
- (iv) Open and public discussion and debate among the Government, unions, employers and all interested parties; an end to narrow deals and contracts; and a more constructive role for Parliament in conducting the economic affairs of the nation.
- (v) The promotion of better methods of collective bargaining.
- (vi) Recognition of the need for varied rates of pay with increases which fully and fairly reflect skill, effort, experience and risk, while taking account of the need for profitability and the employer's capacity to pay.
- (vii) Lower direct personal taxation to allow people to keep more of what they earn and to increase the rewards of work, if necessary shifting some of the tax burden from earning to spending.
- (viii) Effective tax incentives to enterprise, in particular through lower taxation of capital and savings - paving the way to more secure jobs, particularly for the young.
- (ix) An economic industrial policy which encourages new firms and new work opportunities rather than concentrating exclusively on existing industrial "problem areas".
- (x) The removal of unnecessary constraints on enterprise and business expansion wherever we find them. These may be in the bureaucracy, in our tax arrangements, in our plethora of laws. Creative endeavour is being held back, new services and new products suppressed and new jobs being denied to the workpeople of Britain.

That is the outline of our economic policy. We now turn to the explanation and detail of the component parts. / CH. II

CHAPTER II

SPENDING AND EARNING

Britain has now fallen farther behind its main competitors than was ever dreamed or feared back in the 1950s. In an admittedly inflationary world our inflation rate remains double that of the average for OECD countries. In the uncertain recovery period ahead the most optimistic predictions still leave Britain falling still further behind its neighbours in output and in real income per head. Nor is there any consolation to be found in our unemployment figures. In an unemployment-ridden Europe the British position remains as bad as that of everyone else. Inflationary public spending policies have not insulated us in any way from the world recession. They have made matters worse.

We must now work patiently towards sensible economic objectives. Some of these the Labour Government has tried to pursue. Some it began by ignoring and is now belatedly trying to pursue, some it has continued to ignore, some it has rejected in favour of goals which lie in diametrically the opposite direction.

Our prime and over-riding objective is to unwind the inflationary coils which have gripped our economy and threaten to throttle the free enterprise system. To this end we shall aim:

to maintain a stable growth in the money supply in line with firm monetary targets;

to reduce our enormous burden of debt by repaying vast foreign borrowings and aiming for a steady contraction in the Government's domestic borrowing requirements;

to allow our more favourable balance of payments, brought about by the reduced need to import oil, to be reflected in the value of our currency, initiating a 'virtuous spiral' of declining inflation.

We reject the argument that a depreciated currency is required to maintain competitiveness in world markets. Internal inflation is the real enemy of successful competition. A falling

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exchange rate makes internal inflation worse. Momentary gains in price competition are rapidly eroded.

We should like to see the monetary authority in a position to discuss more openly with Parliament and the public the constraints and realities of financial policy. We welcome the trend towards a fuller explanation of financial policy issues offered by the Bank of England in its Quarterly Bulletin. It is important that the public should have a clearer idea of the monetary situation and targets than hitherto. This end would, be greatly helped if the Bank of England were given more independence as a monetary authority than it is at present permitted. This might go hand in hand with more formal, regular and public contact between the monetary authority and the appropriate committee of the House of Commons.

Public Spending

Thanks to the stringent conditions laid down by the International Monetary Fund as security for the Labour Government's latest and largest loan, the need for control of the money supply and of government expenditure is accepted on both sides of the House of Commons. Nevertheless under pressure from the Left of the Labour Party the Government may yet yield to the temptation of reflating to finance a pre-Election boom. After all, that is exactly what Labour did in 1966, 1970 and 1974.

Between 1974 and 1976, a period which tends to be ignored by Labour Ministers when they are explaining their efforts to curb inflation, public expenditure was allowed to rise by a staggering 50% or over £20 billion. The Government's borrowing needs soared to the highest level in our history, while interest rates rose to record heights as a near bankrupt Government struggled desperately to persuade people to buy its bonds and finance its deficit. And of course industrial expansion was completely inhibited.

The consequences of that period are now before us in the shape of an inflation rate still twice as high as that of our competitors, personal taxes at some of the highest rates in the Western world and starting at some of the lowest wage levels, with unemployment figures at a post-war record.

The only way to put matters right is to reduce the share of the nation's wealth which is consumed by the State - that is by central and local government and those agencies and authorities which spend the taxpayers' money but produce nothing. Belatedly the Labour Government has been forced to announce the postponement of large parts of its inflated expenditure plans and also to make some actual cuts in certain programmes. This policy - which Labour already shows signs of abandoning for electoral reasons - must be developed and strengthened and pursued with firmness and determination in the national interest by the in-coming Conservative Government.

This does not mean that there will be savage and indiscriminate cuts in all public programmes under a Conservative Government, or that the cuts will be across the board. Of course we recognise that sudden wholesale cuts can cause quite unnecessary hardship, bitterness and unemployment - particularly if they are imposed without warning or consultation. Our aim in cutting public spending is not to destroy jobs but to create the conditions needed for new and more secure jobs in the wealth-creating sector. Many of the present subsidies to nationalised and supported industries, and some of those on employment, involve taxing the efficient and competitive in order to assist the uncompetitive. This can destroy (or postpone the creation of) as many jobs as it saves.

We shall be looking for major savings, for example, in housing, where Government spending is vast yet homelessness is on the increase; in the cancellation of Socialist programmes such as the pointless community acquisition of building land; an end to nationalisation and in a major increase in the efficiency of administration in local government, including the end of excessive duplication between Whitehall and local authorities. In this last area we shall be looking for very substantial savings over a five-year period.

At the same time we shall deal with waste in Government expenditure wherever it occurs and with excessive bureaucracy and over-government. We are sifting through the advisory councils, committees and boards that cling to government like barnacles, to identify those we can now do without.

Our tax policies will be designed to allow for a significant reduction in the manpower needs of the tax authorities. And we shall maintain tight manpower control generally to ensure not only that there is no further increase in the overall size of the Civil Service but that numbers decline as spending and functions are reduced.

Cash Limits

But these aims of reducing the spending and manpower needs of the State will not be achieved unless they are reinforced by rigorous cash limits for the total annual expenditure of central government departments and of local authorities. The Labour Government, urged on by the Conservative Party, has made the first tentative steps in this direction and we intend to build upon their work.

We would also like to see Parliament play a much stronger role in the cash limits system - both in the initial setting of the limits for annual expenditure for each department or programme and in monitoring their progress. We welcome the proposals both of the Public Accounts Committee and of the Sub-Committee of the House of Commons Expenditure Committee for tying the cash limits system more closely to the traditional procedures by which Parliament votes money. The more widely the necessity for cash limits of this kind is understood by everyone, including employers and unions (who should certainly be consulted), and the more the dangers of breaking them are appreciated, the better for the health of our economy as a whole.

Our intention is to allow State spending and revenue a smaller percentage slice of the nation's annual output and income each year. This means that the reduction will be gradual and that we can plan the necessary cuts and postponements in a way which gives the most benefit to the nation's productive capacity. This will be in contrast with Labour's recent panic cuts that have done great damage, especially to capital programmes and to the construction industry in particular. The balance between current and capital spending needs to be restored.

This is not a prescription for poorer social provision: it is, in the short term, a recipe for better housekeeping in all the public services, and the social services in particular. If we are even to maintain standards of service we must root out waste and unnecessary bureaucracy. In the longer term, it is

only by building a healthier, more productive economy that we shall afford the improvements in services that we need. The fact that the present road leads to greater deprivation and poorer social provision is one of the most urgent reasons for changing course.

A Policy for Earnings

Firm cash limits mean, above all, limits on the cash available to pay for higher wages and salaries in public sector employment. That is a reality which Government can no more escape than can the private employer. Ensuring that pay is settled at sensible levels which are compatible with what the nation can afford and the targets we all have to achieve will be a major task. We realize that open discussion of target figures, and of the underlying calculations, will make it easier to challenge the whole basis of government policy. But, unless we can somehow reduce inflationary expectations, we shall never succeed in our aims.

The recent pattern has become all too familiar. Concern about our rates of inflation or our balance of payments and the implications for employment has prompted Government to impose controls on the level of wage settlements. Two or three years later, the controls have proved untenable and the voices demanding a return to free collective bargaining have become more numerous and more vocal. The pay limits are then lifted or broken, or so expressed that they might as well not exist. Shortly afterwards we get a wage explosion, inflation takes off again, and the cycle starts once more.

This process is thoroughly undesirable. It distorts our economy: it is a recipe for ever higher inflation and ever higher unemployment; it undermines the position of unions and employers; and it encourages long, stand-up fights which do nothing for the authority of Government or the standing of our currency and our products abroad. It looks only too likely that the familiar cycle will be repeated in the next few months.

We must break out of this debilitating pattern. The country has now learned that Government cills the wheels of this cycle if it prints money at an excessive rate and if it spends too much. If the united approach on keeping a tight rein on money supply is maintained, and if in the field of public spending we can properly distinguish what would be pleasing (and

what could be postponed) from what is really necessary, then we shall have taken a fundamental step to get us out of our economic difficulties.

Ideally we want to see the Government remove itself as far as possible from the pay bargaining arena. But since it is involved in the payment of wages and salaries to almost a million people in the central administration and another two and a half million in other forms of public administration and local government, and since it is always under pressure to become involved in nationalised industries' pay issues, there can be no complete Government withdrawal from matters which should really be the province of employers and employees alone.

But we believe that the fixing of cash limits in the public sector in accordance with well-publicised and widely debated projections of the prudent level of the money supply, and the prudent total of public spending which this allows, should help to create a climate in which the Government can avoid being dragged into individual disputes every time.

Most of the crucial decisions are not in any event taken by Government, but by individuals up and down the country, both alone and in groups, in thousands of small units. If they do not accept the economic imperatives of proper money and spending policies, then this country will surely have industrial disruption, companies making wage settlements at higher levels than they can afford, higher prices, a breakdown in our public services, bankruptcies, closures and massive unemployment.

This is an outcome which we must avoid: people must help each other by understanding how their individual actions effect one another.

A crucial part of the Government's task will be to secure understanding and acceptance of the financial targets which the country must set itself. In order to bargain realistically negotiators on both sides of the table must be well informed. So the Government must be rather less secretive in its preparation and presentation of economic policy and the calculations which underly it. It must be willing to explain to the people as a whole how it has arrived at its estimates of the anticipated rate of inflation, or growth in the money supply and of growth in the Gross Domestic Product. It must explain why cash limits are necessary and why they have been fixed at particular levels. It must explain what its long-term targets and aspirations are.

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Why?
We plan to use the National Economic Development Council as one of the bodies in which explanation and discussion of these crucial targets can be most fruitfully carried on. And here again we would like to see Parliament play a key role - possibly by establishing through one of its committees a formal link with the NEDC. The West German experience offers some useful lessons.

The Central Dilemma

Yet when all is said and done, crucial questions remain to be answered. And there is no denying that this country is at the moment in a particularly unfavourable position when it comes to solving the essential problem. We have, for historical reasons, trade unions which are to a much larger extent politically motivated - and even, in many cases, politically controlled - than have most successful industrial countries. Some union leaders are quite simply opposed to the basic rationale of the free enterprise system. Above all, we are now re-entering a period of more or less free collective bargaining after a period of pay restraint which has not been used - as it should have been - as a breathing space to grapple with the inflationary pressures in the economy.

For all we can tell at the time of writing, the country may be on the verge of either a wages explosion or a long period of industrial disputes which could be terribly damaging to our fragile economy. Just as recent events have shown that enforced pay restraints cannot long endure, so it seems to us equally foolish not to recognise the possibility that the events of the coming winter might produce such chaos that there would be no alternative to a pay 'freeze' followed by a period of control in which a genuine effort was made to halt inflation.

But assuming that this can be avoided, what should a Government do when its economic calculations have been made and the process of information and consultation completed? Should it set a target figure for pay awards, or a range of figures within which there would be scope for adjusting differentials and taking account of productivity and the ability of different employers to pay? A target 'maximum' always tends to become a minimum to which everyone feels he is entitled; and if a range of figures is announced, who will willingly accept an award at the bottom end of the scale?

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We can understand the despair of those who simply say that the problem is, in our present political climate, insoluble. But it is obvious that it has to be solved if there is to be any stable and prosperous future for the British people. We do not expect to be able to solve it quickly. We do not expect that next year, or the year after, any target figure for pay awards will be either willingly accepted or - perhaps - in the event closely adhered to.

Nevertheless, on balance, we think there is probably no alternative to the setting of some target figure. After all, in framing its monetary and fiscal policies, the Government has got to come to some conclusions about the likely scope for pay increases if inflation is to be avoided, and it can hardly withhold this estimate from the representatives of employers and unions with whom it is consulting. If an overall target figure exists in the minds of Government, it will soon be widely known.

We cannot tell how long it may take for the interests involved to accept the inevitability of realistic and responsible pay bargaining along the lines we have suggested, or how much more damage and suffering in unemployment and industrial disputes the country may have to endure before the stark alternatives become clear to all. We hope that the events of the last four years may have made the lesson easier to learn, and that good sense may, before too long, prevail.

But it will not be simple. We are effectively asking people to overthrow assumptions acquired over 30 years, in some cases assumptions which Government has assiduously fostered. For a start there is the assumption that Government is somehow capable - on its own - of producing four ideal conditions: full employment, no inflation, a stable balance of payments and economic growth. This is something which most Governments since the war have claimed they could bring about.

It is time we realised that, desirable though all these aims may be, they do not lie in Government's power. Secondly, we need to overthrow the assumption widely held, that we can spend our way of any trouble. It is a notion which has hitherto found widespread favour amongst union pay bargainers: unless it is shaken, they will send their members on to the longest dole queues for 40 years.

These will be difficult lessons for people to learn. But in a free democracy, our goal must be to develop a society in which people understand the way in which our mixed economy works, so that they know how changes in one area - be it pay, public spending, the money supply, exchange rates, the cost of imports or whatever - automatically affect the scope for movement in another. Not only that, but they must also appreciate how the decisions they make, as consumers, as employers, as trade unionists, affect everyone else. It will be a gradual process and we envisage it consisting of two operations.

- First, there should be an independent, regular report on the way that pay, prices, tax, savings, investment, public spending and unemployment have developed over the previous year, and the prospects for them in the coming year. This should be put before the people every year so that everyone can have an understanding of what is possible and how each can help.

- Second, we need a forum - and the NEDC is probably the most suitable - in which the major parties can sit down calmly and look at this report. We are not suggesting that unions, employers, Government or anyone else should commit themselves to any action in that body. But only good could come of them sitting down and seeing how their ambitions fitted in with the national economy and the ambitions of other groups.

It is the development of a concerted effort in this way which holds out the best hope for our nation in the longer term.

The Immediate Problem

Meanwhile, the Labour Government faces serious problems, largely of its own making. The new counter-inflation policy, such as it is, could quickly lead to really serious trouble unless several conditions are met. Clear guidance is needed not only about the implications of current monetary targets and the cash limits system, but also about the basic principles involved in responsible collective bargaining and the manner in which it is intended to operate the remaining sanctions on employers and unions.

Ministers must, from the start, show that those parts of the public sector for which they are responsible will bargain with firmness and determination. They must make it clear that under no circumstances will they give in to the growing pressures to

reflate, which are being intensified by their electoral unpopularity and by the growing flow of North Sea oil. They must do all they can in the immediate future to preserve the tattered remnants of our system of collective bargaining and to stimulate a major effort to reconstruct it in the longer term.

? So far their actions have fallen well short of what is required. Official guidance to employers and unions on collective bargaining has been vague, ambiguous, confused or apparently inconsistent. Their determination to resist excessive public sector claims is questionable. The pressure to reflate and the case for doing so are not being firmly dealt with. And of the rebuilding of collective bargaining almost nothing is said - indeed even the 12-month rule is in obvious jeopardy. The nation has been launched, in a thoroughly ill-prepared way, on a period of grave danger and uncertainty.

It is essential that the Government should set a responsible example in its role of employer. It is equally necessary that it should make it absolutely clear that no subsidies from taxpayers' money will be forthcoming to cover deficits, in the nationalised or supported sectors of industry, caused by excessive pay awards. Everybody should understand from the start that additional labour costs must be met by increased productivity, higher prices to the consumer, or retrenchment which will probably involve redundancies.

Better Collective Bargaining

The need for a better system of collective bargaining than our present haphazard arrangement was recognised by the Donovan Commission a decade ago. We have too many strikes, frequently unauthorised and in breach of established disputes procedures; restrictive practices mean that we are not using our resources efficiently; and sectional bargaining can lead to an endless calendar of negotiations with everyone desperately trying to keep up and no-one able to call a halt to the wages paper chase. This disorganisation rewards militancy and undermines responsible trade unionism.

Improved methods of bargaining cannot be imposed by Government. That is not the Government's role. Government intervention in pay bargaining has been a failure. Realistic collective bargaining means responsibility by employers and trade unions alike: it cannot be forced on them by Government.

Our aim is to see collective bargaining moved back from the level of rigidly centralised national agreement to which it has been driven in recent years and allowed to take place at its natural level in the economy, wherever that level may be. This does not mean that we advocate a massive decentralisation of all bargaining to the workplace in the sense that the Donovan Commission used that term. We agree with Donovan that more bargaining should be encouraged beneath industry level but above the shopfloor - in other words at enterprise or company level.

We think that Government's role should be limited to taking a lead in promoting the urgent debate on improving bargaining. We would look to the Code of Practice on bargaining procedures which the independent Advisory Conciliation and Arbitration Service has promised to produce for guidance to both employers and unions on key points: the levels at which bargaining should take place; the subjects that should be covered; the drawing up of claims; the way in which negotiations should be carried out; the procedure for introducing agreements; and the best means for carrying them out.

Conservatives and the Unions

Have we?
Because of the political connections between many trade unions and the Labour Party, to which we have referred above, it is easy to understand the fears of those who assert that a Conservative Government would find it hard to secure co-operation from union leaders. And it is already clear that the Labour Party, in default of any more constructive ideas, is going to exploit these fears for all they are worth before and during the next election.

The notion that Labour are better equipped to work with the unions was of course strengthened by the relationship implicit in the 'Social Contract', under which the TUC became for a time almost an organ of government. Yet current events are already showing that the disillusionment with the effects of the 'Contract', which is building up among rank-and-file trade unionists and many union leaders, has weakened the attachments and brought that relationship almost to an end.

This offers the Conservative Party an opportunity which we have no intention of allowing to go by default. Our strength lies in the fact that we have never forged a narrow relationship with any minority group or sought to shuffle off on to union leaders responsibilities which properly belong to Government. After the experience of the last three years, and the post-matrimonial squabbles punctuating the current divorce proceedings, we believe union leaders may well find it both convenient and refreshing to deal at arm's length with a Government which knows both its place and theirs.

We see the trade unions as a very important economic interest group whose cooperation and understanding we must work constantly to win and to keep, as we have done in the past. We see no need for confrontation and have no wish for it.

But we cannot accept that the Government should draw up its legislative programme at the sole behest of the unions. Nor do we believe that trade unions want to continue a situation in which time and again they were sold an unrealistic vision of imminent economic recovery dependent on just one more year of pay restraint from them. We guarantee that they will have no replay of this disillusioning experience from us. We will be honest and open with them about the state of the nation, but we will not shift burdens to their shoulders which they cannot carry.

Our approach will be to govern in the interests of all the people, through Parliament. There will be no narrow and exclusive deals. Employers and unions should work together with Government in an atmosphere of informed and responsible debate. But each must keep to their proper role, and Government has a duty to listen to others on the larger stage of society.

For all these reasons, we do not believe that a Conservative Government would find it harder to get on with responsible union leaders than Labour are finding it at present - rather, perhaps, the contrary. We have done it in the past, and we believe that there exists among these union leaders a willingness, matching our own, to start afresh with a clean slate and reach a mutually acceptable working arrangement.

The Ultimate Challenge?

But, many people will say, not all union leaders, at all levels, are responsible. However, it is important to get the diagnosis right. The vast majority of union leaders and officials feel a deep responsibility for the interests of the workers they represent. Their difficulties arise from the fact that they are from time to time subjected to almost overwhelming pressures - especially in a period of falling living standards - to demand short-term gains which their better judgement might tell them will in the long run lead to higher prices and fewer jobs. They must be continually looking over their shoulders, both at the militants behind them who may foment unofficial industrial action which they cannot control and at other unions which may be making gains that will inflame the ambitions of their own members.

We understand all this, and we think they realise that we do. Moreover we believe - on the basis of experience rather than mere hope - that the most influential union leaders can be relied upon to cooperate with a government of any party to try to do what is best for all workers and for the nation as a whole.

Of course there are militant extremists in the unions - and some of them are openly dedicated to the destruction of the whole free-enterprise industrial system. Having seen what some of them are prepared to do to thwart the more sensible intentions of a Labour Government, we are not so simple as to imagine that they will be any more helpful to a Conservative administration - although we sometimes feel they could hardly be less helpful.

We know that some of them will try desperately to foment, at local levels, industrial action in protest against some of a Conservative Government's measures - particularly those designed to curb public spending. We are prepared for this, and we are aware of the pressures - amounting sometimes to open intimidation - which the most unscrupulous among them will try to bring to bear on their workmates.

But we are also aware that the moderate majority of trade unionists have become increasingly uneasy about the activities of politically motivated militants - and about the effects of militant action. Many who have watched on their television screens the scenes outside the Grunwick factory have recognised that a perversion of the deeply felt sense of union solidarity can be brought by violent men to constitute a real threat to the rule of law and a stable society.

The lessons of the last three disastrous years and the grim directness of the link between excessive wage settlements - or damaging strikes in support of excessive claims - and lost jobs have been gradually appreciated by millions of rank-and-file union members. Whatever may happen this autumn and winter, we believe the influence of the militants is declining.

P.O.M. 1/2

If, however, there are still those within the ranks of organised labour who are determined to mount a direct political challenge to a newly elected Conservative Government, we say now quite plainly that they will be resisted firmly and decisively. No government, whatever its affiliations and sympathies, ought to have any choice in such a situation. A Conservative Government, elected to govern in the interests of all the people, could certainly have none. If the law of the land is broken or threatened, we shall enforce it. If the interests of the public at large are threatened, we shall protect them to the limits of our power.

We wish we could hope to rely in a crisis on the cooperation of a Labour parliamentary opposition as confidently as this Labour Government has been able to count on the support of the Conservative Party for measures to control inflation, protect the public and preserve the rule of law. In the light of our experience in 1973-4, our confidence must be less than total. But we hope we shall be able to rely on the support of the great majority of the British people, who now know more than enough about the alternatives.

For if their resolve weakens, then however firm our own intentions and the leadership we give, Britain may well have become ungovernable. We do not believe it will.

CHAPTER III

TAXATION

Heavy demands have been made on the British tax system during the past 3½ years, and it is in bad shape. No more important challenge will present itself to an incoming Conservative government than to restore public confidence in its rationality and fairness since it now touches every citizen.

During this period the revenue system has been required to carry out two separate tasks:

first, to provide finance for a free-spending government which has deliberately pushed up its own demands at a time when national income as a whole has been, if anything, falling;

second, to impose socialist priorities in the distribution of income and wealth on what is still an obstinately non-socialist people.

The use of the tax system for social engineering has meant a heavy programme of legislation, which neither legal draftsmen nor Parliament have been equipped to handle. Businesses, the professional world and individual taxpayers themselves are now wrestling with an octopus which none can really grasp. Precious resources of energy and brainpower are wasted in absorbing each new wave of laws, and whole areas of the economy are brought to a standstill by sheer uncertainty. Jobs have been lost by the postponement of new development projects and by the sale or winding up of private businesses.

An incoming Conservative government will have to take action quickly to halt this destruction. Much as we would like to sweep the whole tangle of tax laws away and start again, we believe this would now cause chaos.

Instead, we believe that a certain number of limited changes, taken immediately as part of an emergency package, would greatly reduce the pressures which today threaten to blow the machine sky-high. After that would come the time

for planning the long-term, fundamental reforms that are undoubtedly needed.

Our policy studies, the conclusions of which are set out in the following pages, are in part directed to identifying those changes which could be made quickly without major legislation. They include the reduction of tax rates, the removal of overlaps between one tax and another, and the elimination of those features of the present tax scales which are intended, for political reasons, to be penal.

Prosperity can be achieved only by unlocking the productive potential of the private sector of the British economy. During the past four years the British people have been given a clear view of the direction in which socialism is leading them. It is an unappealing prospect. We believe that the British people are now ready to turn back to common sense.

Making the Worst of a Bad Job

There is room for argument whether the aggregate burden of taxation is greater in the United Kingdom than in other leading industrial countries. It may only feel heavier, because the taxable capacity of the British economy, in terms of income per head, has lagged so far behind most other countries. What is certain, however, is that the present structure of tax rates and scales in the U.K. might have been designed to make the worst of a bad job.

Throughout the income tax scale, the British rates are more onerous than in almost any other country. The starting rate at 34 per cent is the highest starting rate in the world. The scale of rates is exceptionally steep. The top rates, at 83 per cent on earned income and 98 per cent on investment income, stand out as a beacon of fiscal absurdity. Nobody can be expected to pay 98 per cent tax willingly on part of his income; all too many take either their money (if they can) or themselves abroad, or work out some device for avoiding such confiscation.

These tax rates, reached at quite modest income levels (by international standards), have a catastrophic effect. They enforce the payment to senior executives of gross

salaries which look enormous on paper, provoking resentment among workers and much political propaganda - yet the net returns after tax are very low by the standards of other industrial countries.

They encourage the growth of incentives based on status, leisure and perquisites rather than on straight financial reward. They direct investment out of productive channels and into the purchase of such assets as land, works of art and boats, where capital gains and enjoyment attract lower rates of tax.

Meanwhile tax avoidance, moonlighting and second jobs distract the effort of people at all income levels away from the basic regular work that needs doing in a healthy economy. Tax avoidance leads in turn to anti-avoidance legislation, and so the whole engine of revenue administration begins to run away with itself.

Faced with the problem of increasing the revenue in an inflationary period, the present Government has leaned too heavily on direct (income) taxes. In 1973/74, the yield from direct taxes was 91 per cent of the yield of the combined indirect taxes (VAT, drink, tobacco, petrol, betting taxes). In 1976/77, income tax was called on to produce 125 per cent of the total yield of indirect taxes. In this way, the fiscal structure has been pushed out of line with those of other countries; the tax load has been extended to cover single people receiving a mere 23 per cent of average industrial earnings and families with less than half the average. Thus thousands of people have been caught in the Poverty Trap, where income tax falls to be paid by people living well below the officially defined poverty line.

The most urgent measure to be taken by an incoming Conservative government will be to lighten the load of income tax right through the scale. When the public borrowing requirement has been reduced, as part of the attack on inflation, this will be a first charge on the money saved by cutting government expenditure, and on any part of the North Sea revenues than can be spared from the priority task of repaying some of the debts piled up by the present Government. If necessary, leeway will have to be created

by switching some of the irreducible tax burden on to existing indirect taxes.

It is our intention to proceed on four fronts:

1. We shall reduce the basic rate of income tax, which hits the taxpayer with such force at a very modest level.
2. We shall raise the thresholds. In 1952 income tax only struck when a family man's income stood at 103 per cent of the national earnings. By 1970 it was 56 per cent; after rising slightly, it has since fallen further to an estimated 47 per cent for the current year. This has been largely brought about by the failure to move up the starting thresholds of income tax in line with inflation since 1973. In the budget of that year the thresholds for single and married persons were set at £595 and £775 respectively. Since that time, prices have nearly doubled but the thresholds are now £845 and £1,295. Yet to restore the thresholds to the equivalent levels of 1973 would now cost about £2½ billion. That is the amount by which Mr. Healey has stealthily increased the burden of taxation on the man in the street.

In this year's Finance Bill debates, Parliament moved decisively to put an end to this process, by requiring that the tax allowances should henceforward be raised each year by the amount of the inflation in the preceding twelve months, unless the Chancellor could convince the House of Commons that he had good reason for not so doing. This amendment to the Finance Bill was imposed by Conservatives and rebellious Labour backbenchers acting together.

3. We shall widen the higher rates tax bands. In 1973 the higher income tax rates of 40 per cent and upwards started at £5,000 and reached the top level at £20,000. These figures would now be £10,000 and £40,000 if they had been indexed. Instead of that the Chancellor this year proudly announced that he would increase the £5,000 figure to £6,000 as part of his campaign to woo the middle executives. The top rate is still reached at £21,000. The cost of restoring the true values of 1973 would now be about £425 million.

4. We shall reduce the top rates. Among the European Community countries, top rates of tax on earned income seldom exceed 60 per cent and only France and Great Britain discriminate additionally against investment income. Furthermore their top rates are reached at levels substantially above the £21,000 level still operating in the U.K. after a hundred per cent inflation. It will be our aim, at an early stage, to bring our higher tax rates into line with those in Europe, the U.S.A., Japan and the Old Commonwealth countries.

The Switch to Indirect Taxation

The cuts we need to make in Income Tax may well not be fully matched to begin with by expenditure reductions. It may be necessary in part to pay for them by higher indirect taxes. We believe that increased emphasis should now be placed on expenditure taxes, and that a switch can be effected without creating injustice. Owing to the care with which VAT was introduced by the Conservative government in 1973, the major items of basic expenditure carry a zero rate - e.g. food, fuel, travel and rent. Value Added Tax cannot be termed a luxury tax, but it has been kept clear of most of the necessities of life.

It must be noted, of course, that just as the Income Tax structure means that revenue is disproportionately boosted by inflation, so (because the Excise duties are normally expressed pro rata on an x pence per unit basis) the yield of the indirect taxes falls behind the rate of inflation. Nevertheless, it has to be remembered that the yield of some of them could reach the point of diminishing returns. We cannot exclude the possibility that the early reforms of the incoming Conservative government will include some tax increases on this front.

The Policy Options

The policy options can be selected in detail from a range of alternatives. The salient figures, the budgetary building bricks, are as follows, all expressed in terms of 1977 price levels.

Total Central Government tax revenue 1977/78 est.	: £36,500m
Income Tax yield 1977/78 est.	: £18,000m
Projected Revenue yield from North Sea oil by 1980/81	: £3,000m
Proceeds of 1 per cent economy in Government expenditure	: £430m
Yield loss from 1p reduction in Income Tax	: £480m
Yield gain from 2% on VAT	: £750m
Yield gain from 1p on pint of beer	: £100m
Yield gain from 5p on petrol	: £210m
Yield gain from 1p on 20 cigarettes	: £40m
Cost of returning higher income tax bands to 1973/74 equivalents	: £275m
Cost of restoring income tax thresholds to 1973/74 levels	: £2,500m
Cost of reducing top rates of income tax to 60 per cent	: £230m

We have thought it important to set all these figures down together, not just to offer every taxpayer the entertainment of constructing his own do-it-yourself Budget, but so that everyone may understand the vast sums of revenue involved. They do show very clearly how difficult inflation and a high-spending Labour Government have made the task of significantly reducing the most onerous taxes.

The Need for Simplification

When the last Conservative government left office it was only half way through a sweeping programme of tax simplification. This programme will be resumed when the Party returns to government.

There are very few people today who fully understand a tax return, or how their coding is calculated. Nor, for example, could they say with confidence whether they stood better off or worse off by the recent partial switch from child tax allowances to child benefits. The tax system must be made comprehensible to the ordinary person.

At the same time we are impressed by the long-term opportunities for economy of bringing together the income tax and the social security establishments through a tax credit system. The Conservative Party welcomes the steps taken in this direction - albeit unwillingly and ineptly - by the present Government. The Child Benefit is a form

of tax credit which has the advantage of helping those families whose incomes are too low for tax allowances to take effect.

We are also impressed by the scope for administrative economies - both in the Inland Revenue organisation and in employers' offices - in the American system of self-assessment. If it is preceded by simplification of tax reliefs and allowances, self-assessment can bring administrative economy and a broadened understanding among citizens of how their tax is levied and what they are actually paying for the services of central government.

These schemes require painstaking preparation and they cannot be taken down from the shelf and put straight into action. Nevertheless our expert policy committees have done much of the necessary preparatory work in the past three years.

The Cost of Collection

A measure of the complexity of the British revenue system is given by the fact that the Inland Revenue now has more staff than the American Inland Revenue Service. In the U.S.A. collection costs about 0.6 per cent of the revenue raised; in the United Kingdom the comparable figure is 1.75 per cent. The number of permanent staff employed by the Inland Revenue has risen from 25,000 to 80,000 since 1939, and Customs and Excise staff have doubled, to more than 29,000, over the same period.¹

These figures do not necessarily reflect inefficient organisation; the size of the organisation largely reflects the size of the job it has been given to do.² However, the cost of the Inland Revenue administration rose by 42 per cent in 1975-76, to £354 million. And this is only the beginning of the story, since compliance costs for the

.../ taxpayer

1. Of the increases taking place since 1945, Labour administrations were responsible for 35,000 new jobs in the Inland Revenue and Conservative administrations for about 10,000.

2. The number of pages of U.K. tax law last year passed the 3,600 mark, compared with 180 pages in 1918.

taxpayer (individual and corporate) must account for similar amounts. Academic research is now being undertaken into this hidden part of the tax iceberg, the cost incurred by the taxpayer.

The Quest for Perfection

The U.K. tax system entered a new phase when, in 1974 the Labour Government launched an onslaught on the loopholes and avoidance systems to which businesses had increasingly been driven in order to protect their middle and senior employees from the full impact of incomes policy and steeply progressive tax rates.

The penal arrangements introduced for taxation of overseas earnings resulted in overkill, and an attempt was made in 1977 to relieve the situation by introducing tax relief for employees working overseas for more than thirty days in a year. Following Conservative pressure, the Government has committed itself to extending this relief to the self-employed next year.

Measures designed to tax employees on benefits in kind (e.g. railway tickets supplied cheap to railway employees) fell foul of trade unions when they were introduced in 1976 and had to be hastily withdrawn. Sweeping changes in the system of taxation of employees' benefit of company cars were also introduced; the Opposition, again, had to fight for special reliefs in order that injustice should not be done to people who made particularly heavy use of their cars.

There is logic in taxing the whole range of benefits in kind if a Government is determined that there shall be uniformity in every minute detail of the administration. But the huge cost of carrying out all the bookwork called for by such a system, and the resentment caused by "nit-picking" intrusion into the arrangements made between employers and employees far outweigh the theoretical advantages.

An incoming Conservative government will roll back this invasion by tax enquiry, which threatens to bring the whole business mechanism of the country grinding to a halt. If the economy is not to settle into permanent

stagnation there has to be a switch away from such pettifogging details.

Enforcement

Oppressive law leads directly to problems of enforcement; the Labour government has found itself deeply embroiled in trying to pass legislation which threatened personal liberty and the privacy of family and home. In the 1976 Finance Bill, the Inland Revenue was offered sweeping new powers of entry and powers to call for papers. Conservative vigilance ensured that the Bill was amended during its passage through Parliament, but the Party has committed itself to a thorough review of enforcement provisions, both for Customs and Excise and for Inland Revenue.

The Enterprise Package

The effect of a bad tax system is to create feelings of injustice and to discourage effort. The effect on businesses is often to destroy them. The stagnation of British business in the past four years reflects the present blight.

Firms in the larger 'quoted' sector of the British economy have been saved from the sharpest edge of the socialist tax programme. It is the small business sector where enterprise has been throttled, first by the war on profits, then by personal taxation, and finally by a crudely destructive chaos of capital taxes. Small businesses depend for their existence and prosperity on the accumulation of capital in private hands; such accumulation is anathema to the socialist, so deeply resented that he often hardly realises when his anti-capitalist politics end up by knocking away his own job from under him.

Much will have to be done to restore vigour to this section of the private enterprise economy. Reduction of the higher rates of personal tax will be the most important single step; the phasing out of the investment income surcharge and abolition of dividend limitation are two runners-up. A review of the whole system of capital taxation will be undertaken, as a follow-up to the immediate steps which we shall take on coming to office. These will be aimed at blunting the most destructive features of the Capital Transfer Tax.

Reform of the Capital Taxes

It was estimated in 1974 that aggregate death and gift taxes were equivalent to 0.46 per cent of GNP in the United Kingdom and the United States of America, 0.22 per cent in France, 0.05 per cent in West Germany and 0.09 per cent in Italy. Even though the U.K. figure is among the highest, the justification for capital taxes is not to be found in their yield.

The present yield from the whole range of British capital taxes could be replaced by an extra 2½p on Income Tax or an added 3½ per cent on Value Added Tax. The saving in collection costs, professional fees and economic distortion by making either switch would be very great. And indeed there are some economic arguments for making it. The main pressure for heavy capital taxes had always been political - in part mere egalitarian envy, in part a mistaken belief that some significant redistribution of wealth could thus be achieved to the advantage of the poor, and often as a straight political 'trade-off' to encourage moderation in union pay bargaining. Some of the economic, social and cultural effects have been unfortunate, and the process of breaking up large estates has gone too far.

Nevertheless, we would not think it right to remove all restraints on the aggregation and transmission of large fortunes. It is no part of our aims to encourage the concentration of the country's wealth in fewer and fewer hands. We are deeply concerned to enable many more people to accumulate and transmit wealth, through the reduction of penal imposts on incomes, savings and transfers.

The present pattern of capital taxation in the United Kingdom has developed haphazardly. Capital Gains Tax, Capital Transfer Tax, Development Land Tax, Stamp Duties and Investment Income Surcharge have been piled one on top of the other, often with no attempt to avoid overlapping. A good opportunity to rationalise the whole structure was lost when the Capital Transfer Tax was brought forward in place of Estate Duties in 1975.

Early steps will be taken to transform CTT by cutting all the rates and extending the reliefs. And we will adapt Capital Gains Tax so that only true profits (as opposed to inflationary gains) are subject to the tax. [In a future produced Green Paper we shall set out the lines along which the longer term review of this field will be conducted.]*

Capital Gains Tax should be recast so that the liability tapers off with the passage of time; Stamp Duties might well be reduced or eliminated, although not with the same urgency as a number of other changes in the list.

We doubt very much the wisdom of retaining the Investment Income Surcharge. Of the total yield of this tax (£275 million in 1976/77) about 42 per cent is collected from persons over retirement age - who are often placed at a distinct disadvantage by comparison with members of occupational pensions schemes. The surcharge distorts capital markets by diverting private investment towards capital profit and away from income yielding securities; it contributes to the dearth of private risk capital which is at the root of most of the small business sector's problems.

Wealth Tax

We will have no part in introducing a Wealth Tax in the United Kingdom. We can see that in an ideal and simplified world, if there were an opportunity to re-design the tax system, there might be a place for a wealth tax instead of other capital taxes. In Britain today, with its multiplicity of different ownership patterns, varied investment forms and property rights, we believe that a Wealth Tax is out of the question. Either it would be crude and unjust, leaving a mass of loopholes to be exploited by the ingenious, or it would be equitable and level handed, in which case it would be extremely expensive to run.

Development Land Tax

This tax, introduced in 1976, has put a severe brake on property development and has contributed to the reduction of employment in the building and construction industries. We intend to reduce the rates of this tax sharply, to exempt charities and pension funds and to take other measures which

.../ will make it

will make it less damaging. For the longer run some kind of specific property development tax may well be necessary. Capital gains resulting from planning permissions are in a category of their own and require special treatment.

Company Profits

If profits are restored to their proper position as a means of financing investment and as a source of revenue, then it becomes imperative to ensure that the profits that are being taxed are real profits. Inflation has a distorting effect on company accounts as they have always been drawn up in the past, because it creates misleading profits on stocks of goods and work in progress simply by pushing up their prices.

We recognise that companies need to know where they stand. As a first step we believe that the reserves built up under the 1974 Healey tax-deferment scheme should be released from the contingency of repayment to the Revenue in all but certain narrowly defined circumstances such as liquidation. While the reserves remain in company balance sheets, and as long as the Treasury has a formal line of the tax payments deferred under the scheme, it is all too easy for a future Socialist government to requisition such reserves in the form of an enforced capitalisation. Such a programme would give a future National Enterprise Board very swift possession of influential stakes right across the range of U.K. companies.

Value Added Tax

VAT is expected to yield some £4,000 million in the current financial year. Purchase Tax at its best produced £1,400 million. Even allowing for the changed value of money, it is unlikely that Purchase Tax could have produced a yield comparable with that of VAT without causing great distortion in patterns of trade and without widespread fraud.

Given the need for revenue, VAT is an efficient tax. The Conservative government introduced it in 1973, and we stand by it.

This is not to deny that VAT, like any other tax, needs to be kept up to date. Changes in trade patterns, and

consumer habits call for periodic adjustments.

We have recently had an expert committee working on VAT; it reported in March 1977 and its main proposals have been put forward in the form of amendments to the 1977 Finance Bill. Although the Government has not adopted the Conservative recommendations, it has become very clear in the course of the debates that we are on the right lines.

The five principal recommendations of our VAT enquiry were:

- (a) that the cost and inconvenience of operating the tax could be substantially reduced by returning to a single positive rate, as when the tax was originally launched, instead of the dual rate introduced by Mr. Healey in 1974;
- (b) that the threshold for compulsory registration for VAT needed to be raised at least in line with prices. That would imply a threshold of £10,000 today; during the Finance Bill debate the Chancellor grudgingly came forward with a figure of £7,500, which was accepted by the Liberals;
- (c) that a simplified accounts-based system could be devised, applicable to smaller companies, which would relieve them from the burden of preparing two sets of records, one for their accountant and the other for the VAT office;
- (d) that a scheme for the relief of VAT on bad debts could be devised;
- (e) that the enquiry and enforcement powers under VAT legislation needed review.

Personal Capital Building

The Conservative Party's commitment to a property owning democracy is long-standing. The time has now come to extend it to the ownership, not only of homes, but of wealth in other forms as well. For us a free society is a society in which property in all its forms is held by as many

people as possible. This is the antithesis of the narrow state ownership in which Socialists believe.

The Conservative Party has recently published draft proposals to encourage a much faster growth of employee share ownership. We believe that it is not for government to lay down specific schemes. It is for each employer to decide with his employees whether, and how, suitable arrangements of this kind should be introduced.

But we want to ensure that every reasonable incentive can be given to wage and salary earners to build up a capital sum, whether from personal savings or through deferred share schemes at their place of employment.

We therefore intend to introduce:

- 1) Tax incentives to firms that wish to instal deferred profit-sharing or similar schemes.
- 2) Favourable tax treatment for profit shares or added value shares in the hands of recipients, where these shares are retained.

REMOVING THE OBSTACLES TO ENTERPRISE

Should a government have an 'industrial policy' at all?

This may sound a silly question, but experience of Labour's 'industrial strategy' has prompted many people to ask it seriously. 'Do, for heaven's sake, get off our backs, stop chopping and changing and monkeying around, and leave us to get on with our jobs in peace!' has been the heartfelt cry of thousands of entrepreneurs and managers during this dismal period.

Of course a government must have an economic policy, just as it must have a social policy that takes account of the problems of unemployment. But an economic policy that is not primarily directed to creating the conditions in which wealth-creating - and job-creating - industry can develop and flourish is bound to fail. An 'industrial policy' which consists largely of interference, tinkering and providing palliatives for structural defects is no kind of a substitute for it.

Our economic policies are firmly directed towards the primary aim, and to that extent we have a policy for industry. Yet because we talk insistently about the needs of industry, about the urgent need to restore its profitability, about the problems of entrepreneurs and managers, we are often accused of being 'the party of the bosses' and of lacking compassionate concern for the ordinary worker and for the thousands in the dole queues.

Nothing could be farther from the truth. The true enemies of the ordinary worker - whether in work or unemployed - are precisely those who preach compassion and concern, while blinding themselves and others to the need for the creation of real wealth and to the causal link between unprofitable industries and massive unemployment.

Youth on the Dole

Does any sensible person really imagine that we do not understand - and care about - the demoralising experience of young people leaving school and unable to find work? That we cannot appreciate the damage that may be done to their

vulnerable self-confidence. That we have no conception of what it is like to have to rely on the help of parents, eked out by a few pounds of Supplementary Benefit, at a time when they might have hoped to be going out in their leisure hours to enjoy themselves with their more fortunate friends?

We understand all this very well. We know how depressing the atmosphere of a Social Security office can be, and how little help those with no work experience can often expect from the employment exchanges. We realize that the path from optimism - when every vacancy is an opportunity - to the fatalistic conviction that every job is beyond you can be even shorter for the young than for the middle-aged and elderly, who are suffering enough today.

But what is the use of knowing all this unless one is prepared to do something to make possible the creation of new and secure jobs, and to remove some of the deterrents which are preventing employers who actually need more labour from taking on extra workers? It is only by being practical that one can translate compassion into effective action. And to be practical one must have a clear understanding of what the basic problems of industry are.

The Real Problem

What has been happening in the last few years has gone far towards destroying Britain's capacity for the creation of wealth - on which all else depends. Industry expands, develops, changes and adapts, creates jobs, more or less successfully in accordance with its ability to earn the profits from which these activities must be financed. Those who fondly imagine that 'the State' can finance them instead forget that 'the State' neither has nor can create any wealth of its own, but depends in the last resort on taxing and redistributing the wealth that is created by others.

Industrial firms will not - and often cannot - invest unless at the end of the day they can see the prospect of a profitable return on the investment. Industry is about competition - and risks. If risks are never taken, industry will never be competitive. Losses have to be faced. But risks will not be taken unless in the long run there is on balance a fair chance that a profit can be made.

And the plain fact is - whatever impression some people may derive from the apparently large paper profits occasionally announced by some companies - that over whole sectors of industry the trend of real profits (taking account of inflation) has been steadily falling, sometimes actually representing a negative rate of return on capital invested. Over a wide area, profitability is now so low as seriously to restrict investment - the investment that could make our industry more competitive and create new wealth and new jobs. Private personal investment in small businesses - the wealth creators of the future - is on the way to elimination. Acres of our urban centres have been stripped of commercial life altogether..

Britain's industrial weakness is not an accident. Nor is it due to any lack of managerial, technical or craft skills. It is our own creation. It is due to misguided social (masquerading as 'industrial') policies. Taking Britain's workforce as a whole, our workers are among the least productive and the worst paid (the two being directly and causally linked) in the Western industrial world. And with the smallest incentives in Europe (apart, perhaps, from Sweden) management is hardly well geared for the job of putting all this right.

The Scope for Enterprise

So how can our problems gradually be put right? Is there no hope? Of course there is, or we should not be writing this at all.

Our country's commercial instinct runs very deep. It was on our passion for, almost our obsession with, trade and commerce, our endless and restless ingenuity in devising and marketing new products and services that our enormous strength was built.

The instinct is still there. The talent is still there. Even today, despite the hostile climate for enterprise, despite the denigration of business effort, and despite the unceasing political war against profitable enterprise, the British commercial talent flourishes in some parts of the economy. While Whitehall and Westminster concentrate on the enormous social problems thrown up as falling competitiveness.

overtakes our old industrial structures, away from the headlines new businesses still struggle upwards, new ideas and products are marketed and an enormous range of skills and services - especially in the financial sector - continue to out-manoeuvre and even to dominate some world markets.

We can only compete if we create conditions which foster and encourage rising productivity, substantial added value and innovation - whether in high or low technology.

There is not a fixed amount of work to be done in the world, but a huge market both at home and abroad for those who are competitive. If we can supply this market not only with manufactured goods but with services, not only with familiar products but with new devices and new needs as yet unidentified - let alone classified by Government departments then there need be no serious problem about jobs. There will be many more secure, wealth-creating jobs for those who seek them.

The policies already outlined for earnings, incentive and tax reform will help to create the right climate for industrial and commercial success. Much of what is called today our "industrial strategy" - the rescue plans, the hectic meetings with Ministers, the get-togethers between top tycoons and top bureaucrats to discuss how to deal with this or that crisis - much of this so-called strategy is defensive. It is concerned with defending our existing industrial structure against the pressure of events. But a nation prospers not by harping on its problems but by recognising and reinforcing its areas of success, allowing resources to flow from the less to the more successful activities.

Much of the so-called industrial strategy - the restructuring of industries, the subsidising of British Leyland, the perpetuation of overmanning in, for example, the steel industry - is really a social policy. We recognise fully that Governments have to cope with these difficult problems and to do so with sensitivity and understanding. But it is silly to pretend that this constitutes a positive approach to the economy, since it tends to reduce our competitiveness and therefore our prosperity and the number of new jobs available.

.../ In any case

In any case the social policies themselves are riddled with inconsistencies and contradictions. Their sponsors claim at one and the same time to be fostering new investment, which must often involve reduced manning scales if it is to be worth while, and to be protecting employment; to be in favour of high productivity, while simultaneously perpetuating over-manning by job rescues and job subsidies; to be in favour of new technology while approving the order for the Drax B power station. And so it goes on.

We have to reinforce success, in preference to failure, and create the climate and opportunities for fresh successes. And we shall do this not by ever more public spending, more regulations, more control and more bureaucracy, but by the gradual and systematic removal of the deterrents and discouragements that have grown up to hold back Britain's instinctive industrial and commercial vitality.

We are well aware that it will take time - perhaps quite a long time - to restore and secure the confidence and profitability of British industry. That is why we laid so much emphasis in our last chapter on the need to introduce rapidly an 'enterprise tax package' to help get things moving again. Here we are concerned with the removal of the other barriers to enterprise. So we aim to reduce the volume of new legislation, as well as to remove current restrictions. But since we know how deeply industrialists yearn for a modicum of stability after so much chopping and changing, it is not our intention to rush into major institutional changes.

Let us now take a look at some of these obstacles to enterprise.

Regional Policy

Take, for instance, regional policy. The desire to bring work to jobless areas is understood, but if the climate is generally encouraging to enterprise employers will tend to go where there are spare manpower and facilities - unless there are known local deterrents such as a particularly bad record for labour relations.

Some of the attempts of recent years to cajole firms to the regions may actually have reduced the development of industry in the country taken as a whole, since the costs of the inducements have to be borne by other successful business and since activities in the areas which would otherwise grow spontaneously are curtailed and restrained.

Worse than that, the planners are sometimes wrong in their assessment of the areas needing support. For a generation it has been planning policy to move jobs out of London and out of other big cities as well. Now the heart of London threatens to become an industrial and commercial desert and jobs are scarce.

Why has this happened? Because entrepreneurship and new business have been discouraged, because old business has been driven out by ambitious redevelopment plans which have failed to reflect the needs of the communities for which they are supposed to provide, and because detailed control of industrial and office development has discouraged job-creating new enterprise. These policies must be modified, although we recognise that regional policy has been of help in the past in building local infrastructures.

We propose to raise the industrial development certificate threshold and to end the system of office development permits. We shall control total expenditure on regional development by cash limit, with generally lower rates of grant, a minimum threshold for size of project and a cost-per-job limit.

It is too simple to argue that lower taxation and encouragement to enterprise will bring all the old familiar forms of business back again. New forms of free enterprise will be needed, forms which could well be unfamiliar to, or unpopular with, the planners. We need new science-based firms in our cities. We need banking, finance and insurance. We need printers, publishers and entertainers. We need the kind of firms and developments that grew up in support of large-scale tourism. We need to encourage the full flowering of the skills and entrepreneurial vitality of our immigrant communities.

Governments cannot make all these things happen, although they can certainly stop them happening and indeed have done so. But they can do much to promote the most promising climate for developments of this kind: that will be one of the central aims of our industrial policy.

The Cost of Rescue Schemes

Let us take another area of the so-called industrial strategy, the policy of rescues, in which both Ministers and the National Enterprise Board have been very active and very free with the taxpayer's money. (The Conservative Party set forth in The Right Approach its intentions for the future of the N.E.B. and of the Industry Acts.)

These schemes take money from the efficient to give to the inefficient - to enable them to go on being inefficient, making it harder for the efficient to realise their full potential. The philosophy behind these operations is therefore the very opposite of what we need for industrial and commercial recovery.

In general we believe that when firms cannot get out of their difficulties themselves the Receiver is usually the best answer, as the present Government now accepts. But of course we recognise too that there will be some exceptional cases where help may be in the national interest. We will make any such help both temporary and tapered.

The most prominent rescue operation of recent times - and a continuing problem - has been the British Leyland Motor Corporation. We recognise that within this vast conglomerate there are many areas of great potential success and profit, and we are sad to see these submerged and held down by inefficiencies and failures elsewhere. We look to management and unions to co-operate in building up the successful parts of British Leyland, slimming the labour force and raising productivity dramatically. Further assistance to British Leyland will be considered with these objectives in mind.

State Industries

State industries which are not profitable will be encouraged to become so. But they will also be required to operate under conditions of fair competition. The special protective

.../ nonopoly provisions

monopoly provisions which in some industries prevent the emergence of effective competition will be reviewed.

We also aim to remove the management of nationalised industries further away from the politicians and Whitehall. We will reinstate a required rate of return on capital for all nationalised industries. Uneconomic activities will be costed and separately financed by the Minister or Department which believes them to be desirable.

The problem facing Britain's nationalised industries is that they are expected to perform with economic efficiency and yet they are the playthings of political whim. The more that private capital can be involved in these industries the easier it will be for their chairmen and directors to resist Ministerial and Departmental pressures on the grounds that there are other shareholders, as well as the Government, whose interests must be safeguarded. And the more effective we can be in distinguishing between the economic and the social functions of the State industries the less difficult it will be to separate the requirements of efficient operation from the political and social objectives which politicians will inevitably wish nationalised undertakings to pursue.

The long term aim must be to reduce the preponderance of State ownership and to widen the base of ownership in our community. Ownership by the State is not the same as ownership by the people. It is the very opposite.

Inside public corporations there are many excellent managers who are not being given a fair chance to make their industries as efficient as they could be. We aim to give them the opportunities and terms of employment they need to discharge this responsibility.

Planning Laws

Redevelopment plans and planning laws and regulations must take more account of the needs of enterprise - particularly at the smaller end. We have seen smaller businesses - whether small scale manufacturing or services or shops - driven out of our inner city areas and nothing has returned in their place. Both at national and local level we want to encourage the creation of new businesses, giving new work opportunities back to our cities. The attempt by local authorities to

fill the gap by municipal trading makes matters worse and adds further discouragement to individual enterprise. We are opposed to the expansion of municipal trading as we are to the expansion of direct Labour organisations.¹

Employment Laws

We are deeply concerned that some of our present labour laws aimed at protecting employees and jobs may actually be acting as a disincentive to the creation and maintenance of employment opportunities. With 1½ million unemployed, it is crucial that full and fair opportunities to work should be provided for as many people as possible. A revival of output and profitability can bring with it many job opportunities across industry and particularly amongst the smaller businesses. We want to promote a constructive discussion with all sides on how this revival may be being hindered by the operation of some parts of employment law.

We are deeply concerned, too, about the loss of livelihoods resulting from closed shop arrangements.

The Conservative Party is not in favour of the closed shop. We believe that in the past the threats to individual freedom that can spring from closed shop agreements have been ignored or pushed aside because the convenience of a union membership agreement, both to unions and sometimes to employers, has been allowed to become the first consideration. We believe that employers and unions can and should do without such agreements.

We recognise, however, that outlawing closed shops can sometimes be not only ineffective, but positively damaging to the individuals concerned. The evidence suggests that informal agreements continue even if formal ones are banned. They may restrict the individual's right to work far more than an open agreement which is regulated and limited.

We are determined to provide the best protection for the individual. So we propose that if such agreements are made, the following points must be observed:

.. / 1) a closed

1. A fuller programme for encouraging small businesses by these and other measures is set out in the recent publication of the Party's Small Business Bureau "The Right Approach: small businesses"⁷

- How many?
- i) a closed shop agreement should only be made with the consent of the workpeople involved;
 - ii) existing employees should not be forced to join a union against their will; people unfairly dismissed for refusing to join should be eligible for compensation;
 - iii) individuals who have strong personal convictions which make it impossible for them to join a union should be exempt;
 - iv) any closed shop agreement should protect the rights of members of professions whose codes of conduct forbid them to take part in industrial action;
 - v) there should be an independent tribunal available to consider cases of people who have strong personal convictions against trade union membership or who are arbitrarily excluded or expelled from particular unions.

We intend to incorporate these conditions into a Code of Practice for negotiation of closed shops. And if voluntary agreements do not provide adequate safeguards for individuals, we shall be prepared to legislate to guarantee them.

Taking a fuller Part at Work

We are also opposed to Labour's proposals for Industrial Democracy - the Bullock Report. These destructive plans would give unions a power of appointment to the boards of private companies amounting to both a removal of all rights of ownership from investors and a recipe for disputes, whilst denying any effective say to people at their place of work.

The Conservatives have consistently pressed for fuller participation at work. Unless people really understand the position of and prospects for the enterprise in which they are employed, and unless they have fulfilling tasks to do, there will be little hope of the nation achieving higher output and greater efficiency. And without that, we shall never restore prosperity and jobs.

.../ But the impetus

But the impetus must come from employers and employees themselves. That is why the last Conservative Government set up the Steering Group on task-level participation jointly with the unions and the employers. Of course the need to take part does not stop there. Employees should also know when major decisions are about to be taken - decisions that could affect them: does a key part of the firm have to be expanded or closed; is a merger or takeover desirable; should there be major new investment?

In smaller businesses, the more intimate and close-knit nature of personal relationships normally ensures that people working there do have a proper say. But the unhealthy expansion of the public sector in recent years as well as the growth of conglomerates in the private sector means that many people now work in vast enterprises where they have little say.

So we are looking at ways in which people at work can be given the right to information about these big decisions. And we will encourage the development of a variety of ways and means for employees to influence these decisions. We think these can best be worked out in each enterprise to suit its own circumstances. But we will provide a firm lead and sensible guidance.

Prices and Competition

We oppose broad price and profit controls. Such arrangements reduce not prices but jobs. The preservation and maintenance of fair competition is our central concern in this area. The Price Commission should probably be abolished. The Office of Fair Trading and the Monopolies Commission can be organised to deal with all aspects of restrictive practices and lack of competition in pricing policies, particularly in the public sector. Nevertheless, despite the ineffectiveness - and harmful side effects - of price controls, we do not ignore the psychological reassurance which some consumers may derive from their existence.

Too Many Laws and Regulations

We intend to review the full range of health, building, safety and other regulations in order to improve the climate for enterprise. It may well be that many of these regulations

spring from vitally important social considerations. This we recognise. But it does not follow that they cannot be improved both in their design and application to encourage rather than discourage business expansion and new work opportunities.

CHAPTER V

A NEW START

While the Labour Party has been forced into monetary discipline by the International Monetary Fund, we expect to see constant pressures on the Labour Government to kick over the traces and return to high inflation policies. We see no proper Labour understanding of the springs of business enterprise and no determination to reduce substantially the levels of personal and capital taxation. The growth of public expenditure has been curbed - but for how long? We doubt whether the Socialists would use North Sea oil revenues to repay our huge debts or reduce personal taxation. All the indications are that these funds would be "diverted" into so-called socially usefully investment - which in fact would be wickedly wasteful spending.

We see the Labour Government still flirting with the idea of a depreciated currency to encourage exports, and still hankering to fix as far as possible the value of the exchange rate and to interfere with the flow of capital in and out of the country. The disastrous effect of very sharp movements in interest rates and very high levels of interest rates may now be dimly appreciated. But the financing of ever-swelling public expenditure plans is still clearly the first Labour priority.

Hostility to the European Economic Community is latent in the Labour Party which seems to be drifting once more towards 'Mr. Benn's Little England', with calls for import controls, tariffs and even withdrawal from the EEC. More laws are planned giving increased economic power and control to trade unions and to the State, and more taxes are being worked out (such as the Wealth Tax) to be added to the many existing taxes in Britain.

In all these areas we now propose a change of policy, so that the framework can be established in which the new approach we have described to earnings, to pay determination, to public spending, to taxation and to industry and commerce can be properly developed.

Once again the Socialist solutions have been tried in Britain and once again they have failed miserably. Our country continues to insist on freedom, to reject the intolerant and

narrow breed of State Socialism that has developed in Britain, to demand the policies which suit a free and responsible society. Our economic policies seek to meet that demand.

They do not guarantee a Golden Age. They do not impose upon the British people a superior knowledge which neither politicians nor civil servants in fact possess. The Conservative Party is part of the people and has grown from the history and roots of the people. We are not a State party, a cadre of experts or a party wedded to the interests of one group or class.

We believe that Government knows less about business than businessmen, less about investment than our investors, and less about pay bargaining than trade union negotiators and employers. We think we understand the limitations on what a Government alone can do. This is surely the beginning of wisdom and commonsense.

After the long years of failure and disappointment, that seems to us the best starting point for the Government of a free country to proceed from on the path to national recovery.

We do not underestimate the difficulties. The freedom - and the risks (which are in truth opportunities) - that we offer will seem strange and even alarming to many, in boardrooms and in council houses alike. Too many people have for too long been conditioned to dependence and constraint.

But there is no bright future for Britain - or for any individual in Britain - unless the break for freedom is made. Let us remember that twenty-six years ago the British people were in much the same state of doubt and near-despair.

'Tory freedom' worked then. We are sure it will work now.