

THE CAMPAIGN GUIDE 1989

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FOREWORD

This book is the latest volume in a series which began in 1892. Like all its predecessors, it is a detailed and authoritative work of reference, which describes the impact of Conservative policies on the course of British politics. The extent of the impact made by the policies of Mrs Thatcher's Government is reflected in the length of this work.

The Campaign Guide is not only an established part of the Conservative Party's tradition; it is also quite unique. No other political Party has ever undertaken a similar exercise.

In one respect this *Guide* differs from the previous volumes in this series. They have all been designed to help equip the Party for General Elections. This volume forms part of the briefing material being provided by the Conservative Research Department and the European Democratic Group Secretariat for this year's County Council and European Elections.

This *Guide* concentrates mainly on events since the spring of 1987 which is where its immediate predecessor *The Campaign Guide 1987* stopped. It covers developments up to the end of February 1989 in detail – with a special supplement (housed in the inside back cover) summarising the March Budget. However, each chapter also provides a clear indication of the Government's overall achievement during its ten years in power.

The first *Campaign Guide* in 1892 was prepared in ten weeks, though its editors proudly announced that that had not been allowed to 'interfere with the accuracy of its statements on matters of fact'. This *Guide* has taken rather longer. Some of those who have contributed to it are no longer working in the Conservative Research Department; others have changed their responsibilities during the time it has been in preparation, and as a result have contributed to more than one chapter. But all of them sought to ensure that the contents of this *Guide* are as accurate as those of its predecessors in the series.

March 1989

ALISTAIR B. COOKE

Editor and Deputy Director

ROBIN HARRIS

Director

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INTRODUCTION

The introduction to *The Campaign Guide 1987* ended by quoting the **Prime Minister's** observation that 'new occasions teach new duties' and promised that its successor would

describe how those duties were fulfilled. Our *Campaign Guide 1989* marks the first stage of doing just that.

This volume records the swift progress which has been made in implementing the contents of *The Next Moves Forward*, the 1987 Conservative General Election Manifesto. Some three-quarters of the radical pledges in that document have now been fulfilled. Their effects will be felt into the 1990s and beyond. The fundamental approach in every area has been to widen choice, encourage responsibility and so to improve standards.

In housing, those council tenants who cannot, or do not want, to buy their homes will now be able to enjoy greater choice. Public sector tenants have been given the right to change landlords and to run their estates. Those seeking to rent a home in the private sector will have a greater opportunity to find what they want where they want, as deregulation of new lettings increases the supply.

In education, parents now have a wider choice of school for their children as a result of the introduction of open enrolment – and there are greater powers for parent-governors too. Schools can choose to manage their own affairs by opting out of LEA control entirely. The authority of head teachers and governors has been reinforced. The national curriculum and testing and assessment will help improve standards.

In trade unions, the rights of individual members have been further protected and democracy strengthened to encourage responsibility.

In local government, the introduction of the Community Charge marks the end of the unfair rating system and the substitution of arrangements to ensure that almost everyone pays something in local bills towards the cost of local services. The new Uniform Business Rate will protect businesses and jobs from the irresponsible spending policies of extremist local authorities. Legislation is also being introduced to tackle the abuses of power which too often have characterised local government in some areas.

The Conservative pledge to reduce the standard rate of income tax to 25 pence as soon as it was prudent and sensible to do so was fulfilled in the first post-election Budget; as a result, people have more of their own money left to spend, save or give away.

The Conservative Manifesto's pledges on privatisation are on course for fulfilment. The British Airports Authority has been sold. Rover Group, the Royal Ordnance Factories and British Steel have been privatised too. Measures for the privatisation of the Water Authorities and the electricity supply industry are before Parliament. Wider ownership and more freedom from government restraints on investment will be combined with tough regulation in the interests of the consumer.

The latest stage in the Conservative programme of reform is embodied in the Government's proposals for further improvement of the Health Service, *Working for Patients*. Their aim is to bring the standard of care for patients in all areas up to that enjoyed in the best. This will be done by making those who work in the NHS, at every

level, more responsive to the wishes of patients and more conscious of the fact that greater efficiency and better care do not contradict, but rather complement, each other.

On none of these issues – housing, education, trade unions, the rates, tax, privatisation, the Health Service – have the Opposition proved able to devise clear, credible alternatives either to the present system or to the Conservative Government's proposals. In each case, their instincts have been to perpetuate the *status quo* and to defend the vested interests which thrive there: only slowly and grudgingly have they been prepared to admit that improvement may require change and that change may require boldness and clarity of purpose.

The result is, for any outside observer, a paradox: it is the Government which, after almost a decade of office, is reforming institutions; it is the Opposition Parties which are seeking to resist the tide of change.

It would be easy to ascribe this apparent reversal of roles to the personalities, strengths and defects of the Party leaders. Certainly the general public has taken stock of their relative performances. But still more important has been the proven success of the free enterprise system and the equally manifest failure of socialism, not just in Britain but around the world.

The success of the Conservative approach has demonstrated once and for all the total falsehood of the notion that the market economy, operating in a property-owning democracy with proper regulation of standards and a secure safety net of benefits, works for the rich at the expense of the poor. In Britain since the Conservatives took office:

- Living standards have risen to record levels. For a family with two children on half average earnings, real take-home pay has risen by almost 23 per cent, whereas under the last Labour Government it rose for such a family by barely 4 per cent.
- Higher tax revenues, flowing from the increased wealth creation which free enterprise policies have promoted, have enabled the Government to spend more than ever on public services which are particularly important to the less well-off: spending on the NHS, for example, has risen by 40 per cent over and above inflation; spending on benefits for long-term sick and disabled people has risen by 90 per cent.
- Unemployment has fallen by almost one million since the last General Election – faster than in any other major industrial country and, within Britain, fastest in the regions.

In Conservative Britain, the pursuit of greater equality of opportunity, rather than the ultimately self-defeating socialist objective of rigid equality of outcome, has provided greater prosperity in which people in every region and income group have shared.

A second paradox, no less surprising to the outsider than the first, is to be found in the fact that it is the Government's left-wing critics who now echo the once traditionalist

right-wing complaint that recent material progress, which it is impossible for them to deny or ignore, has only been attained at the expense of non-material 'values' – and that the cost has been too high.

The **Prime Minister** has vigorously rebutted such criticism. First, she has emphasised that the creation of wealth is not the same as materialism and that the desire to succeed is not synonymous with selfishness.

'Does someone's natural desire to do well for himself, to build a better life for his family and provide opportunities for his children, does all this make him a materialist? Of course it doesn't. It makes him a decent human being, committed to his family and his community *and* prepared to take responsibility on his shoulders. The truth is that what we are actually encouraging is the best in human nature. The prosperity brought about by our policies offers a wider choice to more people than ever before. Yes, our children can travel to see the treasures and wonders of the world. Yes, older people can enjoy greater comfort and pursue their own interests. Yes, culture and the arts are thriving. ... As prosperity has increased, so the fundamental generosity of our people has prompted far more personal giving. ... The fact is that prosperity has created not the selfish society but the generous society' (Brighton, 14th October 1988).

A second charge made against the Conservative approach is that it has favoured the individual at the expense of the community. However, Conservatives have always rejected that argument, not least because it implies a false view of human nature and motivation. For Conservatives, as for Edmund Burke, 'to be attached to the sub-division, to love the little platoon we belong to in society, is the first principle (the germ as it were) of public affection. It is the first link in the series by which we proceed towards a love to our country and to mankind'. Or, as the **Prime Minister** has put it:

'Encourage the individual and the community benefits. A parent's success is shared by his family, a pupil's success by his school, the soldier's by his regiment. A man may climb Everest for himself, but at the summit he plants his country's flag' (Brighton, 14th October 1988).

The Government's critics began by suggesting that free enterprise policies, combining limited government with fewer controls, could not work. They were proved wrong. The critics then claimed that the success of those policies was purchased at too high a price. Few have been convinced. Most recently, they have come full circle and argued that, far from increasing freedom at all, the Conservatives have been eroding it. The argument that Socialism with its emphasis on State ownership and control, heavy regulation, corporatism in industry, powerful and monopolistic unions, egalitarianism in education and housing, and a defence policy which plays down deterrence in the face of Soviet strength, is a better path to freedom is unlikely to prove more convincing.

By contrast, the Conservative Government has significantly reduced the scale of State intervention in people's lives, extended private ownership of homes, shares and pensions,

increased families' security and independence, and widened choice in housing, education and jobs.

The power of government has been reduced – though power *within* the public sector has been shifted, for example through the removal of one tier of local authorities. Even in those areas relating to security, against which criticism on the Left has been fiercest, both the Official Secrets Bill and the Security Service Bill are significant measures of liberalisation.

At the same time, Conservatives unashamedly recognise that the free society is vulnerable and must be protected. Consequently, the Government has been firm in retaining and, where appropriate, strengthening powers to deal with terrorism and other crimes. It is a false view of freedom to contrast it with security, order and responsibility. As Mr Brooke has said:

‘Rights and duties go together: freedom entails responsibility as well. And sometimes the State must be strong to use its authority to protect freedom if it is to survive at all’ (Southport, 12th February 1989).

Not only are the theoretical arguments advanced by the Government's critics wrong; they are also irrelevant to the challenges which have to be faced into the next decade:

- *The need for a well-educated, well-motivated and flexible work-force.*
- *The need to take full opportunity of the Single European Market which will open up from 1992.*
- *The need to work for a cleaner and safer environment.*
- *The need to face up to the threats of terrorism and violent crime.*
- *The need to maintain sure defences as the only path to peace.*

All of these challenges require Conservative leadership for the 1990s and beyond.

1. THE ECONOMY

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(A) THE CONSERVATIVE INHERITANCE AND THE GOVERNMENT'S STRATEGY

‘The British Disease’. The reversal of Britain's economic decline, and the rebuilding of a strong and dynamic economy, were the major challenges facing the Conservatives in 1979. The task was immense. Britain had been losing ground to her main competitors for at least a century. But it was during the 1970s that the deep-rooted weaknesses of the British economy became increasingly obvious.

Out-of-date working practices and excessive trade union power combined to cripple British industry. Overmanning and inefficiency were endemic, both in the public and private sectors. Unions demanded – and management conceded – wage increases with little regard to the need for British industry to compete in world markets. The country was racked by strikes and industrial unrest, leading to the loss of millions of working days and billions of pounds of output. Escalating taxes and rising inflation were the price paid for the remorseless increase in Government spending. Around the world people spoke of the ‘British disease’.

Labour's Contribution to Decline. Some of the causes of Britain's lamentable performance were complex and went back many years, but, as the 1979 Conservative Manifesto pointed out:

‘Others are more simple and more recent. We do not lay all the blame on the Labour Party: but Labour have been in power for most of the last fifteen years and cannot escape major responsibility’.

Nowhere was Labour's failure more apparent than in the conduct of economic policy. Labour's economic strategy was based on two crucial assumptions: *firstly*, that macro-economic policy could be used to regulate or ‘fine-tune’ demand to ensure economic growth, full employment and rising living standards; and *secondly*, that the twin aims of supply-side policies should be to hold down inflation through prices and incomes controls and to rectify market failures by intervening in the economy directly, and on a massive scale. In other words, Labour insisted that Government action, rather than the private sector, held the key to growth and prosperity. As the Chancellor of the Exchequer, Mr Nigel Lawson, has commented:

‘This approach not only failed to deliver economic success. It did grave damage to the economy. While inflation rocketed, excessive interference and controls meant that important markets ceased to work properly, and some barely worked at all’ (Speech to the Institute of Economic Affairs, 21st July 1988).

The Result of Labour's Mismanagement. Labour's reaction to the huge increase in oil prices in 1972–3 illustrated the misconceptions underlying their economic strategy. In an attempt to counter the deflationary consequences of higher oil prices, Labour pressed ahead with a massive increase in borrowing and public spending. Spending grew by 12.2 per cent in real terms in 1974–5, at a time when the economy was actually contracting. The Public Sector Borrowing Requirement rose from £4.3 billion (5¾ per cent of GDP) in 1973–4 to £8 billion (9 per cent of GDP) in 1974–5. Labour's failure to pursue a firm monetary policy in the wake of this rapid expansion of spending pushed the rate of inflation to almost 27 per cent in August 1975. The economy was in crisis. In the CBI's gloomy judgement:

‘1975 was a year of deep recession, high inflation, extremely poor business profitability and liquidity, rising unemployment and sharply falling investment ... Of the components of demand only public spending showed any buoyancy’ (CBI Budget Representations, February 1976).

Attempts to control inflation through such means as the Prices Commission and an incomes policy were doomed to failure. As foreign confidence in the UK economy evaporated, the pound fell sharply. By late 1976 Mr Healey was forced to accept that the economy could no longer finance Labour's extravagant spending plans. On 29th September 1976 Britain was obliged to apply to the International Monetary Fund (IMF) for a loan of £2.4 billion (never before had the IMF been asked for so large a sum). The loan enabled the IMF to dictate economic policy to the Labour Government: spending was slashed by 6 per cent in real terms in 1977–8, and the PSBR was almost halved. And in a forced, but unfortunately fleeting, conversion to privatisation, Mr Healey sold BP shares worth £½ billion in order to shore up the ailing public finances.

The IMF intervention gave the nation a temporary respite, helping bring inflation down to 7.4 per cent by the middle of 1978. But the recovery was short-lived. Once free of IMF control Labour reverted to the very policies that had precipitated the crisis in the first place. In 1978–9 public expenditure rose by almost 6 per cent in real terms, and the PSBR almost doubled. Inflation, which had been brought down to single figures, was, by early 1979, rising rapidly once again.

Mr Bernard (**now Lord**) Donoghue was a key economic adviser to the Labour Governments of the 1970s. His memoirs provide a telling insight into the failure of Labour's economic strategy:

‘Labour pursued the Keynesian priorities of growth, public expenditure and full employment. It was accepted that this might inevitably lead to disadvantages in terms of slightly higher inflation and taxation than might otherwise be the case. In practice we suffered the inflation and the taxation but did not enjoy the growth or the full employment. The same was true of public expenditure ... Ministers during 1974–9 found that they were spending more on public expenditure and not receiving better public services in return’ (*Prime Minister: The Conduct of Policy under Harold Wilson and James Callaghan*, p. 80).

The Evidence of Failure. Six key economic indicators illustrate the weakness of Britain's economy before 1979:

- *Growth.* Throughout the 1960s and 1970s the UK grew more slowly than any other major European economy.
- *Productivity.* In the two decades to 1980 output per employee in British manufacturing industry grew more slowly than in any other major industrial economy.
- *Wages.* Poor productivity growth was accompanied by escalating money wages: between 1963 and 1980 unit wages costs in the USA, Germany and Japan roughly doubled, while in the UK they rose fivefold.
- *Profitability.* High wages, rampant inflation and poor productivity eroded profitability. The rate of return on manufacturing investment steadily declined. By the late 1970s the average rate of return on capital employed in British industry was about half that in the USA or Germany – and just a third of that in Japan.
- *Jobs.* As Britain fell further behind its major competitors, the UK economy encountered more problems in creating – and retaining – jobs. As a result, between 1974 and 1979 unemployment more than doubled.
- *Living Standards.* Slow economic growth and rising levels of taxation meant that take-home pay rose only slightly – and in many cases actually fell. An average married couple with two children, for instance, saw an increase in their take-home pay of just 0.7 per cent between 1974–5 and 1978–9.

2. THE CONSERVATIVE ANALYSIS AND STRATEGY

The election of Mrs Thatcher's Government in 1979 represented a decisive break with the economic policies of the 1970s. Instead of managing decline, the Conservatives set out to reverse it. As Mr Lawson has emphasised, there have been two main elements in the Government's strategy:

‘First, we had to dispel the notion that the way to economic success lies through a sort of fiscal levitation. That was the abiding post-war delusion – that governments could spend and borrow their way to prosperity, and fine-tune the performance of the economy through something known pretentiously as demand management ... It used to be an establishment nostrum that you need a budget deficit to get economic growth. That was the belief which lay behind the notorious letter by 364 economists in March 1981. We have given the lie to that, decisively. There can no longer be any argument about it. Everyone – or almost everyone – now accepts that the proper role of macro-economic policy is to keep downward pressure on inflation and to maintain a stable framework in which the private sector can expand.

Our second task has been to shift attention to the enterprise culture ... Building the enterprise culture takes many forms. We had to give management back to the managers, so we stopped the Government from setting pay and prices ... We had to give the unions

back to their members, so we wrote into law a series of basic rights. We had to leave businesses and their workers to accept more of the consequences of their own actions, so we increasingly took the Government out of the industrial bail-out business. We had to get the Government off the backs of the entrepreneurs, so we abolished whole batteries of controls' (*Tax Reform: The Government's Record*, Conservative Political Centre, June 1988).

Inflation and the Medium Term Financial Strategy. The battle against inflation has remained constantly at the forefront of the Government's economic strategy since 1979. Since 1980, the Medium Term Financial Strategy (MTFS) has provided the framework for the Government's economic policy and for the fight against inflation. The key to the control of inflation lies in a firm monetary policy supported by a prudent fiscal policy.

The Conservative Achievement. Today, the Government's finances are in better shape than for a generation with debt being repaid and the share of national income taken by public spending lower than for 20 years. Since 1979 monetary policy *has* worked in support of fiscal policy, with short-term interest rates as the essential instrument for dealing with inflationary pressures.

The Government's strategy has held inflation far below the levels recorded under Labour when inflation averaged 15½ per cent, reaching a peak of 27 per cent. And the Government has made it clear that there will be no letting up in the fight against inflation. As the **Prime Minister** has stressed:

'However firmly rooted our new-found strength, you can't steer an economy on auto-pilot. Success doesn't look after itself. You have to work at it. In economics there are no final victories' (Speech to the Conservative Party Conference, 14th October 1988).

The Chancellor has repeatedly reaffirmed the Government's determination to keep inflation under control, even though he recognises that this may be difficult or unpopular in the short term. British industry has flourished in the conditions of low inflation created by Conservative policies. Nothing would be as damaging as a return to the rampant inflation of the 1970s.

The Supply Side. The creation of an enterprise culture has required the removal of controls and distortions on the operation of individual markets. Wherever possible, the aim has been to let consumers, workers and management take decisions themselves, free from excessive state interference. At the same time, the Government has worked to improve the speed and flexibility with which markets operate, thereby boosting efficiency and growth.

Controls on prices, dividends, income and foreign currency transactions have been swept away. The enormous self-defeating subsidies to both the public and private sectors have been stopped. The Government has adopted a straightforward approach to ensuring the maximum competition in markets. Tough action has been taken against agreements which rig prices or deny consumers choice. And, of course, the Government has reformed

and modernised trade union legislation, removing the distortion to the labour market that had arisen because of the overwhelming imbalance in power between union leaders and management.

Where markets have worked only slowly or erratically, the Government has not hesitated to help. In 1988–9 for instance, it is spending about £3.2 billion on training and employment measures to help the unemployed back into work. But all such assistance is carefully targeted; it has a clearly defined aim; and, above all, it is designed to work with the grain of the market in order to improve the efficiency and productivity of the economy.

Taken together, the supply-side reforms of the last nine years have had a dramatic effect on the ability of the UK economy to generate wealth. Productivity, or output per man – perhaps *the* key indicator of economic efficiency – has risen rapidly throughout the 1980s. In manufacturing industry productivity has risen by more than 40 per cent since 1980, a rate of growth that has outstripped *all* our major competitors, including Japan.

Cutting the Size of the Public Sector. At the same time as pursuing policies to control inflation and free markets, the Government has successfully reduced the size of the public sector, both in order to improve efficiency and to give the private sector more scope to expand. Action to reduce the size of the State sector has taken a number of forms – cutting rates of taxation; privatising 19 major nationalised industries; reducing waste and overmanning in the public sector; contracting out central government and local authority services; and selling over 1 million council houses to their tenants. All these changes represent a decisive shift in economic power from the State to the private sector and the individual. The scale of the change in the balance between the public and private sectors can be illustrated by three key statistics:

- the share of national income accounted for by public spending has been falling continuously since 1982–3, and is now almost one fifth below the peace-time peak it reached in 1975–6;
- the Government's privatisation programme has transferred about 40 per cent of the State industrial sector to the private sector;
- the number of people employed in the public sector has fallen from 6.6 million in 1979 to 5.6 million today, a fall of 15 per cent.

3. LEADING THE WORLD

The Conservative victory in 1979 signalled a revolution in the conduct of UK economic policy. Observers around the world watched closely to see if the so called 'British experiment' would pay off. In the 1960s and 1970s many other countries, like Britain, had sought to stimulate economic growth by the same combination of intervention, high taxation and burgeoning public spending. The success of the British economy in the 1980s has encouraged other countries and governments – some of them socialist – to give up long-held policies and opt for free market solutions. As the *Wall Street Journal* commented after Mr Lawson's sixth budget:

‘Britain has returned to the lead in the global swing towards free economics and pro-growth policies based on individual initiative’ (16th March 1988).

Privatisation. Throughout the world, both East and West, the State is handing the management and ownership of industries back to the private sector. Virtually all of our partners in the EC have sold, or are planning to sell, large portions of the nationalised industry sector. Japan has privatised its State airline and its national telecommunications company. A number of Latin American countries are committed to privatisation in order to reduce the size of their State sectors and cut their public deficits. Even Cuba and China are selling State-owned housing to tenants.

Tax Reform. Most other industrialised countries have followed Britain's lead in reducing rates of direct tax, especially top rates, and in broadening the tax base by removing or reducing tax shelters. The United States adopted a comprehensive tax reform strategy in 1986 which reduced the number of Income Tax rates from fifteen to two: 15 per cent and 28 per cent. Even Labour Governments in New Zealand and Australia have embraced the cause of reform, simplifying their tax systems and slashing rates.

The Supply Side. In the light of Britain's economic success there is a growing recognition around the world that the only way to guarantee prosperity and rising living standards is to let markets operate and reduce State interference in the economy. The world's seven major industrial powers have pledged themselves to:

‘continue to pursue structural reforms by removing barriers, unnecessary controls and regulations, increasing competition ... removing disincentives to work, save and invest, such as through tax reform; and by improving education and training’ (Extract from the final Communiqué of the Toronto Summit, 21st June 1988).

The Organisation for Economic Cooperation and Development (OECD) has reported that all member governments have undertaken structural reform programmes designed to free markets and so to boost economic growth. The OECD's Economic Policy Committee gave its full support to the kind of policies being pursued by the British Government, noting that ‘in countries where policies have been strongly directed over a number of years towards expanding the role of markets, overall economic performance has noticeably improved.’ Such reforms ‘have at times exceeded expectations – for example where deregulation has opened up previously unexpected opportunities and enabled companies to pursue them in a more competitive environment’ (*Financial Times*, 17th May 1988).

Reform in the Soviet Union. Mr Gorbachev sees the revival of market forces as the essential precondition for the modernisation of the Soviet economy and the raising of living standards. In what appears to be a remarkable recognition of the importance of free markets and incentives, Mr Gorbachev told the Communist Party conference:

‘It is quite unacceptable for enterprise to be forced by the state to produce output that is not in demand from consumers ... simply in order to achieve the notorious gross output.

[One of the Soviet Government's major tasks would be] to provide a direct link between income and final results in such a way that any improvement in the work of the collective is encouraged by an increase in its income. We cannot tolerate ... the possibility of living quite well while working badly' (*Financial Times*, 29th June 1988).

In order to secure the political reforms he seeks, Mr Gorbachev will be under pressure to give people more economic freedom – to run their own businesses, to work where they want, to produce the goods and services they want. Commenting on the significance of this link between economic freedom and political freedom, Mr Lawson has said:

‘Our achievement ... has been to show that you can build far greater, and far more lasting, prosperity by letting people co-operate in the freedom of the market place than by making them submit to the coercion of Government regulations and state bureaucracy. If you look around the world today, East and West, even in Soviet Russia and Communist China, you will see that lesson being taken to heart ... The truth is that a prosperous world based on free and open markets is a world of co-operation and interdependence between the people of all nations. By contrast, a world of closed, State controlled economies is a world disposed towards confrontation and conflict’ (Speech to the Conservative Party Conference, 13th October 1988).

4. GROWTH AND PROSPERITY

The success of the Conservative strategy is underlined by a whole range of economic indicators. On virtually every measure of performance the UK is doing better than for years.

Growth. The UK is now completing its eighth successive year of steady economic growth at a rate averaging 3 per cent – a longer period of sustained growth than for 50 years. Since 1980 Britain has grown faster than any other major EC country.

Manufacturing. Manufacturing industry is now healthier, more competitive and more productive than ever. Manufacturing output is now at record levels, and is expanding faster than consumption or GDP. Exports have risen by almost 40 per cent since 1979. And, for the first time in decades, Britain has, since 1981, maintained its share of world trade in manufactures.

Profitability. Business profitability has been rising steadily since 1981. In 1987, the profits (i.e. the rate of return on capital employed) of non-North Sea oil companies rose to 10.2 per cent – their highest level for almost 20 years.

Investment. Because British companies are making satisfactory profits they are able to invest and expand. Total investment in the economy has been rising at a rate of 5 per cent since 1981, well above the rate of growth of the whole economy, and three times as fast as the EC average. Total fixed investment passed its 1979 peak in 1984 and has continued to rise since then – it is now 36 per cent higher in real terms than in 1978–9.

New Businesses. Small and growing firms are thriving. On the basis of VAT registrations, business starts exceeded stops by over 500 a week between 1979 and 1987, and by about 1,000 a week in 1988. Self-employment has risen in every year since 1979: the total increase is over 1 million, a rise of 60 per cent – more than six times as large as in the previous 20 years.

New Jobs. The work-force in employment is now at record levels, having risen by over 2 million since 1983, the longest sustained improvement for at least 40 years. Over the last 4 years Britain has created as many new jobs as the rest of the EC put together.

Unemployment. Adult unemployment has been falling for over 2 years – the longest period of sustained reduction since the War – bringing down the total by over 1 million. The youth and long-term jobless totals are actually falling more rapidly than the general unemployment rate, which itself is falling faster than in any other major industrialised country. Unemployment is falling in *all* regions of the country; the national rate is now well below the average for the EC.

Standard of Living. Substantial reductions in rates of Income Tax coupled with strong economic growth have helped lift incomes to record levels. For an average family man with two children real take-home pay has risen by over 27 per cent since 1978–9. A single person on half average earnings has seen a 26 per cent rise in take-home pay over the last ten years, even after allowing for inflation.

Prosperity. With the rise in real incomes, many more people are able to afford goods that were previously within the reach of only the rich. Since 1979 three million people have bought their own homes. Over the same period share ownership has tripled to 9 million. Barely half of all households had central heating in 1979 – now almost three-quarters do. Ten years ago, hardly any households had videos, microwave ovens or home computers. Today nearly one in five have home computers, almost one in three have microwaves, and almost half have videos.

Britain's economy has been transformed since 1979. Today, more and more people are enjoying the benefits of a strong and growing economy. A period of sustained economic decline has ended; a dynamic, competitive economy has emerged. As the OECD has commented:

‘It is already now clear that the 1980s will stand out as a decade of impressive improvement in economic performance, reversing a long-term trend of decline relative to other Member countries’ (OECD, *Survey of the UK Economy*, 17th August 1988).

(B) CONTROLLING INFLATION

1. WHY INFLATION MATTERS

The fight against inflation has been at the very centre of the Government's economic strategy since 1979. As Mr Lawson has made clear, the Conservatives have never dodged the sometimes difficult decisions necessary to bear down on inflation:

‘The battle against inflation is paramount ... this Government will always take whatever action is necessary to beat inflation. Let there be no doubt about that whatever’ (Speech to the Conservative Party Conference, 13th October 1988).

During the 1970s the persistence of very high levels of inflation, both historically and relative to our major trading partners, was a major factor in undermining the strength of the British economy and in weakening social cohesiveness.

Inflation has a number of damaging and destabilising consequences. Firstly, it arbitrarily reallocates wealth from savers to borrowers. As a result those people, such as the elderly, who rely on savings see the real value of their investments diminish. After four years of Labour Government in 1979, the real value of a pound had been reduced to just 47p. Such a massive debasement of the currency had particularly dire effects for those on fixed incomes.

Secondly, inflation erodes the real value of incomes between wage settlements with consequences that are socially divisive and disruptive. Workers with stronger bargaining power are able to exert their industrial muscle to maintain, and indeed increase, the real value of their incomes. Those with little ability to apply pressure – the self-employed, those working in smaller firms, the armed forces – see their incomes being eaten away by inflation. Differentials are eroded, industrial unrest breaks out and dissension occurs between workers and management. It is no coincidence that the 1970s witnessed both record rates of inflation and crippling industrial unrest. Those workers who are unable to keep up with inflation experience a real fall in their incomes with damaging consequences for incentives and morale.

Thirdly, in a market economy changes in prices are supposed to signal changes in the supply and demand for goods and services. In an economy suffering from high levels of inflation, the price signals which are supposed to convey crucial information about consumer demand, availability and costs are distorted. It becomes difficult for businessmen to interpret demand for their products and assess the real cost of their raw materials, the more so since prices for different commodities rise at different rates. As a result, firms find it hard to plan ahead with any certainty, confidence is undermined and growth suffers.

2. MONETARY POLICY

The MTFS. Since 1980 the Government's macro-economic policy has been conducted through the Medium Term Financial Strategy (MTFS) with the aim of ensuring sustained, non-inflationary growth. By bringing together fiscal and monetary policy, the MTFS is designed to provide a successful framework for the control of inflation, the reduction of public borrowing and a decline in public expenditure as a proportion of national income.

Above all, the MTFS represents a departure from earlier techniques of macro-economic management by substituting continuity of policy for attempts at short-term fiscal 'fine-tuning'. Thus, instead of trying to regulate the economy by altering levels of spending, borrowing and taxation throughout the financial year, the MTFS sets out medium-term objectives for the Government's policy.

Such an approach means that business understands that policy will not be adjusted to the long-term detriment of the whole economy in order to insulate firms or union negotiators from the consequences of their own action. Thus, in 1980–1 the Government refused to devalue to shield companies from their own uncompetitiveness caused by excessive pay settlements (see p. 18). As the OECD has pointed out, the MFTS has put the burden of managing and decision-making back where it belongs by 'forcing the private sector to take more responsibility for adjusting to a changing economic environment, whether caused by external factors or initiated within the private sector' (*Survey of the UK Economy*, 17th August 1988).

Monetary Policy. The aim of the Government's policy has been to keep the growth of money GDP or nominal income on a downward path. And, by pursuing policies designed to help markets operate more efficiently, the Government has improved the division of money GDP growth between real output growth and inflation. The success of the Government's strategy is shown by the fact that Britain is enjoying the longest period of sustained growth since the War while inflation remains at just a half of the rate it averaged under the last Labour Government – a period when the economy grew only sluggishly.

Monetary Targets. The only effective way to reduce the rate of growth of money GDP – and so bear down on inflation – is by adjusting the price of money through changes in interest rates (see p. 15 for details of how interest rates work). Yet because it is difficult to judge the correct level of interest rates in relation to the goal of lower inflation, the Government makes use of a range of intermediate targets which not only give indications of future trends in inflation, but also, to a large extent, determine actual levels of inflation.

The operation of monetary policy requires a continuous and comprehensive assessment of all such factors likely to affect monetary conditions – broad and narrow money (M4 and M1, see below), the exchange rate and other indicators including credit growth and house prices. However, during the 1980s the operation of monetary policy has been complicated by the deregulation of financial markets and the switch from a highly regulated economy to one almost free of controls. As **the Chancellor** has noted:

'Experience in the eighties has demonstrated that while the essential thesis – that monetary policy is the only weapon for bearing down on inflation – remains as valid as ever, the practical process of monetary control has become more complicated. The abolition of various controls in the financial system ... which have brought enormous benefits, has made it difficult to rely solely on monetary targets' (Speech to the Institute of Economic Affairs, 21st July 1988).

Sterling M3 (consisting of notes and coins in circulation with the public, plus all sterling bank deposits held by UK residents) was the Government's original choice as the key indicator of money supply. Throughout the 1970s M3 had shown a fairly close relationship to the rate of inflation, increases in M3 being followed about two years later by a surge in inflation.

This close link has progressively been weakened in the rapidly changing conditions of the 1980s. The abolition of controls on bank lending through the removal of the so-called 'corset' (a device for limiting lending by forcing the clearing banks to deposit a certain proportion of their liquid assets with the Bank of England) and the ending of the building societies cartel agreement have increased competition in financial markets and brought an end to credit 'rationing'. With banks and building societies increasingly competing for the same business, M3, which excludes building society assets, has become a less reliable indicator of inflationary trends. For these reasons the Government has, since 1987, given greater emphasis to M4 (which is M3 plus building society liabilities) as a wider and less erratic measure of broad money than M3.

The Most Important Monetary Indicators Today. The 1988 Financial Statement and Budget Report (FSBR) identified three particularly important indicators of monetary conditions.

Narrow Money (M1 and M0). As changes in financial markets have steadily weakened the relationship between M3 and inflation, greater emphasis has been given to narrower measures of the money supply which are free from the effects of interest bearing accounts. M1, comprising notes and coins plus current bank accounts, originally served this purpose. However, as banks began to offer interest on current accounts the value of M1 as an indicator of inflationary trends has weakened. Since 1984, more emphasis has therefore been given to M0, comprising notes and coins held by the public. The 1988 FSBR sets a target range for the growth of M0 of 1–5 per cent for 1989–90.

Broad Money (M4). As in 1987–8, the Government has set no target range for M4, though its movements will continue to be taken into account assessing monetary conditions.

Exchange rates are the third major indicator of monetary conditions (see below for details).

Monetary Policy and Inflation. The complications and technicalities of monetary policy should not obscure the Government's determination to bear down on inflation. Discussing the problems of monetary targeting, Mr Robin Leigh-Pemberton, Governor of the Bank of England, has pointed out:

'The particular problems we have in operating with a broad money target ... are essentially technical problems relating to the *form* of policy. The *substance* of policy on the other hand is quite clear. We will persist in bearing down on inflation, and as our success in achieving that objective is seen to continue into the future many of the present

concerns about the form of policy will come to seem less pressing' (Loughborough University Annual Lecture in Finance, 22nd October 1986).

Monetary Policy Overseas. Other countries have had similar problems in defining and targeting the money supply – principally as a result of the same sort of innovations that have affected the behaviour of M3 in the UK. The USA, France and Germany have, like the UK, redefined their monetary targets. Significantly, governments around the world have reduced their dependence on credit rationing as a tool of monetary policy as the difficulties of controlling international capital flows have become more apparent. As Mr Lawson has pointed out:

'The United States, Canada, Japan, Germany – even France and Italy – entirely rely on interest rates, and do not rely on direct credit controls, or anything else other than interest rates ... For the very good reason that, in a much more open world market and for the avoidance of distortions, that is the only sensible way to proceed' (*Hansard*, 12th January 1989, Col. 1011).

The Exchange Rate. A further influence on the rate of inflation is the exchange rate. A weak pound will, other things being equal, increase the cost of imports, thereby putting upward pressure on the rate of inflation. A depreciating exchange rate also gives British exporters scope to concede excessive pay increases, since the costs of the pay award in excess of any productivity gains can be recouped by either raising sterling prices in overseas markets or by keeping sterling prices stable and increasing export sales. Thus, exchange rates are both a significant indicator and an important determinant of inflation. Mr Lawson has made the Government's position on these matters quite clear:

'I am not prepared to accommodate inflationary pressures generated by high pay increases. That means I shall not allow the exchange rate to depreciate, to bail out British firms who do not keep their costs under control. And it means that, at home, inflationary pressures arising from pay awards have to be neutralised in the only way possible, through higher interest rates. So the most effective way to lower interest rates is lower pay rises' (Speech to the Annual Dinner of the Scottish CBI, 8th September 1988).

Government and the Exchange Rate. In influencing the level of exchange rates the Government has two instruments at its disposal: interest rates and intervention on the foreign exchange markets. Increases in UK interest rates relative to our competitors will increase demand for sterling, thereby strengthening its value on the foreign exchange markets. In addition the Government can, through the Bank of England, intervene in the currency markets, buying or selling sterling. Such intervention can play a useful role in the short term by checking undue currency movements which are out of step with the underlying performance of the economy.

International Action to Stabilise Exchange Rates. Left entirely to their own devices, foreign exchange markets are prone to fluctuations in currency values that can be extremely destabilising and disruptive. The dollar, for instance, stood at DM 1.80 in February 1980, rose to DM 3.50 in February 1985, then returned to around DM 1.80 in

February 1987. Those extreme fluctuations did not reflect any parallel changes in the performance of the economies concerned. As the **Chancellor** has said:

‘Of course, all financial markets have a certain amount of speculative froth. But to function well they need some players to take a longer view, and so provide a stabilising influence. In foreign exchange markets they have been conspicuous by their absence’ (Speech to the joint Annual Meeting of the IMF and the World Bank, 30th September 1987).

To counter the damage to world trade caused by violent fluctuations in exchange rates, the governments of the major nations have sought to keep currencies in line with the actual performance of the economies concerned through direct intervention and through adjustments in interest rates. The Louvre Agreement of February 1987 affirmed the commitment of the world's leading industrial powers to greater exchange rate stability. Commenting upon its importance, Mr Lawson has said:

‘The closer international co-operation which has been in place for well over three years now has ... been of great benefit in creating the right climate for healthy, non-inflationary growth, and particularly for investment’ (*Hansard*, 12th January 1989, Col. 1012).

3. INTEREST RATES

Interest rates have varied considerably under this Government, just as they did under the last Labour Government:

Interest Rate/Minimum Lending Rate: Highs and Lows

	<i>High</i>	<i>Low</i>
Labour	15 (Oct. 1976)	5 (Oct. 1977)
Conservative	17 (Nov. 1979)	7½ (May 1988)

Interest Rates and Consumers. Changes in interest rates affect consumer behaviour in *three* main ways.

First, higher interest rates raise the cost of borrowing, thereby reducing the incentive to make purchases on credit or to take out large mortgages. Within four months of the increases in interest rates in the second half of 1988, house price rises, particularly in London and the South-East, slowed dramatically. The end of spiralling house prices was particularly welcome given that the level of activity in the housing market had been a key factor behind the buoyancy of general consumer demand throughout 1988.

Second, interest rate rises will tend to reduce the disposable income of borrowers through their effect on loan and mortgage payments. As a result, consumer spending will tend to fall.

Third, as well as making borrowing less attractive, higher interest rates also provide a greater incentive to save. Thus interest rate rises can help encourage a switch from borrowing to saving. The elderly, a growing proportion of whom rely on income from savings, are particular beneficiaries of high real interest rates. Under the last Labour Government real interest rates (i.e. interest rates minus the rate of inflation) were generally negative – meaning that savers actually saw the real value of their savings being destroyed by inflation. As a result, the real value of pensioners' average income from savings fell by 16 per cent in the period 1974–9. Under the Conservatives savers have been able to get a proper return on their investment. Between 1979 and 1986 pensioners' average income from savings rose by 24 per cent in real terms.

Interest Rates: a Targeted Weapon. Because, for the first time ever, households are now substantial net borrowers, higher interest rates are likely to have their main effect precisely where they are needed – on consumer spending. Moreover, since house prices, and therefore mortgages, are higher in the South-East than elsewhere in the country, increases in interest rates are well targeted to slowing the growth of consumer demand in those parts of the country where it has been rising especially rapidly. Precisely because interest rates do work, the Government accepts that they will be unwelcome to many home owners – but far worse would be a return to the escalating inflation of the 1970s.

Interest Rates and Business. Labour has claimed that higher interest rates will have a devastating effect on industrial investment. There is very little evidence to support that claim. In contrast to the early 1980s, when many British companies were highly 'geared', (i.e. had high levels of debt relative to their equity value), firms today have reduced their reliance on borrowing; indeed, a number of businesses actually have cash surpluses from which to finance expansion. Today, British businesses are amongst the least highly 'geared' of the major industrial countries. British companies' UK bank borrowing has fallen from 45 per cent of the market value of their equity in 1980, to 28 per cent at the end of 1987. As a result companies are far less sensitive to interest rate rises than they were – or, indeed, than their overseas competitors currently are.

The majority of industrial investment is funded from retained profits. Thus the key to encouraging industrial investment is to create the conditions in which firms can make decent profits. The Government's policies have done this. With industrial profitability higher than it has been for 20 years, firms are investing on a massive scale (see p. 11). As the CBI has pointed out:

'High profitability not only improves the incentive to invest ... [it] also provides the funding for capital expenditure and means that companies are much less exposed to short term variations in the cost of funds' (*Economic Situation Report*, 28th November 1988).

Despite interest rate rises since June 1988 investment in manufacturing investment is forecast to rise by 18 per cent over the whole year 1988–9. According to the CBI, real profits should rise by 6.5 per cent in 1989 and a further 2.7 per cent in 1990, suggesting that prospects for industrial investment remain good.

Two other developments mean that firms are less subject to interest rate rises than in the past. Firstly, many firms base their investment decisions on long-term interest rates and are therefore less likely to adjust their investment plans in response to movements in short term interest rates. And, as Mr Lawson has pointed out:

‘With the Government now a substantial repayer of debt, and no longer making large issues of its own, the field is open for companies to issue long-term debt. And long-term interest rates have barely moved over the period in which short rates have risen. So far this year, leaving aside the Government's activities, some £10 billion of fixed-rate money has been raised in the sterling market – a particularly welcome development’ (Speech to the CBI Council, 23rd November 1988).

Secondly, the development of new methods of company financing in the 1980s has reduced industries' reliance on bank lending. The wider use of fixed interest rate loans, interest rate caps and equity finance from new markets (the Over the Counter Market, the Stock Exchange's Third Market and the Unlisted Securities Market) has given business more choice as to how to fund expansion.

Business Needs Low Inflation. The experience of British business in the 1970s – a period of poor profitability, declining competitiveness and rampant inflation – underlines the crucial importance of low inflation to business success. The CBI has acknowledged this fact, pointing out that member companies:

‘accept that there has been no alternative in the short-term to increasing interest rates to prevent inflation accelerating out of control ... The reduction of inflation during the 1980s has been a key element in the recovery of British industry and the CBI shares the Government's commitment to lower inflation. For any economy like the UK, exposed to international competition, inflation higher than that in our principal trading partners almost inevitably means a lower standard of living, slower growth and thus poorer employment prospects in the longer-term’ (*Building on Business Success: CBI Priorities for 1989*, January 1989).

Interest rates represent only one cost to those businesses which finance investment by borrowing, rather than reinvesting profits or issuing equity. A one-year increase in interest rates, for instance, even if sustained for a full year, raises business costs by far less than the amount added by one per cent increase in wage settlements.

4. INFLATIONARY TRENDS

The absence of firm, consistently pursued monetary and fiscal policies under the last Labour Government pushed inflation to an all-time peak of 27 per cent. Over the whole period of the last Labour Government inflation averaged 15.5 per cent, more than twice its current level. At no time did Labour even come close to getting inflation down below 7 per cent.

1980–1: The Key Turning Point. The Conservatives came to office determined to end the inflationary spiral that had almost become part of our national life. In 1981, with unemployment rising rapidly as industry suffered the twin effects of the world recession and the reduction of overmanning, the Government came under strong pressure to abandon its tough fiscal and monetary stance, and reflate the economy out of recession. At a time when wage negotiators were adding to the problems of unemployment and inflation by conceding excessive pay settlements, such a move would have only reinforced inflationary expectations – thereby making the nation's economic problems permanent.

The Government ignored the advice of the 364 economists who, in their widely publicised letter, argued that ‘present policies will deepen the depression, erode the industrial base of our economy and threaten its social and political stability’. Instead the Government stuck to a tight monetary policy and set an even lower target for the PSBR in 1981–2 than a year earlier. The result was to break what Mr Robin Leigh-Pemberton has called the ‘inflationary psychology’ (The Mais Lecture, 13th May 1987) of the period, paving the way for eight years of sustained economic growth.

The rate of inflation dropped below 10 per cent in April 1982 and has remained in single figures ever since.

UK Inflation Compared with EC and Major 7 Industrial Nations

	Major 7 Inflation	EC (12) Inflation	UK Inflation	Difference UK/Major 7 (Per Cent)	Difference UK/EC (12) (Per Cent)
Feb. 74– Apr. 79	9.0	11.0	15.5	6.5	4.5
May 1979	8.6	8.8	10.3	1.7	1.5
May 79– Sept. 88	5.5	7.4	7.6	2.1	0.2
June 83– Nov. 88	3.3	4.4	4.9	1.6	0.5
Nov. 88	3.5	3.9	6.4	2.9	2.5

(Source: OECD)

Continuing the Battle against Inflation. However, though Britain's performance on inflation has improved dramatically under the Conservatives, both historically and relative to our competitors, its continued control requires increasing vigilance. In a complex, free market economy which is also part of a global trading system, it is inevitable that the level of inflation will fluctuate in the short term. The aim of Government policy is to keep it on a downward path with the ultimate goal of price stability.

The Recent Rise in Inflation. The annual rate of inflation has risen since early 1988, in part as a result of the rise in mortgage interest rates. Excluding mortgage interest payments, the increase has been less pronounced, though it has risen from the low levels of 1986 and 1987 which were associated with the fall in the oil price. Though inflation in the second half of 1988 was higher than expected at the time of the Budget, the underlying rate of increase in prices has been lower than in other periods of fast demand and output growth in the 1970s.

The Crash: Concern for Growth in 1988. At the time of the Stock Market crash in October 1987, many commentators feared that it could precipitate a world recession. In the UK, economic forecasters predicted that growth would slow down sharply in 1988. As the *Economist* warned at the time:

‘The Crash of 1987 could lead to the Slump of 1988 ... The immediate task is to support demand at a time when the Stock Market Crash threatens to shrink it’ (31st October 1987).

Many economists argued that the crash would severely depress demand as investors tried to recoup savings lost in the crash by spending less and saving more. Concern also focused on the dangers of firms going bankrupt as equity values fell and credit was withdrawn by financial institutions. And, as *Phillips and Drew*, the stockbrokers, pointed out, ‘faced with uncertain demand and a rise in the equity cost of capital, businesses could curtail their investment plans’ (Economics Unit Report, 21st October 1987).

The Pace of Growth. The Government's reaction to the crash has been explained by Mr Lawson:

‘For the first and only time as Chancellor, I ... judged the risks of recession to be greater than the risks of inflation, and loosened monetary policy in concert with other nations’ (*Hansard*, 29th November 1988, Col. 593).

The relaxation in monetary policy that took place *world-wide* following the Crash helped avoid the danger of recession. Britain emerged unscathed with business confidence buoyant, and investment and employment rising rapidly. Virtually all forecasts of growth underestimated the resilience of the UK economy. By November 1987 the average of the UK's top eleven independent forecasters were predicting growth of 2½ per cent in 1988, more than a third slower than growth in 1987. It now looks as if the economy will have actually grown by 4½ per cent in 1988 – almost *twice* as fast as forecast at the end of 1987. Indeed as Mr Lawson has said:

‘The fears of recession in the aftermath of Black Monday have turned to fears of the economy racing ahead too fast, with inflation edging up and a substantial current account deficit ... people understandably feel more confident about their future than they've done for decades, but as a result they have been borrowing more and saving less ... coming on top of a massive income investment boom, it's all been just a bit too much of a good thing’ (Speech to the Conservative Party Conference, 13th October 1988).

To bring the rate of growth down to a more sustainable level, the Chancellor raised interest rates substantially during the course of 1988.

5. BORROWING AND SAVING

Growth of Business. Since 1978 borrowing by both individuals and firms has risen comparatively rapidly. This process has been aided by the deregulation of financial markets which has made available new sources and types of finance. Borrowing can help the economy to function more efficiently, enabling firms to finance investment and expansion. As Mr Robin Leigh-Pemberton has noted, credit can serve a similar purpose for individuals, enabling them:

‘to make large purchases or investments at a convenient or opportune time, and to pay for them in accordance with their expected pattern of income ... More competition between lenders ... [gives the individual] ... more choice between different types of borrowing facility and greater flexibility over the timing of his expenditure and in the arrangement of his portfolio of assets and liabilities’ (*Bank of England Quarterly*, February 1988).

The vast majority of personal borrowing takes the form of mortgages. Less than 5 per cent is in the form of credit card borrowing. Moreover the composition of personal sector debt has remained fairly constant throughout the 1980s.

The rapid growth of mortgage lending has been due to a rise of 3 million in the number of owner-occupiers coupled with substantial real increases in house prices.

Composition of Personal Sector Debt

	1979 (£bn)	Percentage	1988 Q2 (£bn)	Percentage
Mortgages	45	74	203	75
Consumer Credit	10	16	39	15
– overdrafts & personal bank loans	6	9	26	10
– Monetary Sector credit cards	N/A	N/A	6	2
– consumer credit companies	2	4	4	2
– other	2	3	3	1
Other bank borrowing	6	10	27	10
Total	61	100	269	100

(Source: *Financial Statistics* December 1988 and May 1984, Table 9.3)

Assets Exceed Debts. Although personal borrowing has risen rapidly throughout the 1980s, there has been an even more rapid increase in the assets held by the personal sector. In each year since 1981 the increase in consumer credit has been more than equalled by a rise in financial assets (equities, gilts, cash etc, but *not* including housing) held by the personal sector. Currently, the personal sector's financial assets are three times as great as its liabilities.

As personal sector borrowing has risen, so has the capacity of consumers to service debt. For instance, since 1978–9 the real disposable income of the average family with two children has increased by over 28 per cent.

Saving. With confidence in the economy stronger than for years and with inflation in single figures, consumers have felt less need to save than at times when the economy has been in difficulty. As a result, the personal savings ratio has fallen from an estimated 9½ per cent in 1983 to 5½ per cent in 1987. The fall in the personal savings ratio, coupled with the continued growth of personal borrowing, helped boost the growth of consumption to an estimated 5½ per cent in 1988. As the **Prime Minister** has commented, this aspect of Britain's strong growth in 1988 has been less welcome than the rapid rise in industrial output and investment over the year:

‘It has led to imports growing much faster than exports and to a substantial trade deficit. Moreover too much of the buying has been financed by too much borrowing. And that, at a time when savings have fallen sharply. The Government has cut its borrowing to the bone. Indeed last year, we actually repaid debt ... But the personal sector needs to save too. So the Chancellor has taken the necessary action ... Higher interest rates will give a substantial incentive to savers and a disincentive to borrowers. It is in everyone's interests that we get the balance between savings and investments right’ (Speech to the Annual Dinner of the Scottish CBI, 8th September 1988).

If individuals find themselves more wealthy than they expected to be, they are likely to feel less need to save, and more likely to take on new borrowing. Thus, the buoyant equity and housing markets have probably contributed to the fall in the personal savings ratio. Equally, the slow-down in the housing market and the adjustment in the equity market following the crash are likely to contribute to a recovery in personal saving. In addition, higher interest rates provide a strong incentive to save, and a disincentive to borrow.

However, although individual saving has been falling throughout the 1980s, companies have been saving more from their growing profits. Looking at the private sector as a whole, the level of savings has remained fairly steady throughout the 1980s at around 18 per cent of national income. As a proportion of GDP, the UK private sector saving (both by companies and individuals) is far higher than in the USA and at about the same level as France and Canada.

Interest Rates and Mortgage Default. Although the size of mortgages has been rising alongside house prices, the bulk of outstanding mortgages are well below the limit for mortgage interest tax relief. In 1988–9, 83 per cent of outstanding mortgages were estimated to be for £30,000 or less. 57 per cent were below £20,000.

The vast majority of mortgagees are well placed to cope with changes in interest rates. House buyers know that interest rates can rise, and therefore take this into account in deciding what sort of property they can afford. During the 1980s mortgage rates have fluctuated between 15 per cent and 9·5 per cent. Contrary to widespread popular belief,

research shows that the ability of mortgagees to service their loans is not primarily determined by the level of interest rates. As the Building Societies Association (BSA) has pointed out:

‘A careful examination of the statistics shows that there is no relationship between the level of mortgage rates and the level of possessions and arrears ... It would ... seem ... that a change in mortgage rates is not itself sufficient to cause serious arrears or to push serious arrears into possession cases. Most building societies are, in the case of hardship, willing to allow borrowers with a repayment mortgage to continue with the same repayment for a limited time when interest rates rise, even if this means rising debt ... Borrowers are aware that rapid increases in mortgage rates are likely to be followed by rapid reductions ... changes in mortgage rates have no noticeable effect on either arrears or possessions’ (*Mortgage Repayment Difficulties*, January 1985).

More recently, Mr Mark Boleat, Director General of the BSA, has commented that mortgage rates rises in the second half of 1988 and at the start of this year:

‘should not lead to people losing their homes unless the loan was a bad loan at the outset or unless people falsify their income or unless generally it was unsatisfactory at the beginning. An increase in mortgage rates is not going to turn a good mortgage payer into a possession case’ (BBC Radio 4, *Today*, 12th January 1989).

Credit Controls. Some commentators have suggested that the imposition of credit controls would be a more effective and less damaging way of curbing inflationary pressures than the use of interest rates. This is not the case. Despite the establishment of a complex apparatus for controlling prices, including credit controls, the last Labour Government presided over the highest inflation this century.

To be effective credit controls would need to cover mortgage lending which constitutes three-quarters of all personal debt. Only 15 per cent of all personal sector debt is in the form of consumer credit – and of that under 5 per cent is credit card borrowing. Mortgage controls would penalise first-time buyers, while wealthier, more financially sophisticated borrowers could easily circumvent them by turning to foreign banks. Moreover, without the reintroduction of exchange controls, any form of credit control could be avoided merely by borrowing off-shore. But not only would credit controls be ineffective, they would also damage the economy. As Mr Peter Lilley, Economic Secretary to the Treasury, has observed, direct controls on lending:

‘create inefficiencies and distortions in the market, which act to the disadvantage of borrowers and lenders alike and ... are unfair. They give unregulated and often less reputable lenders a competitive advantage. And they mean that less-well placed borrowers have to pay more and are driven to loan sharks ... There is a perfectly good mechanism for influencing the total quantity of saving, money and credit, without resort to direct ... controls. That is the price mechanism: which in this context means interest rates’ (Speech to the London International Financial Futures Exchange, 7th September 1988).

(C) THE EUROPEAN DIMENSION

1. THE EUROPEAN MONETARY SYSTEM

Britain is already a member of the European Monetary System (EMS) although it does not take part in the Exchange Rate Mechanism (ERM). This mechanism is designed to maintain Member currencies within given trading ranges of each other, although currencies can be realigned within the mechanism if necessary. The objective is to secure a greater degree of exchange rate stability within Europe, to the benefit of business and industry. Because countries in the ERM are closely tied to Germany's monetary policy, membership can also be used to reinforce anti-inflationary discipline. However, membership of the ERM provides no guarantee against movements between member currencies or against non-ERM currencies. Nor would ERM membership remove the need for Britain to adjust interest rates in response to domestic inflationary pressures. The Government keeps the matter of UK membership under constant review. When the time is right Britain will enter the ERM.

2. EUROPEAN MONETARY UNION

As Europe moves towards the completion of the Single Market in 1992, the attention of some commentators has focused on the case for Economic and Monetary Union (EMU). Some have argued that monetary union is a precondition for the successful achievement of the Single Market. This is not true, and neither Lord Cockfield's White Paper on 1992, nor the Commission's Cecchini Report, on the economic benefits of the Single Market, argued that it was.

At the 1988 Hanover Council the European Heads of Government agreed to set up a group of central bank governors and outside experts to examine the stages leading towards EMU. As its name implies, full EMU would ultimately involve the establishment of a European Central Bank and the replacement of national currencies with a single European currency.

For a common European currency and a single central bank to become realities, Member States would have to surrender control of national economic policy. As Mr Lawson has observed, this simply is not likely to happen:

'Economic and monetary union ... is incompatible with independent sovereign states with control over their own fiscal and monetary policies. It would be impossible ... to have irrevocably fixed exchange rates while individual countries retained independent monetary policies ... such a system could never have the credibility necessary to persuade the market that there was no risk of realignment. Thus EMU inevitably implies a single European currency, with monetary decisions ... taken not by national Governments and/or central banks, but by a European Central Bank. Nor would individual countries be able to retain responsibility for fiscal policy. With a single

European monetary policy there would need to be central control over the size of budget deficits and, particularly, over their financing. New European institutions would be required, to determine overall Community fiscal policy and agree the distribution of deficits between individual Member States ... It is clear that Economic and Monetary Union implies nothing less than European Government ... and political union: the United States of Europe. That is simply not on the agenda now, nor will it be for the foreseeable future' (Speech to the Royal Institute for International Affairs, Chatham House, 25th January 1989).

Mr Lawson's views are supported by a recent report by the House of Lords Select Committee on the European Community. It observed:

'The Community is not ready, either economically or politically, for full monetary union, with the establishment of a common currency and a European Central Bank' (The European Financial Area, House of Lords paper 209, 8th November 1988, paragraph 104).

The report argued that EMU is simply not feasible until there is far greater economic convergence in the performance of Member States and a considerable increase in political co-operation. Echoing the UK Government's view, the Committee states that arguments about economic and monetary union should not prevent agreement on practical steps to foster greater co-operation between Member States. In this area the UK has, in many respects, taken the lead in Europe by abolishing all exchange controls a full nine years before the EC as a whole agreed to liberalise capital movements. In addition, Britain has fostered the use of the ECU (European Currency Unit) within the Community by issuing UK Treasury Bills denominated in ECU – the first country to do so for the international market.

With the complete liberalisation of capital movements within the Community due by 1992, and greater competition between banks and other financial institutions, capital will move more freely, and probably on a larger scale, from currency to currency and the private ECU will no doubt have a role to play here. But the speed of such developments will be determined by the needs of individuals and firms, rather than imposed upon the Community by legislation. Mr Peter Lilley, Economic Secretary to the Treasury, has made the Government's position on these matters quite clear:

'Market forces must have a key role to play in this area, as in any other: if the market wishes the ECU to become the currency of Europe, we shall certainly not stand in its way and we may need to remove obstacles to other markets' growth. But equally, we cannot dictate to the market how the ECU is to develop' (Speech to the CBI ECU conference, 9th December 1988).

(D) PUBLIC SPENDING

1. GROWTH

Both the share of national income accounted for by public spending and the real value of that spending has risen throughout this century. This increase in State spending has been accompanied by a remorseless rise in the size and role of government and in the number of people it employs. For much of the post-war period the expansion of government spending has exceeded the rate of growth of the economy as a whole:

	Average Annual Increase in real Government Expenditure	Average Annual Growth Rate*
1960s	4.5 per cent	2.83
1970s	3 per cent	1.97

*GDP at market prices (real terms)

2. THE CASE FOR CONTROL

Rising public expenditure, as measured by the share of GDP accounted for by spending, will harm the economy in two ways.

First, it displaces or ‘crowds out’ the private sector. This might take the form of outright nationalisation or an inability on the part of the private sector to raise investment finance at the right price. In all cases it results in a reallocation of assets (financial or physical) or labour from the private sector to the State. This can be wasteful if the State is less capable of using these assets efficiently than the private sector. There is a good deal of evidence – notably the effects of privatisation and contracting out – to suggest that in many areas the private sector, is indeed, more efficient in managing and using resources than the State.

Second, increased public spending can only come from borrowing, the creation of new money or taxation. All these options involve considerable cost. Borrowing imposes a substantial burden of debt interest on future generations (see p. 32) and reduces the resources available for private sector investment. The creation of money through the sale of government debt to the Bank of England is inflationary, while a rising tax burden damages incentives and reduces the economic power and freedom of individual consumers and firms.

Public Spending Today. The scale of public spending in Britain underlines the case for maintaining firm control: it is running at over £3,200 for every man, woman and child in the UK – equivalent to a quarter of the average annual wage.

3. THE GOVERNMENT'S APPROACH

The 1979 Conservative manifesto stated: ‘The State takes too much of the nation's income; its share must be steadily reduced.’

The aim of the Government's strategy has been to keep the growth of public expenditure below the growth of the economy as a whole. As a result, public spending, will, over

time, take a progressively smaller share of GDP, thereby making room for reductions in public borrowing and in the burden of taxation. As Mr John Major, Chief Secretary to the Treasury, has said:

‘Our aim of reducing public expenditure as a proportion of national income has been consistent for years. We pursue it not because we do not want to improve public services – but because we believe that a sustained improvement of these services depends on a thriving economy. We have increased spending in real terms but at a rate which has allowed us both to reduce borrowing and increase incentives’ (20th January 1988).

The Achievement So Far. The ratio of general government expenditure to Gross Domestic Product has been falling continuously since 1982–3. After a reduction of 7 percentage points, it stood at 39¾ per cent in 1988–9 – lower than for more than 20 years and almost one fifth lower than the peace time peak of 48½ per cent it reached under the last Labour Government (also see p. 32). In the three years to 1991–2, the ratio of public spending to GDP is set to fall still further, to 38¾ per cent, its lowest level since 1966–7:

Trends in Public Spending		
	General Government Expenditure (excluding Privatisation Proceeds)	General Government Expenditure (excluding Privatisation Proceeds)
	<i>Real terms¹ (£ billion)</i>	<i>Per Cent of GDP</i>
1972–3	129·9	41
1973–4	140·5	42¾
1974–5	157·6	48¼
1975–6	157·5	48½
1976–7	154·1	46
1977–8	146·3	42¾
1978–9	153·8	43¼
1979–80	158·6	43½
1980–1	161·5	46
1981–2	163·3	46½
1982–3	167·6	46¾

Trends in Public Spending

	General Government Expenditure (excluding Privatisation Proceeds)	General Government Expenditure (excluding Privatisation Proceeds)
	<i>Real terms¹ (£ billion)</i>	<i>Per Cent of GDP</i>
1983–4	170.5	45¾
1984–5	175.2	46¼
1985–6	175.0	44½
1986–7	177.8	43¾
1987–8	176.7	41½
1988–9	175.9	39¾
1989–90	178.1	39¼
1990–1	181.9	39
1991–2	185.8	38¾

¹Cash figures adjusted to 1987–8 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices.

(Source: H.M. Treasury).

In real terms, the average annual growth in general government expenditure between 1988–9 and 1991–2 is forecast to be 1¾ per cent, no less than 40 per cent slower than the growth of real levels of public spending in the ten years to 1978–9:

	Average Annual Real Terms Growth (Percentage Increase)		
	1968–9 to 1978–9	1978–9 to 1988–9	1988–9 to 1991–2
General Government Expenditure (excluding privatisation proceeds)	2.9	1.4	1.75

(Source: H.M. Treasury)

Less Debt: More for the Conservative Priorities. A large part of the reduction in the expected growth of public spending will be the result of debt interest savings now that the budget deficit has been replaced by a budget surplus (see p. 31). As well as helping moderate the real growth of overall levels of public spending, cuts in the burden of debt interest also enable the Government to continue to make substantial real terms increases

in spending on the Conservative priority programmes. Over the three years 1989–90 to 1991–2 the real growth of spending on the Government's public expenditure programmes will be over 3 per cent a year.

As Mr Major has pointed out, the success of the Government's strategy has given it far greater control over public spending:

‘Our objective is that the Government, and not events, determines priorities, that it increases spending where it *wishes* to and not where it is forced to. With a successful economy we have been able to move much closer to this ideal. And we have done this within a spending total which grows more slowly than national income, thus creating room for essential reductions in the tax burden. We have always said that you have to generate wealth before you spend it. Labour has always denied this, and that's why it was always Labour Governments who introduced the real spending cuts. But, not by choice, they were forced to do it by the imprudence that drove them to the IMF’ (Speech to the Association of Conservatives Graduates, 1st December 1988).

4. MORE SPENDING IN PRIORITY AREAS

How the Extra Resources have been Created. By steadily reducing the share of national income taken by public spending, the Government has helped create the essential conditions – notably low inflation and low taxation – for sustained economic growth. In turn, steady growth has led to record increases in Government revenues (see p. 50). At the same time the Government has saved public money by curtailing unnecessary or extravagant spending programmes; by privatising State-owned companies and by improving the efficiency of the remaining nationalised industries; and by ensuring all public spending delivers the very best value for money (see p. 29). And, since the Government has cut its borrowing (as well as achieving a budget surplus), less is needed to service its debts. If public borrowing had remained at the same proportion of GDP the Conservatives inherited from the last Labour Government, it would by now be some £90 billion higher with increased debt servicing costs of about £9 billion in 1988–9.

Increased Expenditure Taking Less of the Country's Wealth. As a result of these policies, far from cutting public spending in real terms, the Conservatives have been able to increase expenditure by 15½ per cent since 1978–9 – while at the same time reducing the share of national income accounted for by public spending. And, within a rising total of public expenditure, the Government has shifted resources towards priority services.

The National Health Service. Since 1979 spending on the NHS has risen as a proportion of GDP (up from 4.7 per cent to 5.4 per cent), as a proportion of total Government spending (up from 12 per cent to 14 per cent) and in real terms (up by almost 40 per cent). This has provided the basis for an expanding health service (see p. 276).

Spending on law and order has risen by over a half, even after allowing for inflation. As a result police manpower has risen to record levels and the Government has embarked on the biggest prison building and modernisation programme this century (see p. 364).

Social security spending has risen 33 per cent ahead of inflation since 1979, and now accounts for almost £1 in every £3 of public expenditure. One third of this rise is due to real increases in benefit levels (for details of this extra spending, see Ch. 11).

Spending on education has risen to record levels. Spending per primary school pupil is 26 per cent higher in real terms than in 1978–9; for secondary school pupils it is almost 30 per cent higher (see p. 320).

Defence spending has risen by almost one fifth in real terms since 1979 ensuring that Britain's military capability is stronger than ever. The UK continues to spend a much higher proportion of GDP on defence than any other major member of NATO except the USA (see p. 507).

Planning totals in real terms by department
(£ billion, base year 1987–8)

	1978–9 outturn	1988–9 estimated outturn	1991–2 plans	Percentage Change in Real terms 1978–9 to 1988–9
Defence	15.4	18.1	18.6	18
Foreign and Commonwealth Office	2.2	2.1	2.1	5
European Communities	1.5	0.9	1.3	40
Ministry of Agriculture, Fisheries and Food	1.6	1.8	2.0	13
Trade and Industry	4.4	1.7	1.0	61
Energy	1.1	0	0.5	1
Employment	2.2	3.8	3.3	73
Transport	5.4	4.6	4.8	15
DOE – Housing	7.3	1.9	2.0	74
DOE – Other Environmental services	4.6	4.1	3.9	11
Home Office and Legal Departments	4.1	6.8	7.3	66
Education and Science	15.9	17.3	17.5	9
Arts and Libraries	0.7	0.9	0.9	29
Health	15.2	20.4	21.4	34
Social Security	33.7	44.8	49.3	33
Scotland, Wales and Northern Ireland	15.6	16.6	16.5	6
Lord Chancellor's Department	3.0	3.5	3.8	17
Other Departments	0.8	0.3	0.3	63

Planning totals in real terms by department

(£ billion, base year 1987–8)

	1978–9 outturn	1988–9 estimated outturn	1991–2 plans	Percentage Change in Real terms 1978–9 to 1988–9
Reserve			8.8	
Privatisation proceeds		-5.7	-4.2	
Adjustment		0.4		
Planning total	134.9	144.4	161.1	7

(Source: *Public Expenditure White Paper*, January 1989)

The following chart shows planned expenditure in cash terms by department in 1989–90.



5. CAPITAL SPENDING

Keeping the Total at a High Level. Since 1979 public sector capital expenditure has remained broadly constant in real terms:

(£ billion 1986–7 prices)

1978–9	22.4
1979–80	22.7
1980–1	22.2
1981–2	21.2
1982–3	22.3
1983–4	23.7
1984–5	23.5
1985–6	22.5
1986–7	21.9
1987–8	22.0

(Source: *Public Expenditure White Paper*, Cm. 288–I, January 1988.)

Total public sector capital spending is expected to rise from nearly £25 billion (cash) in 1988–9 to about £27 billion in 1989–90 – when it will be higher in real terms than in 1978–9 despite the Government's policy of reducing the State's role in providing new housing.

Over the last 8½ years, the Government has made substantial real terms increases in levels of spending on key capital projects. By contrast, the last Labour Government cut

capital spending by 10 per cent in real terms, with schools, roads and the NHS being especially hard hit:

Capital Spending: Conservative and Labour Records Compared

Percentage Real Terms Changes (excluding additions for VAT)

	1978–9 over 1973–4	1987–8 over 1978–9	1991–2 over 1987–8
NHS capital (England, gross)	-30	+40	+2
Motorways & trunk roads (England)	-41	+30	+20
Railways capital (BR)	0	+16	+60
Schools capital (England, gross)	-63	-23	-16
Prisons (England and Wales)	-64	+90	+160

(Source: H.M. Treasury)

Public Investment in Housing. Since 1978–9 gross capital spending on public sector housing has fallen by about a third, reflecting the Government's policy of increasing the private sector's role in the provision of new housing. Nevertheless, over the next three years planned public sector investment in housing is to be almost £13 billion. Total investment in housing, both public and private, is now above 1979 levels in real terms, having risen by 12 per cent in the year to June 1988.

Infrastructure Spending and the Private Sector. The aim of public sector capital spending is to identify worthwhile individual projects and to give them the financial backing they deserve on their merits. Some areas in which the Government has sought to reduce the role of the State and increase the role of the private sector have, as in the case of new housing, been capital intensive. Privatisation has also shifted a substantial volume of capital spending from the public to the private sector. By 1989–90 the electricity and water industries – both of which are to be privatised in this Parliament – will be spending an estimated £3.4 billion on capital projects, equivalent to one eighth of all public sector capital spending.

The Government is also looking for other ways of increasing private sector involvement in infrastructure projects. The London Docklands Development Corporation has been particularly successful in encouraging private sector participation in the rejuvenation of the London docks, attracting private investment seven times as great as the public contribution. The Channel Tunnel, Manchester Light Rapid Transit System and the London City Airport are all being financed entirely from the private sector.

The Government is currently considering private sector proposals for the construction and financing of infrastructure projects – such as roads – which have traditionally been the preserve of the public sector. However, since all investment, whether public or

private, is ultimately financed from the private sector, it is essential that infrastructure projects undertaken by the private sector are more cost-effective than conventionally funded public schemes.

6. VALUE FOR MONEY

The Government is committed to obtaining the very best value for money from all public expenditure. In order to do that it is necessary to define objectives, set targets and then to measure actual performance. The 1989 Public Expenditure White Paper contains hundreds of examples of the improved efficiency of the Government's expenditure programmes:

- Since 1984–5, 2,000 days of delays to road users, valued at about £35 million, have been avoided by the use of lane rental contracts for road maintenance.
- In 1987–8 Customs and Excise achieved a reduction of nearly 23 per cent in average arrears of VAT compared to 1986–7.
- The Energy Efficiency Demonstration Scheme has met all its targets to date and achieved annual savings worth £90 million by June 1988.

The Government's value for money initiative is saving the taxpayer hundreds of millions of pounds:

- Greater efficiency in the Civil Service has produced savings of over £1.4 billion.
- The NHS's cost improvement programme is expected to yield over £700 million for patient care in 1988–9. Much of this saving is due to the introduction of competition through market testing and contracting out.
- The growth of productivity in the nationalised industries averaged 7 per cent a year in the four years to 1986–7, an increase which is well above the rate of increase for UK manufacturing, which itself is well ahead of our major competitors. Overall, the burden of nationalised industries support has been cut from £2.3 billion in 1979–80 to £0.4 billion in 1987–8, a fall of over 90 per cent in real terms.
- Improvements in Government purchasing saved the taxpayer £252 million in 1987–8 – a target of £337 million has been set for 1988–9.

Further public expenditure savings have been made as a result of the rapid fall in unemployment over the last two years. A fall in unemployment of 100,000 takes about £¼ billion off the social security bill.

And, as Mr Major has noted:

‘Even the Common Agricultural Policy, a seemingly bottomless pit ... is under better control. Next year it will cost £1¼ billion, a saving of £½ billion on what we spent in 1985–6’ (Speech to the Association of Conservative Graduates, 1st December 1988).

7. THE CIVIL SERVICE

Major changes have been made in the Civil Service to improve its efficiency and cost effectiveness. As Mr Richard Luce, Minister for the Civil Service, has said:

‘There has been a revolution in management methods and ... attitudes in the Civil Service ... When we came to office we believed we owed it to the taxpayer to introduce in the public service procedures which will produce some of the same kinds of disciplines that exist in the private sector. A highly efficient Civil Service to back up the wealth creators was a key part of our strategy. The pace and extent of the change in the Civil Service since then have been dramatic’ (*Reforms at Work in the Civil Service*, Management and Personnel Office, January 1987).

Size. The Civil Service is now smaller than at any time since the war. In April 1979 total manpower stood at 732,275. By April 1988 it had fallen by 21 per cent to 579,627. This reduction in manpower has led to savings of about £¾ billion a year on the Civil Service pay bill, equivalent to productivity growth in excess of 2 per cent a year.

Quangos. There has also been a substantial reduction of quangos (quasi-autonomous non-governmental organisations). Since 1979 the number of quangos has been cut by a quarter to 1,648.

Efficiency. An Efficiency Unit, initially led by Lord Rayner, was established in 1979 to oversee the Government's strategy to boost Civil Service efficiency. The Unit has carried out over 300 scrutinies of civil service functions since 1979. The improvements it has recommended have led to annual savings of £300 million.

In 1985 the Government established a Central Unit on Purchasing (CPO) to help departments improve the efficiency and effectiveness of their purchasing. In 1987–8 departments saved over £¼ billion, 50 per cent more than in the previous year. Contracting out has also helped boost efficiency by opening up the public sector to competition. Savings in the Civil Service alone so far amount to £40 million.

Fewer Forms. In 1982 the Government launched a major initiative to reduce the number and complexity of forms. The programme has been a great success. As Mr Luce has said:

‘There are fewer forms than ever, and those we have are easier to understand, simpler to complete and more attractive’ (Cabinet Office Press Release, November 1987).

Since 1982, 126,500 government forms have been reviewed, resulting in the scrapping of 27,000 and the revision of a further 41,000. These changes have produced savings of around £14 million. Particular efforts have been made to eliminate jargon and reduce the burden of form filling on business. More than 1,300 forms aimed at firms have been scrapped and 2,500 others redesigned.

Management. The introduction of more modern, businesslike management practices within the Civil Service has played a major role in improving the cost effectiveness and quality of the services it provides. The Civil Service has annual running costs of some £14 billion and employs twice as many people as the whole of the UK motor industry. It is therefore crucial that the Civil Service uses modern training and management techniques to get the very best out of these resources.

A Financial Management Initiative was launched in 1982 to provide Civil Service managers at all levels with a clear idea of their objectives and responsibilities. Better financial management means civil servants are more cost conscious. And they are much more accountable to their managers and their Ministers.

The Next Steps. In February 1988 the Prime Minister announced the Government's decision to undertake a radical restructuring of the Civil Service. The decision followed a report by the Efficiency Unit (*Improving Management in Government: The Next Steps*, February 1988, HMSO) which recommended that the executive functions of government, as distinct from policy matters, should be carried out by independent agencies.

Responsibility for the day-to-day operations of each agency is to be delegated to a chief executive. The agency system devolves responsibility for routine executive work to managers with greater power over their own budgets and manpower.

Three agencies have already been established – the Vehicle Inspectorate, Companies House and HMSO. A further 30 candidates for agency status have been identified, covering about one in three of the Civil Service's entire workforce.

Moving Out of London. Relocation of parts of Government Departments from Greater London to the regions can offer substantial cost savings in pay and office rents, and can also help ease staffing shortages. Since 1979, some 12,000 civil service posts have been transferred out of London and the South East. Today four out of every five civil servants work outside Greater London.

Departments are currently reviewing the location of their work to establish the scope for further relocation of operations outside London. Over 34,000 posts in the South-East are under review, accounting for 15 per cent of all posts in that region.

On 16th January 1989 the Department of Social Security announced its plan to move a thousand civil service posts out of London to Glasgow, Wigan and Belfast. The relocation of the Patent Office to Newport in Wales will result in the dispersal of a further 850 jobs from London.

Pay. The Government's acceptance of the Megaw Committee's report (Cmnd. 8590) in 1982 signalled a move towards a more flexible, market-orientated system for determining Civil Service pay. Until 1981 pay increases were based on research into comparable posts outside the public sector – though in practice governments often set aside the results of such research.

The new system takes far greater account of market forces by examining evidence on staff recruitment and retention both within and outside the Civil Service. Since June 1988 Departments have been able to offer local pay additions of up to £600 a year to help solve staff shortages. In February 1989, the Treasury reached provisional agreement on new longer term flexible pay arrangements with two of the main Civil Service unions (the CPSA and the NUCPS). If endorsed, the deals will mean that nearly all non-industrial civil servants are covered by pay agreements which take into account performance, location, skills and other matters affecting staff recruitment and retention.

(E) REPAYING THE NATIONAL DEBT

Achieving Budget Surpluses and Repaying Debt. The Conservatives have fulfilled their pledge to reduce the level of public borrowing. The PSBR had been reduced from the 5¼ per cent of GDP inherited from Labour to only 1 per cent by 1986–7. But, as the Chancellor announced in the 1988 Budget, the success of the Conservative strategy has enabled the Government to go one step further, by achieving a budget surplus in 1987–8 and again in 1988–9. The surplus in 1987–8 was some £3·6 billion. For 1988–9 the Chancellor set a target of £3 billion at the time of the 1988 Budget for the Public Sector Debt Repayment (PSDR). With higher than expected revenues and lower than expected spending, the PSDR in 1988–9 was forecast at the time of the 1988 Autumn Statement to turn out at about £10 billion, equivalent to 2 per cent of GDP. Even without privatisation proceeds the Budget would still be in surplus, by some £4 billion.

This achievement of actually repaying the debt had only been previously achieved on one other occasion since the beginning of the 1950s. The aim is a balanced budget or a zero PSBR. The advantages of balancing the public finances are, as Mr Lawson has pointed out, clear:

‘The balanced budget ensures that the State makes no claim either on the nation's savings, or on flows from overseas. It gives the private sector a stable environment in which to plan ahead, with confidence in the financial stability of the economy – one of the prime objectives of the Medium-Term Financial Strategy. And a sound fiscal policy is an important buttress in maintaining the value of the currency’ (Speech to the Institute of Economic Affairs, 21st July 1988).

Converting Public Sector Borrowing into Debt Repayment

	Cash	Real Terms (1987–8 prices)	Ratio to GDP	Excluding privatisation Ratio to GDP
	£ billion	£ billion	(per cent)	(per cent)
1973–4	4·3	19·1	5¾	5¾
1974–5	8·0	29·4	9	9
1975–6	10·3	30·1	9¼	9¼
1976–7	8·3	21·5	6½	6½

Converting Public Sector Borrowing into Debt Repayment

	Cash £ billion	Real Terms (1987–8 prices) £ billion	Ratio to GDP (per cent)	Excluding privatisation Ratio to GDP (per cent)
1977–8	5.3	12.1	3½	3½
1978–9	9.2	18.8	5¼	5¼
Average 1974–5 to 1978–9	8.2	22.4	6¾	6¾
1979–80	9.9	17.4	4¾	5
1980–1	12.5	18.6	5¼	5½
1981–2	8.6	11.6	3¼	3½
1982–3	8.9	11.3	3¼	3¼
1983–4	9.7	11.7	3¼	3½
1984–5	10.1	11.6	3	3¾
1985–6	5.7	6.2	1½	2¼
1986–7	3.4	3.6	1	2
1987–8	–3.6	–3.6	–¾	¼
Average 1979–80 to 1987–8	7.3	9.8	2¾	3¼
1988–9*	–9.8	–9.2	–2	–¾

* 1988 Autumn Statement forecast.

(Source: H.M. Treasury)

Debt Interest. The reduction of the PSBR has brought about a substantial fall in the burden of debt interest both as a proportion of GDP and in real terms. Since 1981–2 the burden of gross debt interest has fallen from 5 per cent of GDP to an estimated 3¾ per cent which means a saving to the taxpayer of nearly £4½ billion a year. By 1991–2 the cost of servicing debt is set to fall by a further percentage point to 2¾ per cent. The need for further reduction is underlined by the fact that in 1988–9 debt interest will cost the taxpayer almost £18 billion – equivalent to the whole of the education budget or £315 for every man, woman and child in the UK.

Commenting on the benefits of reducing levels of Government borrowing, Mr John Major, Chief Secretary to the Treasury, has said:

‘Every pound we save on interest by repaying the national debt, can be well used elsewhere. Next year debt servicing will be ... [lower] ... as a share of national income [than at any time] ... since the early 1970s. If we had carried on borrowing at the same proportion of national income as the outgoing Labour Government in 1979, the cost of servicing the public sector debt would be over £10 billion higher. That's equivalent to

cutting health spending by almost 50 per cent' (Speech to the National Association of Conservative Graduates, 1st December 1988).

(F) MAKING MARKETS WORK

Why Change was Needed. For much of the post-war period governments sought to achieve growth by controlling and regulating the activities of individual firms and businesses. The aim of such controls was to help boost economic growth and ensure a more even distribution of its fruits. What actually happened was that the benefits of the market economy – competition, choice, freedom – were increasingly lost as the State took a larger role in the economy. For this reason the restoration of the market and the encouragement of enterprise stood at the top of the Conservative agenda in 1979. In ten years there has been a fundamental change in the performance of British industry – much of which can be attributed to Government policy. As Mr Lawson has said:

'It is now generally accepted, not just in Britain but among those abroad who understand this country, that the continuing vigour of the economy is due above all to the transformation in the performance of British business. The quality of management, the level of productivity, the way we conduct our industrial relations, the creation of new businesses, and the quality, as well as the scale, of investment have improved out of all recognition ... [These] supply side improvements mean that we are now able to sustain a higher rate of growth than used to be the case' (Speech to the CBI Council, 23rd November 1988).

Promoting the Enterprise Culture. A wide range of Conservative policies has helped bring about this transformation:

Privatisation has brought about a dramatic shift in the balance of power between the State and the private sector. 19 major businesses with over 750,000 employees, have been returned to private hands (see pp. 92–4).

Creating Competition. Progress has been made in breaking down the long-established private sector monopolies, such as the solicitors' monopoly over conveyancing and the opticians' monopoly over the supply of spectacles. Contracting out has introduced competitive pressures into entirely new areas – from council refuse collection to hospital cleaning and catering services.

Ending Wasteful Subsidies. Unsatisfactory industrial and regional policies – with their emphasis on hand-outs from the taxpayer to prop up inefficient firms or businesses whose markets no longer existed – have been overhauled (see pp. 88–91).

Tax reform, one of the Government's most important enterprise measures, has modernised Britain's complex and punitive tax system (see Ch. 2).

Removing Controls. Immediately after taking office the Government removed many of the damaging controls and restrictions – on prices, dividends and incomes – that limited the wealth-creating capacity of the British economy. The abolition of exchange controls in 1979 opened up a whole new range of investment opportunities for those who wished to invest abroad; and, by improving the rate of return on investment in the UK, it also encouraged foreign investment in this country. The ending of controls on banks and building societies, particularly those governing consumer credit and the composition of banks' assets have widened consumer choice and brought an end to mortgage 'rationing'. 'Big Bang', the deregulation of Britain's financial markets in October 1986, has given our financial services sector the freedom it needs to maintain and enhance London's role as a world leader in this field (see p. 108).

Freeing the Labour Market. A number of steps have been taken to help the labour market operate more efficiently with the aim of reducing unemployment and raising the productive capacity of the economy. Trade union reforms (see p. 142 *et seq.*) have helped restore good sense to industrial relations and have helped reduce the number of stoppages to the lowest level for over half a century. The abolition of the National Insurance Surcharge and the restructuring of national insurance contributions has removed a disincentive to employing extra workers and has enabled individuals to keep more of what they earn. The reform of wages councils has removed a serious barrier to the employment of young people at rates employers can afford.

The Government has also taken a lead in promoting moves towards regionally-based pay deals. Both the Treasury and the NHS are introducing special supplements for personnel in areas suffering from staff shortages. And action has been taken to increase the traditionally low level of UK labour mobility. People who own their own homes usually find it easier to move to new jobs than those who are tied to subsidised accommodation. The introduction of the council tenants' Right to Buy under the 1980 Housing Act coupled with the maintenance of mortgage tax relief for house buyers and the halving of stamp duty on house purchases has provided a favourable climate for home ownership, helping boost the number of owner-occupiers by 3 million in nine years. The 1988 Housing Act will deregulate all new rents in the private sector, a reform which will make renting attractive once again to the landlords of the 500,000 dwellings that are now standing empty. This should help reduce the low level of mobility amongst manual workers, a particularly high proportion of whom are unemployed.

Dealing with the Unemployment Trap. The 1988 Social Security reforms have helped ease the unemployment trap by improving the incentives to those on benefit to take work. Family Credit goes to twice as many working families as the old Family Income Supplement ensuring that far fewer families find themselves better off on the dole than in work (see Ch. 11).

Better Education and Training. The Government has launched a major drive to improve the quality of education and to provide youngsters with the skills they need to succeed in the changing conditions of the 1990s. The Government's employment and training schemes are equipping youngsters and the unemployed with the skills necessary to take

advantage of hundreds of thousands of jobs being created by our growing economy (see p. 132).

Encouraging Enterprise in the Regions. Those parts of the country that have been particularly slow to respond to changes in markets and in the economic climate have been assisted through schemes designed to encourage enterprise and improve job prospects. One of the most ambitious schemes is the Government's Action for Cities' Programme which covers 57 inner city areas and has a budget of some £3 billion for 1988–9. The emphasis is on using public funds to 'lever' greater private sector involvement in the inner cities (see Ch. 5).

(G) THE INTERNATIONAL SCENE

1. TRADE AND THE BALANCE OF PAYMENTS

The current account of the balance of payments was in surplus in every year between 1980 and 1985. Following the fall in the oil price, the current account was virtually in balance in 1986. A deficit of about £2.5 billion occurred in 1987:

	<i>£ billion</i>					
	1974–9*	1980–5*	1986	1987	1988	1989H1 [†]
Oil	–2.6	5.0	4.1	4.2	2.4	2
Manufactures	4.0	0.4	–5.7	–7.5	–14.3	–11.5
Other goods	–4.7	–5.6	–7.2	–6.9	–8.4	–7.7
Total visibles	–3.3	–0.2	–8.7	–10.2	–20.4	–17
Invisibles	2.4	4.2	8.5	7.5	6.1	6
Current balance	–0.9	4.0	–0.2	–2.7	–14.3	–11

* Annual averages

[†]1988 Autumn Statement forecast

(Source: H.M. Treasury)

The deficit on the current account in 1988 was just over £14 billion. The main reason for this deficit is, as Mr Lawson has explained:

‘that the UK economy has entered a phase which combines a set of circumstances we have not seen together for some considerable time. Investment is rising rapidly ... as business confidence is high. Individuals have seen their wealth rise sharply in the 1980s. It is thus not surprising that individuals now feel they can safely spend more – in many cases by adding to their borrowing rather than by spending their capital. This too, is in essence a reflection of increased confidence. So net saving is low. And consumer spending is high. This combination of circumstances leads to a current account deficit. But ... that deficit is entirely the result of private individuals and businesses making

choices about their own financial affairs' (Speech to the Institute of Economic Affairs, 21st July 1988).

The rapid growth of demand in 1988 – among both consumers and industry – exceeded the capacity even of our revitalised industries with the result that imports increased rapidly. Much of the increase in imports was, however, due to the strength of industrial demand for raw materials and machinery. In the fourth quarter of 1988 imports of basic materials, intermediate and capital goods – which constitute more than a third of all imports – were almost 20 per cent higher than a year earlier.

The Balance of Payments and World Trade. It is a truism that the balance of payments must balance – a surplus on the current account (i.e. an excess of visible and invisible exports over imports) must be balanced by a deficit on the capital account (i.e. an excess of capital leaving the country over foreign capital entering the country). As Mr Lawson has observed:

'Net capital flows are an equal and opposite counterpart to a current account imbalance. A country that is attracting net inflows of capital from overseas must, by definition, be running a current account deficit. Conversely, a country in current account surplus must ... be engaged in net investment overseas. In other words, the current account reflects the difference between domestic savings and domestic investment' (Speech to the Joint Annual Meeting of the International Monetary Fund and the International Bank for Reconstruction and Development, 28th September, 1988).

Japan has run a substantial current account surplus while maintaining a deficit on the capital account through substantial net exports of capital. On the other hand, the US trade deficit has its counterpart in a net inflow of capital, much of it used to finance the US government's budget deficit. Britain has a capital account surplus because private sector investment abroad has exceeded domestic savings. As a result there have been net capital inflows to fund an investment boom. Unlike the current account deficits of the 1960s and 1970s, the present deficit is not associated with rising levels of Government borrowing, much of it financed from overseas. Indeed the Government is now actually repaying debt (see p. 31).

Commenting on the growth of large trade imbalances in the 1980s, Mr Lawson has noted that in the 1980s there have been:

'profound changes ... in world capital markets. We have seen a worldwide move to deregulation, the development of a wide range of new financial instruments, and a massive growth of mobile capital. Against this background it is not at all surprising that substantial imbalances have emerged: indeed, what would be more surprising would be if in each country domestic savings exactly equalled domestic investment' (ibid.).

Prospects for the Balance of Payments. By raising interest rates in the second half of 1988, the Chancellor has helped slow the rate of economic growth to a more sustainable level. Higher interest rates reduce the incentive for consumers to borrow in order to

consume. Lower consumption will increase the ability of British firms to meet demand and hence reduce demand for imports. In addition, higher interest rates boost savings and in doing so reduce the need for inflows of foreign capital to finance domestic investment. As Mr Lawson has said:

‘There is a limit to the amount of debt which the private sector will be willing – or can afford – to undertake. Once that limit has been reached, the savings ratio will rise again. Moreover higher debt means higher interest rate payments in the future, which will reduce disposable income and consumption’ (ibid.).

As the current investment boom feeds through into increased output so exports can be expected to rise. The last Autumn Statement forecast a rise in non-oil exports of goods in 1989 of 8½ per cent – almost three times as fast as the growth of the whole economy. As a result, the balance of payments deficit is expected to narrow in 1989 to some £11 billion.

Exchange Rate Depreciation. The Labour Party – argue that the most effective way to solve a balance of payments deficit would be to let the pound depreciate. But by making imports more costly – and providing scope for exporters to concede inflationary pay rises – depreciation would fuel inflation and, in the longer term, would erode the competitiveness of British industry. The Chancellor has made it clear that there will be no devaluation of the pound in an attempt to buy back competitiveness for firms that have lost control of their costs.

Exports. In the third quarter of 1988 exports (excluding oil and erratics) were 7½ per cent higher by value than a year earlier. Over the same period exports of manufactures by value rose by 9 per cent. The competitiveness of UK exports is highlighted by the fact that since 1981 the UK's volume share of world trade in manufactures has stabilised after decades of decline.

Invisible Exports. Invisible trade continues to make a massive contribution to the balance of payments. In 1986 and 1987 Britain's invisible surplus was the largest in the world. At the end of 1987 the net value of the UK's holding of overseas assets was some £90 billion – a level that is second only to Japan's.

2. NORTH SEA OIL

Britain as an Oil Producer. Changes in oil prices affect the UK economy through their impact on Government revenues, the balance of payments and growth. Though oil still makes a significant contribution to the economy, its role is diminishing as a result of lower oil prices and the depletion of reserves. Between 1985 and 1986 oil prices were almost halved, falling to about \$14 a barrel.

From a peak of 120–135 million tonnes in the period 1984–6, oil production has fallen steadily. In 1988 production is likely to be in the range 105–125 million tonnes. North Sea oil revenues now represent a smaller proportion of total tax revenues than for ten

years. The buoyancy of overall Government revenues which enabled the Chancellor to make substantial cuts in the rate of income tax in the 1987 and 1988 Budgets is due almost entirely to rapid growth of real incomes and corporate profitability:

Government Revenues from UK Oil and Gas Production as a Percentage of Total General Government Receipts

1979–80	1981–2	1983–4	1985–6	1987–8	1988–9
2.9	5.8	6.8	7.5	2.7	1.8

(Source: *Hansard*, 1st December 1987, Col. 542 and FSRB March 1988)

Oil and the Balance of Payments. Despite the substantial fall in the oil price in 1986, the balance of payments only showed a deficit of under £200 million in that year and a deficit of some £2.7 billion in 1987. As oil production falls so the balance of payments can be expected to adjust, just as it adjusted to the discovery and exploitation of our North Sea reserves in the late 1970s. This is already beginning to happen, with the surplus on invisible trade, already the world's largest, forecast to rise by 6¼ per cent in 1988.

Oil and Growth. Because British industry is a major user of oil and oil products, lower oil prices reduce industry's costs – by an estimated £100 million for every sustained \$1 per barrel fall in crude oil prices. Thus, despite a 50 per cent fall in oil prices in 1986, Britain grew faster than any of its major European competitors in 1986 and 1987 – a performance that is set to be repeated in 1988 and 1989 even though oil prices continue to be depressed and UK output is declining.

North Sea oil production makes only a relatively small contribution to total GDP. In 1987, UK oil and gas production constituted just 2 per cent of total GDP. Since 1981 rising North Sea oil output has contributed just ¼ per cent to the UK's average growth rate of 3 per cent. Between 1975 and 1979 it contributed about four times as much a year.

3. INTERNATIONAL DEBT

During the 1970s there was a considerable increase in the level of borrowing from the major industrial nations by the world's developing countries. Some of this capital was wasted, and all too often the investment undertaken with the aid of foreign money did not even produce sufficient income to service the debt. By 1982, with commodity prices and world growth weakening, and real interest rates rising, indebtedness had become a major problem.

	Total debt end 1986 \$bn	Debt per head 1986 \$	GDP per head 1986 \$
15 middle income debtors (mainly in Latin America)	480	850	1,467

	Total debt end 1986	Debt per head 1986	GDP per head 1986
	\$bn	\$	\$
Sub-Saharan Africa (all countries south of the Sahara excluding Nigeria and South Africa)	88	271	297

(*Source:* External Debt Statistics, OECD, Paris 1988; and HM Treasury estimates)

International action to deal with the debt problem has been undertaken through the IMF, the World Bank, the Paris Club of creditor nations and the commercial banks. The aim of the various initiatives has been to encourage debtor nations to strengthen their economies and to make the burden of servicing debt more manageable. Since 1982 the Paris Club has rescheduled some £87 billion of debt for 44 countries.

Britain's Role. At the meetings of the International Monetary Fund and World Bank in April 1987, Mr Lawson set out the British policy on international debt. The Chancellor emphasised the importance of debtor countries adopting policies to improve the performance of their economies. The provision of new finance in the absence of sound economic policies is bound to be counter-productive. As Mr Lawson said:

‘The creditors in the Paris Club should not reschedule a country's debt repayments without firm assurances that the right policies are in place’ (Speech to the IMF, 18th April 1987).

The Chancellor also emphasised the need for industrialised countries to open their markets to products from the debtor nations.

To help reduce the burden of debt for the poorest nations of sub-Saharan Africa, the Chancellor launched a three-point plan of debt relief at the IMF's meeting in April 1987. His proposals subsequently formed the basis for the agreement reached at the Toronto Summit (20th–22nd June 1988) by the world's major industrial powers. Under the Toronto agreement official creditors will be able to choose from a range of options to reduce the burden of servicing debt on debtor nations – concessional interest rates on shorter maturities, longer repayment periods at commercial rates, the partial cancellation of debt service obligations, or a combination of these options. The agreement represents a success for Britain in bringing the pressing issue of Third World debt to international attention – and securing action to deal with it. It is estimated that the Toronto package could provide relief worth up to \$500 million a year for sub-Saharan countries.

(H) OPPOSITION POLICIES

1. LABOUR PARTY

Policies which lost the Election. The Labour Party fought the 1987 General Election on an economic programme which, if implemented, would have brought about a dramatic

increase in the size of the State and its role in the economy. It failed totally to show how it proposed to counter the rise in inflation which its policies would inevitably create.

Massive Increase in Spending. The Manifesto was long on vague, but lavish, promises – and short on detailed costings. It pledged a Labour government to ‘combat poverty directly’ and to ‘reduce unemployment by one million in two years as the first instalment in beating mass unemployment’ (p. 4). Labour's own costing of its spending programme was £9.6 billion in the first year, to be funded by a mixture of more borrowing and higher taxes. In fact, according to the Chief Secretary to the Treasury, the real full first year cost of all Labour's spending pledges would have been more than three and a half times higher – or £34 billion.

Even on Labour's own admission, £6 billion of their own £9.6 billion programme would have been funded by higher borrowing – in addition to which they planned to abandon the privatisation programme, adding a further £5 billion to the PSBR. The net result would have been a PSBR of at least £11 billion – an extremely modest estimate given that it ignores over £25 billion of spending pledges that Labour has never challenged or repudiated. The remaining £3.6 billion of extra public spending was, according to Labour, to be funded by ‘raising revenue from the richest five per cent of the population’ (*NEC Statements to Conference, 1986*). In truth, Labour's plans for increasing taxes would have hit millions of average earners (see p. 73).

Inflation: No Answers. Higher borrowing would have led inevitably to higher inflation. Mr Kinnock was forced to concede that Labour's policies would produce what he described as a ‘temporary surge’ in inflation (BBC 1, *Panorama*, 1st June 1987). Given the scale of the Party's spending plans, the inflationary surge would have been more than a temporary phenomenon. Yet Labour had no solution to the problem of rising prices, other than a return to voluntary pay restraint, the unions having made clear that formal incomes policy was unacceptable. But, under Labour's last attempt at an incomes policy, the Social Contract, inflation hit a peak of 27 per cent. In any case, union leaders like Mr Ron Todd, made clear their opposition to any form of incomes control.

Higher Taxation. Labour's claim that only the wealthiest of taxpayers would pay more tax under a Labour Government was demolished during the election campaign. By polling day Labour had been forced to concede that it planned to raise the basic rate of Income Tax by 2p to 29p – and that other changes would take money from many childless couples earning little more than the average wage of £10,000. Mr John MacGregor, then Chief Secretary of the Treasury, estimated that the full cost of Labour's spending programme would have required a doubling of the basic rate of Income Tax or doubling of VAT (see p. 71).

Stifling Industry. Labour's 1987 Manifesto outlined plans for a dramatic increase in the role of the Socialist State – and the unions – in the economy. A ‘National Economic Assessment’ was proposed through which a Labour Government and the unions would dictate key decisions to individual firms. Companies would be expected to determine their investment plans with unions *and* Government. Trade union officials would be

given the right to places on the boards of companies. Government support for industry would 'be made conditional upon achieving Labour's objectives' (*Social Ownership – A Vision for the 1990s*). Controls on prices and profits, a training tax on companies both large and small and higher taxes all formed part of Labour's plans.

They also proposed a British Investment Bank (BIB) to provide cheap loans to firms that did its bidding. To finance the BIB Labour proposed the compulsory repatriation of the overseas assets of pension and investment funds. As a result, the savings of millions of people would be forcibly channelled into projects in the UK that suited Labour's political preferences – but which had failed to find commercial funding.

Post-Election: Standing By Extreme Policies. After the election some Labour Spokesmen did appear to have accepted that the Party's high spending, high borrowing policies had been an immense electoral handicap. Mr Robin Cook said:

'What the electorate really doubts is whether Labour is really interested in managing affluence and promoting prosperity. In a real sense this intuition is perfectly sound. Labour is ambivalent about affluence' (*Marxism Today*, August 1987).

However, the 1988 policy review document, *Social Justice and Economic Efficiency*, contained nothing that suggested that Labour had ever begun to address the reasons for the failure of their economic policies – or to update them to deal with the realities of the 1980s. The economic proposals in the document came mainly from the Economic Equality Group, whose joint Chairman is Mr John Smith, the Shadow Chancellor. Remarkably, it had virtually nothing to say about fiscal or monetary policy.

Still Addicted to More Public Spending. Labour have not renounced the £34 billion spending programme on which it lost the election. Like the 1987 Labour Manifesto, *Social Justice and Economic Efficiency*, is not short of vague and expensive pledges. The two key commitments are:

- 'To full employment and to the measures necessary to secure it' (p. 4).
- 'To banish want and poverty from Britain' (ibid. p. 17).

No mention whatsoever is made of the likely cost of implementing these plans – or of other proposals (some of them extremely vague) that have been made since the election.

- *Job Creation.* Labour estimates that 2 million people will be unemployed at the time of the next general election. It has not been made clear how new jobs will be 'created' by central government, by local authorities or by nationalised industries. Nor has the part to be played by the private sector been explained. However, at the last election Labour estimated that it would have to find £6 billion in the first year alone for a job creation package designed to produce one million new jobs in two years.
- *Extra Spending on Social Security.* By 1991 Labour claims that 'some 18 million adults and children – one in three of the population [will be] living on or below

the poverty level'. Social security already accounts for almost one in every three pounds of public expenditure. The introduction of new benefits to raise the standard of living of one third of the whole population would require a massive increase in the social security budget.

- *More for Overseas Aid.* Speaking in Botswana on his ill-fated African trip, Mr Neil Kinnock said it was 'essential to achieve within the lifetime of a parliament the UN target of allocating at least 0.7 per cent of our national income to overseas aid' (*The Guardian*, 14th July 1988). Such an increase would more than double the current level of spending on overseas aid, involving additional public expenditure of nearly £2 billion – or more than a penny on income tax.
- *More Capital Spending.* Mr Gordon Brown, the Shadow Chief Secretary, called on the Chancellor to increase public sector infrastructure spending by £5 billion in the 1988 Autumn Statement (*The Daily Telegraph*, 19th October 1988).
- *More for Education.* The Party would provide 'a comprehensive framework of day-care and education for children below school age' and 'move towards income maintenance assistance for those in full-time education', according to *Social Justice* (p. 11).
- *More Bureaucracy.* At the General Election Labour promised to set up a Ministry for Women, a pledge reaffirmed in *Social Justice*. Labour admits that their ministry, which would be staffed by 300 civil servants, would cost £10 million.
- *Abolition of NHS Charges.* Since 'charges have no place in health care' according to *Social Justice*, public spending would have to be increased by over £½ billion a year to compensate the NHS for the income it would lose if charges ceased.

Labour are therefore repeating exactly the same mistake that they made at the last election, as Mr Ken Livingstone has pointed out:

'[Labour] is on course for an economic policy in which the figures won't add up – one that will come to pieces in the election campaign just as badly as Roy Hattersley's did last time' (Campaign Group News, 10th May 1988).

Inflation and Interest Rates. Labour are still totally unable to explain how they would control inflation. Indeed their difficulties are now even greater because of their insistence on low interest rates. *Social Justice* states that the aims of Labour's macro-economic policy will be 'steady expansion, competitive exchange rates and low inflation' (p. 3). How Labour propose to combine higher spending and higher borrowing with lower interest rates, a weaker pound *and* low inflation is left completely unclear.

In fact Labour's goals of higher public spending, low inflation and lower interest rates are irreconcilable.

Since the general election Labour's approach to interest rates has been simple – whatever their level, they are too high. They called for cuts at the time of the 1987 Stock Market crash, even though, as Mr Lawson has said:

‘It is absolutely clear [the current level of inflation] ... would have been infinitely worse had I accepted even the smallest part of the advice Labour Members gave me at the end of last year ... when the stock market crashed last October the Labour Party took it as a signal that the recession which it had been confidently predicting every year for the past six years was finally upon us ... Labour Members were urging me to cut interest rates far more than I was prepared to do. On top of that, they called for expansionary fiscal measures’ (*Hansard*, 28th October 1988, Col. 184).

Five months later Mr Chris Smith, a Labour Treasury spokesman, said that Britain ‘must have lower interest rates and a more stable and competitive exchange rate’ (*Hansard*, 17th March 1988, Col. 1310). In the autumn of 1988 Mr Kinnock described higher interest rates as ‘a policy for strangling the economy’ (Speech to the TUC Annual Conference, Bournemouth, 6th September 1988). Yet Labour has not offered any alternative solution to the problem of rising inflation apart from credit controls and higher taxation which would damage the economy and probably not have the desired effect.

Labour and Credit Controls. Labour's reaction to Britain's strong economic growth in 1988 was to call for the imposition of credit controls. Party Spokesmen tried to foster the impression that growth was being channelled into ‘wasteful’ consumer spending rather than ‘important’ long term investment. As Mr Nick Brown, a Labour Treasury spokesman, has said:

‘Direct measures must be taken to direct credit away from consumption, towards investment’ (19th September 1988).

Such a view assumes that consumption is ‘bad’ and that it rises at the expense of industrial investment.

Consumer spending has risen because individuals are confident about the future and are enjoying record real incomes. The increase has not been at the expense of investment. Over the last seven years investment has risen faster than consumption. Total investment in the economy has risen by a quarter in real terms than in 1979 – an all time record. Under Labour, a period when credit controls were in place, consumption rose on average by six times the rate of investment. There is no evidence whatsoever to suggest that British industry is under-investing or that credit controls would help further increase levels of investment (for further comment on credit controls, see p. 21).

Higher Taxes. Labour remain the party of high taxes. Their spokesmen have *already* committed them to raising existing taxes and even inventing a new one (see p. 73).

Reaffirming Socialism. A programme of intervention in the economy is set out in *Social Justice* that would enmesh business in a web of controls and regulations. Labour propose to construct a ‘national policy for science’ (p. 4); to bring about ‘community intervention’ in the market to enforce ‘standards’ on builders, insurance companies and travel agents among others (p. 27); to establish a ‘public enterprise culture’ through ‘strategic planning [and] provision of socially useful goods and services’ (p. 28); to introduce ‘social audits’

for private companies (p. 30); and to introduce a new 'Charter of Employment Rights' which will set up 'minimum legal standards for everyone at work' including a minimum hourly wage and paid holiday, maternity and paternity leave and 'anti-discrimination' measures (p. 12).

It is remarkable that after ten years of Conservative Government with the British economy stronger than at any time since the War all that Labour can do is to go on advocating a return to the failed policies of the 1960s and 1970s.

2. THE SLD

At the general election the 'Alliance' tried to promote its economic policies as a realistic half-way house between the two main parties – but in reality 'Alliance' policy was dominated by much the same kind of intervention and state planning that characterised Labour's economic thinking.

Public Spending and Incomes Policy. Like Labour, the 'Alliance' put its faith in massive increases in public spending. In its Manifesto, *Britain United – the Time Has Come*, the 'Alliance' declared its intention to:

'expand the economy by targeting resources to increase output and exports rather than consumption' (May 1987, p. 6).

The total extra spending proposed by the 'Alliance' built up to £19 billion per annum in the fifth year. An extra £4 billion would have been added to the PSBR in the first year alone. Moreover, borrowing would eventually have risen to £13 billion as the 'Alliance' phased out the privatisation programme.

To contain the severe inflationary pressures that such sharp increases in spending and borrowing would inevitably have unleashed, the 'Alliance' offered only that failed instrument of economic control the 1960s and 1970s – an incomes policy. To strengthen their incomes policy, the 'Alliance' Manifesto stated that 'as a back-up we will legislate for reserve powers for a counter-inflation tax on companies' (p. 6).

The whole of the 'Alliance's' economic strategy depended on the success of their incomes policy, a fact acknowledged by Dr David Steel who said: 'Without a fair, firm incomes policy ... we are lost' (*The Times*, 25th September 1986). Yet there is little doubt that the 'Alliance' proposals would have foundered on the same problems that wrecked earlier attempts at wages control – namely, their complexity and the impossibility of enforcing fair controls on wages which did not penalise the most successful businesses. In an attempt to simplify the operation of their inflation tax, they propose to exempt large numbers of businesses from it. Altogether, the 'Alliance' inflation tax would have covered barely half the work-force. So it would have been ineffective – as well as unfair.

Little to Offer. The SLD has so far said very little about economic policy. The initial policy statement *A Democracy of Conscience* confined itself to generalities which, though containing some references to the market, put most of the emphasis on the role of government:

‘we will encourage wealth-creators in all parts of the economy and we will recognise the role of the market ... we cannot rely on market forces alone ... we insist that Government has a role and that without some control of market forces, gaps will widen rather than narrow between and within the nations and regions of the UK ... We refuse to accept that further tax cuts are a higher priority than investment ... we would promote and support regional development agencies ... we identify an urgent need for more investment ... in training ... developing skills ... research and development ...’

Confusion and Ambiguity. Mr Alan Beith, the SLD's Treasury spokesman, has stuck to a few familiar ideas in his recent pronouncements on economic policy. His main themes have been firstly, the need for the UK to join the Exchange Rate Mechanism (ERM) of the European Monetary System and secondly, the damaging effects of tax cuts and interest rate rises. Yet if Britain is to accept the discipline of the ERM, it would need at times to maintain high interest rates in order to avoid devaluation.

Mr Beith clearly does not believe that interest rates should be used to control inflation – though he has not suggested how the SLD would go about containing inflationary pressures. During the campaign for the SLD leadership both Mr Ashdown and Mr Beith stated that they believed there might be a case for dropping the Party's commitment to an incomes policy. Yet at the General Election the Alliance conceded that without an incomes policy its entire economic strategy would come to grief. Without an incomes policy – and with its continuing enthusiasm for high public spending and low interest rates – the SLD would have no hope whatsoever for keeping inflation under control.

It was not surprising that the SLD's first conference preferred to concentrate on less intellectually demanding matters, calling for:

‘a nationwide educational programme to emphasise that engineering is an integral part of our modern culture ... a supportive financial climate for industry [with] realistic exchange and interest rates ... a new status for employees in industry ... even development across Britain’ (*SLD Final Agenda*, September 1988).

As far as industry is concerned, the SLD shares Labour's prejudice against ‘consumption’ and instinctively feels that something ought to be done to increase investment. Again like Labour, the SLD believe that manufacturing industry needs special help – studiously ignoring the fact that under the Conservatives manufacturing industry has undergone a renaissance with output, exports and productivity all at record levels.

Mr Ashdown: a New Leader with Old Ideas. The possible future direction of the SLD's economic policy can be deduced from a pamphlet written jointly by Mr Ashdown, the

SLD's new leader, and Mr Richard Holme, in 1986. Entitled *Investing in our Future*, the pamphlet called for a:

‘mixture of exchange rate, fiscal and monetary and income policies to raise the ratio of investment expenditure and consumer spending, and maintain a competitive exchange rate and lower interest rates’ (p. 48, 19th September 1986).

Messrs Ashdown and Holme called for more intervention in the economy both to subsidies industrial investment and to keep interest and exchange rates low. Contrary to all the evidence of the last 40 years, *Investing in Our Future* expressed the belief that inflation can be controlled through the device of an incomes policy, without the use of interest rates. Mr Ashdown and his co-author did not explain how they could reconcile low interest rates with the reduction in consumer spending they obviously felt was so necessary. Moreover, Mr Ashdown also appears to be an adherent of industrial planning, saying that Britain needs ‘a new Industrial Strategy Council ... to bring together government and both sides of industry in a positive forum to agree the strategic sectors’ (ibid. p. 48). Like so many of SLD declarations, this idea harks back to the failed corporatism of the 1970s.

However, a glimmer of economic realism did appear after the General Election when Mr Ashdown admitted that the SLD would have to update its policies to create ‘an enterprise society which will generate the wealth which can then be distributed’ (*The Independent*, 14th May 1988). Yet since becoming Leader Mr Ashdown has reverted to the old left-wing Liberal line on the economy. He criticised the 1988 Budget tax cuts as ‘windfall gain for the well off’ (Speech to the SLD Conference, Blackpool, 29th September 1988), ignoring the fact that every single taxpayer benefited from the reduction in the basic rate to 25p. And, like Labour Spokesmen, he has called for ‘more investment in health, in education, in training’ (ibid.) despite having long supported economic policies which, if implemented, would have destroyed any chance of raising public spending in those areas to the record levels the nation now enjoys. The chief hope for Mr Ashdown is that he will learn important lessons by studying the reasons for Conservative success. He has said:

‘I am not going to deny that this Government has economic achievements to its credit. Most people have enjoyed an increase in their real income. Most people own their own homes ... Profits are up ... Productivity in manufacturing is up ... The power of overweening unions to block progress has been eroded and they have rightly been forced to pay attention to the wishes of their members’ (ibid.).

3. THE SDP

Dr Owen's SDP has maintained its support for most of the old ‘Alliance's’ economic policies – but with some important modifications and a certain amount of confusion. Thus the SDP's ruling body, the Council for Social Democracy, has voted in favour of electricity privatisation but, inexplicably, has rejected plans for the privatisation of the coal industry.

Dr Owen has made it clear that what he describes as the ‘social market’ should play a key role in SDP economic policy. **Professor Robert Skidelsky**, a leading figure in the formulation of SDP policy, has admitted that there is some confusion as to what the social market actually stands for:

‘It means that we value and promote the market economy in its double role of creating wealth and safeguarding individual liberty. But we do not make an idol of the market. There are limits to both the market and the private sector’ (Speech to the SDP conference, 20th September 1988).

The SDP has yet to explain how this would work in practice or how, exactly, it differs from the approach adopted by the other parties. Integration of the tax and benefits system remains central to SDP economic policy though the Council for Social Democracy has now rejected the idea of an inflation tax – a policy on which the ‘Alliance’ fought both the 1983 and 1987 elections.

Dr David Owen remains committed to UK membership of the ERM though in his speech to the Party's conference he went further, saying:

‘There will be a European Central Bank and if necessary it will be forced on the Government by majority voting, because it is an essential part of getting an internal market in the European Community by 1992. She [Mrs Thatcher] wants the internal market when it suits her. But she does not like the internal market when it means she has to swallow some of her prejudices about British sovereignty’ (7th October 1988).

Dr Owen likes to portray himself as a staunch defender of British interests. Yet his apparent willingness to hand over control of UK economic policy to a European Central Bank would deny a future British Government control over one of the most important areas of policy.

2. TAXATION

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(A) LABOUR'S RECORD 1974–79

Under the last Labour Government punitive levels of taxation were both a symptom and a cause of Britain's economic failure. In an economy experiencing sluggish growth and spiralling inflation, high taxes were needed to raise the revenue to finance Labour's extravagant spending plans. But punitive levels of taxation – by eroding incentives and driving British talent overseas – were also a cause of the British economy's poor performance. Under Labour existing taxes were raised and new ones introduced:

- The standard rate of Income tax was raised from 30p to 33p and then to 35p in 1975.
- Labour's failure to raise personal allowances in line with inflation meant that more people were caught in the tax net. By 1978–9 there were 1.8 million more taxpayers in the UK than there had been in 1973–4, and almost 300,000 more people were paying Income Tax at the higher rates.
- The top rate of tax on earned income rose from 75 per cent to 83 per cent and the top rate on investment income hit a staggering 98 per cent.
- The 1974 Budget raised Corporation Tax from 50 per cent to 52 per cent at a time of chronically poor business profitability.
- Capital Transfer Tax and Development Land Tax were introduced; Stamp Duty was raised.
- The tax system became more complex – in five years Labour passed over 1,000 pages of new tax law.

With the starting rate of Income Tax at 35p (higher than in any other OECD country, except Denmark), even Mr Denis Healey, Labour's Chancellor of the Exchequer, was forced to concede:

‘Income Tax rates are too high at every level of earnings from the poorest paid to the highest paid’ (BBC Radio 4, Analysis, 21st October 1976).

Earlier the same year Mr Healey had admitted that Labour's high taxation, high public expenditure policy was simply unsustainable:

‘if we continued to increase our programme at the rate we had planned we would have to increase taxation by 1979 to a level at which the average worker could find tax and national insurance taking 51p to 55p out of every extra pound he earned ... It would corrode the will to work and seriously weaken the incentives for people to acquire the skills which industry desperately needs’ (*The Times*, 26th February 1976).

(B) THE CONSERVATIVE RECORD

1. THE AIMS OF THE CONSERVATIVE STRATEGY

The modernisation of Britain's tax system has been a consistent priority for the Government over the last nine years – and a key element in its successful economic strategy. The 1979 Manifesto declared that the Conservative goal was to reform the tax system in order to:

‘restore incentives so that hard work pays, success is rewarded and genuine new jobs are created in an expanding economy’.

This, the Manifesto pledged, would be achieved by:

- Cutting Income Tax at all levels.
- Raising the thresholds at which Income Tax became payable.
- Switching the burden of taxation from Income Tax to Value Added Tax.
- Dealing with the most damaging features of Capital Transfer Tax and Capital Gains Tax.
- Encouraging saving and the wider ownership of property.
- Reforming and simplifying the tax system and cutting back tax bureaucracy.

2. SUMMARY OF ACTION

Ten Conservative Budgets have put these policies into effect:

- The basic rate of Income Tax has been brought down in stages from 33p to 25p and a new target of just 20p has been set.
- Nine higher rates of Income Tax rising to 83 per cent (98 per cent on investment income) have been replaced by a single higher rate of just 40p.
- Personal allowances have been raised by over 25 per cent in real terms lifting 1.7 million people at the bottom of the income scale out of tax altogether.
- Five taxes have been abolished: the National Insurance Surcharge, the Investment Income Surcharge, Development Land Tax, Capital Transfer Tax on life-time giving and Capital Duty.
- The burden of tax has been shifted away from direct taxes towards indirect or expenditure taxes. As a result, Income Tax is forecast to account for just 24.3 per cent of all Government tax revenues in 1988–9, compared with 32.7 per cent in 1978–9.
- The taxation of capital has been simplified and its incidence made more equitable. All pre-1982 gains have been removed from the scope of Capital Gains Tax and the rate at which it is levied brought into line with the taxpayer's own marginal rate of Income Tax (25 or 40 per cent).
- Seventeen rates of Capital Transfer Tax up to 75 per cent have been replaced with a single rate of 40 per cent on inheritance. The threshold at which Inheritance Tax becomes payable has been increased over threefold since 1979.

- Corporation Tax has been cut from 52 per cent to 35 per cent. The small companies rate of Corporation Tax was reduced from 42 per cent to 30 per cent, and subsequently brought into line with the basic rate of Income Tax.
- The dual rate of VAT was replaced by a single 15 per cent rate in 1979 and its scope extended in 1984 and 1985. The operation of VAT has been simplified, particularly for small firms.
- Employees' National Insurance contributions have been reduced for low earners and the self employed.
- The taxation of husband and wife is being reformed to give married women greater privacy and independence in their tax affairs.
- A number of unnecessary or excessive tax reliefs—on life assurance premiums, forestry, company cars, covenants and home improvements – have been abolished or reduced.
- Tax incentives have been introduced to encourage wider share ownership, investment in smaller firms and charitable giving.
- Stamp Duty on share transfers has been reduced from 2 per cent to ½ per cent; the rate applying to land and buildings has been halved to 1 per cent.

3. THE BURDEN OF TAXATION

Substantial reductions in Income Tax rates coupled with real increases in allowances mean that the Government now takes a smaller share of earnings in Income Tax than under Labour. With the standard rate of Income Tax lower than for 50 years and the economy enjoying its eighth year of economic growth, living standards have risen to record levels (see p. 51). For a married man with two children on average earnings, real take-home pay has risen by nearly 30 per cent since 1978–9.

Tax and National Income. As a proportion of national income, the burden of total taxation has been falling since 1981–2. However, as the table shows, the early 1980s saw a sharp rise in the share of GDP taken in taxation:

	Taxation (including Local Authority Rates and National Insurance Contributions) as a Proportion of GDP	
	Total	Non-North Sea taxes and NICs as a percentage of non-North Sea GDP
1978–9	33·8	34·2
1980–1	36·3	36·2
1981–2	39·3	38·7
1982–3	38·9	38·2
1984–5	39·2	37·9
1986–7	38·0	37·5
1988–9 (estimated)	37·4	37·2

(Source: HM Treasury)

To a certain extent this rise reflects the buoyancy of North Sea oil revenues which, as a proportion of GDP, peaked in 1984–5. When the distorting effects of North Sea oil production and revenues are removed, the rise in the proportion of GDP taken in taxes is seen to be less pronounced. There were two main reasons for this increase.

The first was the primacy of the Government's commitment to low inflation. This required the Government to reduce its borrowing by funding a growing proportion of expenditure from tax revenues. Instead of Labour's widening gap between income and spending – which hit a peak of £40 billion in today's terms – the Government's finances are expected to be in surplus to the tune of some £10 billion in the financial year 1988–9. This has helped bring inflation down to less than a quarter of the peak it reached under Labour and has dramatically reduced the burden of debt interest on future generations. These achievements would not have been possible without the Government's determination to cut borrowing in the early 1980s.

The second reason why taxation took a higher proportion of GDP was the need to protect the less well-off from the consequences of the world recession. While total government expenditure in real terms rose by 8 per cent between 1978–9 and 1985–6, spending on the Government's social security programme rose by 34 per cent. Over the same period spending by the Department of Employment rose by 68 per cent. These large real terms increases were essential if the poor were to be shielded from the impact of the recession – and the unemployed were to be provided with new skills. But, given the crucial importance of bringing down public borrowing, this increase in spending had to be funded from tax revenues. As the **Chancellor** has pointed out:

‘At the beginning, we could afford to reduce Income Tax rates only by raising VAT, because we simply had to get the Public Sector Borrowing Requirement down. We had to accept increases in National Insurance Contributions to finance increases in spending on benefits for the pensioners and the unemployed. And our oil revenues were still rising. So it is not difficult to see why taxes and national insurance contributions rose as a proportion of our national income, even though we cut income tax rates significantly’ (*Tax Reform: The Government's Record*, Conservative Political Centre, June 1988).

Since 1981–2 the proportion of GDP taken in taxes has fallen by almost 2 percentage points. And within a falling total there has been a substantial change in the burden of taxation:

- The proportion of GDP taken in Income Tax has fallen from 11.1 per cent in 1978–9 to an estimated 9.2 per cent in 1988–9 – a fall of almost one fifth.
- The contribution of Corporation Tax to government revenues has risen from 2.2 per cent of GDP to an estimated 3.8 per cent in the period 1978–9 to 1988–9. This rise reflects the buoyancy of company profits – now at their highest level for 20 years. And it has taken place *despite* a cut in the rate of Corporation Tax of one third.
- In line with the 1979 manifesto commitment, expenditure taxes now bear a larger share of the burden of taxation. Since 1978–9 the proportion of GDP accounted

for by expenditure taxes (VAT, excise duties and Stamp Duty) has risen by about one third from 9.3 per cent in 1978–9 to about 12 per cent in 1988–9.

The *relative* contributions to total government revenues of Income Tax, Corporation Tax and indirect taxes have also changed over the period:

The Balance of Taxation			
Per cent of total taxes and NICs			
	1978–9	1987–8	1988–9
		Estimate	Forecast
Income tax	32.7	25.8	24.3
Employees' NICs	7.0	8.5	8.6
Sub total	39.7	34.3	33.0
Corporation tax (Non-North Sea)	6.5	8.5	10.0
North Sea taxes ¹	1.0	2.9	1.9
Other ²	0.1	–0.4	–0.4
Capital taxes	1.4	2.3	2.8
<i>Total direct</i>	48.6	47.6	47.2
Employers' NICs and NIS	14.1	9.3	9.7
Taxes on expenditure and stamp duties	27.4	32.5	32.1
Local Authority rates	9.9	10.5	11.0
<i>Total indirect</i>	51.4	52.4	52.8

¹ Includes North Sea corporation tax before ACT set off.

² Includes North Sea ACT set-off and royalties accruals adjustment.

(Source: HM Treasury)

The Burden of Taxation on Individuals. The proportion of the income of an average married couple (with one earner and no children) taken in Income Tax and National Insurance Contributions has fallen from 27.8 per cent in 1978–9 to 26 per cent today. Had Labour's tax regime remained in place, with only allowances linked to the rate of inflation, people at *all* levels of the earnings scale would be paying more in Income Tax and National Insurance Contributions:

Extra Percentage of Income Payable in Income Tax and NICs under Indexed 1978–9 Regime*			
Multiple of Average Male Earnings¹	½	1	2
Single	+2.7 (£3.30)	+4.1 (£10.03)	+5.9 (£29.98)
Married with One Earner and One Child	+2.4 (£2.94)	+3.9 (£9.54)	+5.9 (£29.98)

* Figure in brackets shows the addition to weekly tax bills.

Extra Percentage of Income Payable in Income Tax and NICs under Indexed 1978–9 Regime*

Multiple of Average Male Earnings¹ ½ 1 2

¹ Full time adult males (all occupations) £254·10 a week.

(Source: HM Treasury)

Overall, the Income Tax burden is some £20 billion less than it would have been under Labour's indexed regime.

4. TAX YIELDS

Despite substantial cuts in tax rates there has been a large rise in the real value of tax receipts since 1978–9:

	Government Tax Revenues			Percentage change 1978–9 to 1988–9
	1978–9	1987–8 (est)	1988–9 (est)	
Income Tax	37·3	39·6	38·4	3
Employees' NICs	8·0	13·1	13·6	70
Sub Total	45·3	52·7	52·0	15
Non-North Sea Corporation Tax	7·4	13·1	15·8	114
North Sea taxes	1·1	4·5	3·0	173
Other	0·1	–0·6	–0·6	–600
Capital taxes	1·6	3·5	4·3	169
Employers' NICs and NIS	16·1	14·3	15·3	–5
LA rates	11·3	16·2	17·4	54
Taxes on expenditure and stamp duties	31·3	49·9	50·6	62
TOTAL	114·3	153·5	157·6	38

(Source: HM Treasury)

Yields and Top Rate Taxpayers. Significantly, despite a reduction in the top rate of Income Tax from 83p to 60p, the share of Income Tax paid by the top 5 per cent of taxpayers increased from 24 per cent in 1978–9 to 30 per cent in 1987–8. Thus a *reduction* in rates of well over a quarter has been accompanied by a *rise* in the contribution of top rate taxpayers to Government revenues of a similar amount. Despite a further cut in the higher rate to 40 per cent in the 1988 Budget, the top five per cent of taxpayers will still contribute a far higher proportion of total Income Tax revenues – an

estimated 28 per cent in 1988–9 – than under Labour. And, as Mr Peter Lilley, Economic Secretary to the Treasury, has pointed out:

‘There is every prospect that in the fullness of time the yield from the new 40 per cent top rate will exceed the yield from the previous upper rates’ (Speech to the Institute of Taxation, 5th May 1988).

Lower Tax and Higher Revenue. Higher tax revenues have enabled the Conservatives to increase spending on essential public services to levels undreamt of by the last Labour Government. As Mr Lawson has said:

‘The moral is simple. Tax reform has helped to give us a better performing economy. And a better performing economy has given us higher revenue for any given tax rates. So we have put paid to another post-war nostrum: that you need high tax rates to finance the Welfare State’ (*Tax Reform: The Government's Record*).

5. LIVING STANDARDS

Since 1979 living standards have risen to record levels. In the last nine years the real value of take-home pay has risen by at least a quarter. By contrast, under the previous Labour Government real net pay hardly increased at all – and for many people actually fell:

	Percentage Change in Real Take-Home Pay			
	Multiple of Average Earnings*			
	½	1	2	3
<i>Single person</i>				
1973–4 to 1978–9	–1.1	–2.8	–3.9	–10.1
1978–9 to 1988–9	+27.9	+33.4	+35.0	+41.9
<i>Married with two children</i>				
1973–4 to 1978–9	+4.2	+0.7	–1.3	–7.5
1978–9 to 1988–9	+22.7	+29.3	+33.3	+37.8

* £254.10 a week in 1988–9.

(Source: HM Treasury)

(C) INCOME TAX

1. THE BENEFITS OF LOW TAXES

The reduction of Income Tax rates has been central to the Government's tax reform strategy. As the **Chancellor** has said, lower marginal tax rates:

‘make the extra pound worth earning, without recourse to tax dodges; and that, in the long run, is what matters for incentives. The economics are simple, if you reward enterprise you get more of it’ (ibid.).

Incentives. Lower marginal rates of Income Tax enable individuals to keep more of every extra pound of income they earn. They therefore help to provide the necessary incentive for individuals to work longer or harder. Lower taxes increase the likely rewards for entrepreneurs, and encourage the risk-taking and the establishment of new businesses that are essential for an economy to thrive. And lower rates of Income Tax – coupled with more generous personal allowances – also increase the incentives for the unemployed to take work or to move to a slightly better paid job. So lower taxes help ease the poverty and unemployment traps.

Reversing the Brain Drain. The counterpart of the increasing globalisation of capital and product markets has been a trend towards international recruiting. In order to secure the most talented individuals, companies are increasingly resorting to recruiting across national borders. Equally, companies are becoming more international with branches and factories throughout the world. Local levels of taxation are a key consideration for any company or individual deciding whether to locate in a particular country.

Excessive levels of taxation also tend to drive the best qualified, most internationally mobile individuals to countries with lower tax regimes. Under the last Labour Government, with top earners retaining just 17p in every pound of marginal earnings, those at the top of the earnings scale were faced with a strong disincentive to stay in the UK. A report on the UK film industry commissioned by Sir Harold Wilson in 1976 spelt out Britain's predicament:

‘High levels of taxation generally tend to encourage young people of ability and ambition to seek their professional advancement ... abroad ... We wish to emphasise the seriousness of this situation ... Lower rates of taxation at higher rates of income ... would enable the UK to enlist and retain talent essential to the success of the film and other industries’.

The 1988 Budget, in particular, has made Britain a considerably more attractive place both for companies to locate and for individuals to work. According to Hay Management Consultants, the Budget made Britain ‘dramatically more competitive overnight’ as an attractive place for high-fliers (*The Guardian*, 17th March 1988). Arthur Anderson's, the chartered accountants, predicted the return to the UK of three groups in particular following the cut in the top rate of income tax from 60p to 40p – entrepreneurs, actors and entertainers. And, as the *Financial Times* has pointed out:

‘The new tax structure could also reduce the number of top earners leaving for more profitable shores such as Singapore, Hong Kong and the Middle East, where tax is minimal ... Some observers predict an influx of European managers into the UK from areas such as Scandinavia, Italy, France and Spain where national tax rates are higher ... Inbucon Management Services [notes] that multinationals were already increasingly keen

to employ the best manager for the job, regardless of nationality, where once they would have preferred a local recruit' (17th March 1988).

Reduced Incentive to Non-Payment of Taxes. Lower taxes also reduce the incentive to evade or avoid tax. Punitive tax rates provide an incentive for individuals to take remuneration through tax avoidance devices rather than as taxable income. In the 1970s, for instance, accountants expended considerable energies developing elaborate tax avoidance devices to prevent their clients paying tax at the top rate of 83 per cent. Tax avoidance fosters an essentially unproductive industry of legal and financial experts and leads to firms and individuals making financial and commercial decisions solely for their tax efficiency. Equally, very high marginal rates of tax tend to push a good deal of economic activity into the black economy through tax evasion. So lower taxes not only provide an incentive to work harder; they also encourage individuals to reveal more of their income to the tax man. This phenomenon probably helps explain part of the rise in Income Tax revenues over recent years, particularly from higher earners.

Fairness. Excessive levels of taxation limit the freedom of business and individuals to make commercial and economic decisions. In doing so they reduce the efficiency with which the economy operates. But punitive levels of tax are not just inefficient – to Conservatives they are also unjust. They deny people the fruits of their own labour and reduce the individual's freedom of choice and his ability to provide for himself and his family. High levels of taxation stifle the individual enterprise which is an essential part of all free societies. As a result, individuals are forced into dependence on the state. As Mr John Major, the Chief Secretary to the Treasury has pointed out, it is no coincidence that the Conservative Party is committed both to low taxes and to the family:

'We are the only party of low taxation. The only party that believes people know best how to spend their own money, on their own families. And that is why we have a new target [for Income Tax]: a basic rate of 20p in the pound as soon as we prudently and sensibly can' (Conservative Central Council, 18th March 1988).

2. CUTTING INCOME TAX

The Basic Rate. In Sir Geoffrey Howe's first budget, in June 1979, he set a long-term goal for the basic rate of Income Tax of 25p. That target was reached in the 1988 Budget:

The Basic Rate of Income Tax

	<i>per Cent</i>
1973–4	30
1974–5	33
1975–6	35
1977–8	34
1978–9	33
1979–80	30

The Basic Rate of Income Tax

	<i>per Cent</i>
1986–7	29
1987–8	27
1988–9	25

Today, the basic rate is at its lowest level since the early 1930s – and nearly 30 per cent lower than the peak it reached under the last Labour Government. Had the basic rate remained at 33 per cent, the level inherited from the last Labour Government, taxpayers would be paying around an extra £7 billion in Income Tax in 1988–9 – equivalent to an average of about £280 for every taxpayer in the country. But despite the reduction in Income Tax of recent years the Government plans to go still further. In his 1988 Budget Mr Lawson announced a new target for the basic rate of just 20p, to be achieved as soon as it is prudent and sensible to do so.

Higher Rates. Under Labour the structure of Income Tax became absurdly complex with no fewer than nine higher rates between 40 per cent and 83 per cent; a basic rate of 33 per cent; and a narrow, lower rate band of 25 per cent. For someone paying tax at the top rate this meant that Income Tax had to be calculated at a total of ten different rates.

The Conservatives have slashed higher rates of Income Tax and dramatically simplified the structure of taxation. The 1979 Budget introduced a new top rate of 60 per cent and did away with all higher rates above that level. In his 1988 Budget Mr Lawson took a further, dramatic step towards reforming the tax system. All five higher rates of Income Tax ranging from 40 and 60 per cent were consolidated into a single top rate of just 40 per cent. Despite these cuts, the revenue from top rate taxpayers has risen dramatically (see p. 50).

The Structure of Income Tax (Rates Applied to Taxable Income)

1978–9		1980–1		1988–9	
<i>Rate</i>		<i>Rate</i>		<i>Rate</i>	
<i>(per cent)</i>		<i>(per cent)</i>		<i>(per cent)</i>	
£ 0–£ 750	25	£ 0–£11,250	30	£0–19,300	25
£ 751–£ 8,000	33	£11,251–£13,250	40	Over £19,300	40
£ 8,001–£ 9,000	40	£13,251–£16,750	45		
£ 9,001–£10,000	45	£16,751–£22,250	50		
£10,001–£11,000	50	£22,251–£27,750	55		
£11,001–£12,500	55	Over £27,750	60		
£12,501–£14,000	60				
£14,001–£16,000	65				
£16,001–£18,500	70				

The Structure of Income Tax
(Rates Applied to Taxable Income)

	1978–9	1980–1	1988–9
	<i>Rate</i> (per cent)	<i>Rate</i> (per cent)	<i>Rate</i> (per cent)
£18,501–£24,000	75		
Over £24,000	83		

Personal Allowances. Under the Conservatives, personal allowances have risen more than 25 per cent ahead of inflation, lifting 1·7 million people out of the tax net altogether. Had allowances just been linked to the rate of inflation, the nation would be paying an extra £5·12 billion in Income Tax in 1988–9. The married man's allowance is now at its highest level in real terms since 1939–40. The single person's allowance is worth more than for 16 years.

In his 1987 Budget the Chancellor introduced a special over-80s age allowance. In 1988–9 the over-80s allowance is worth £170 a year (£3·27 a week) more than the over-65s allowance to a married couple. With allowances substantially higher than in 1979 the Chancellor was able to abolish three minor allowances (for housekeepers, dependent relatives and for services given by sons or daughters) in his 1988 Budget. These allowances had remained unchanged for 20 years – their abolition makes fewer than 1,000 people worse off once all the 1988 Budget changes are taken into account.

Personal Allowances, 1978–9 and 1988–9

	<i>1978–9</i>	<i>1988–9</i>
Single person's allowance and wife's earned income allowance	£985	£2,605
Married man's allowance	£1,535	£4,095
Additional personal allowance	£550	£1,490
Widow's bereavement allowance	N/A	£1,490
Single age allowance (age 65–79)	£1,300	£3,180
Married age allowance (age 65–79)	£2,075	£5,035
Single age allowance (age 80 and over)	N/A	£3,310
Married age allowance (age 80 and over)	N/A	£5,205
Age allowance income limit	£4,000	10,600

3. CUTTING INCOME TAX: THE AMERICAN EXPERIENCE

The effect of tax cuts in the United States supports the view that lower taxes do not necessarily lead to a reduction in the revenues available to the Government. On the contrary, in America, as in the UK, reductions in tax rates have been followed by

increases in tax revenues. President Reagan's tax cuts reduced the top marginal rate of Income Tax from 70 per cent in 1981 to 50 per cent in 1985. It was originally estimated that, as a result of the top rate tax cuts, American higher rate taxpayers would pay only \$30 billion in Income Tax, rather than the \$40 billion that would have been due under the 70 per cent rate. Instead, according to figures calculated by Professor Lawrence Lindsay of Harvard University, the yield from top rate taxpayers *rose* to \$50 billion. As *The Economist* has noted, by 1985 American entrepreneurs:

‘do seem to have paid themselves and top assistants \$30 billion more in taxable incomes and \$30 billion less in untaxed perks compared with 1980; more wives of the rich went out to work; and (above all) the lower top rate brought forth a new swathe of people willing to open risky small businesses like subcontracting and restaurants. Most of the increase in America's employment stemmed from this’ (March 19th 1988).

In contrast to Britain's Labour Party, the Democrats in America have embraced the cause of tax reform. As *The Economist* pointed out:

‘Today no Democrat or Republican candidate for President would wish to reverse [the reduction in Income Tax rates]. All would judge that top tax rates much above 40 per cent would bring lower employment rather than more revenue with which to finance new hospitals, and so would Labour New Zealand and Australia’ (ibid.)

(D) BUSINESS AND ENTERPRISE

The aim of the Government's economic strategy has been to create a climate conducive to enterprise and growth. Tax reform has played a key part in this strategy. Since 1979 the Government has made a number of changes to the tax system with the aim of improving the efficiency and productive capacity of British business:

- The rate of Corporation Tax has been reduced from 52 to 35 per cent.
- The higher and standard rates of Income Tax have been cut (see Section C above).
- The National Insurance Surcharge, Development Land Tax and Capital Duty have all been abolished.
- National Insurance contributions for the lower paid have been cut.
- Capital Transfer Tax has been removed from life-time gifts.
- The burden of Capital Gains Tax and Inheritance Tax has been reduced.
- Schemes to boost enterprise, ownership and investment have been introduced.

1. CORPORATION TAX

Need for Reform. In his 1984 Budget Mr Lawson unveiled plans for a radical reform of company tax. The main features of the Corporation Tax system inherited from Labour were high rates of tax combined with a number of special reliefs whose main effect was to encourage firms to invest in order to reduce their tax liability. The Chancellor's reforms involved the phasing out of unnecessary reliefs coupled with a progressive

reduction in the rate of tax levied on company profits. First year allowances – which allowed businesses to offset profits against capital investment – were abolished. Instead plant and machinery now qualify for an annual allowance at 25 per cent a year (4 per cent a year for industrial buildings). Stock relief, introduced in 1974 to mitigate the effects of high levels of inflation, was abolished.

Commenting on the 1984 reforms, Professors John Kay and Mervyn King noted that by the early 1980s the importance of special reliefs in the Corporation Tax system had introduced:

‘fiscal considerations into decisions which there is every reason to believe are best left to companies themselves. The capital structure of a company and the method by which it finances its investment are not matters which the tax system ought to try to influence, and if it does it will create difficulties... Any deviation from a neutral tax system will provide someone with an opportunity to invent methods of avoiding tax ... A pound in tax saved [by avoidance] is worth as much to the company as a pound earned by productive activity’ (*The British Tax System*, Oxford University Press, 1986).

The tax system as it stood in 1984 gave firms a substantial subsidy to invest in plant and machinery, and discriminated between investment in different assets and sectors. Depreciation allowances, for instance, were not available for the purchase of commercial buildings whereas hotels received a 20 per cent initial allowance.

The Reformed System. The Government's reforms have removed this artificial distortion and considerably reduced the complexity of the corporate tax system. The tax base has been widened and rates of Corporation Tax have been progressively reduced – from 52 per cent to just 35 per cent.

The results speak for themselves. Company profits have risen to their highest level for 20 years. British manufacturers are enjoying record output, exports and productivity. And, as with the reduction of the basic and standard rates of Income Tax, the cutting of Corporation Tax rates have not led to a fall in Government revenues. On the contrary, between 1978–9 and 1988–9 the real value of non-North Sea Corporation Tax receipts more than doubled. As Mr Peter Spencer, Chief Economist at the Bank Credit Suisse First Boston, has pointed out:

‘The growth of Corporation Tax payments has been quite phenomenal in recent years, up from £5 billion in 1982–3 (6·7 per cent of total tax revenue) to nearly £16 billion in 1987–8 (14 per cent). This surge largely reflects the strong growth of industrial company profits over the period’ (*CSFB Economic Comment*, 29th January 1988).

The Government's reform of Corporation Tax has shown quite clearly that there is no contradiction between simplifying the tax system, cutting rates of tax and maximising tax revenues.

2. NATIONAL INSURANCE

Encouraging Job Creation. In his 1984 ‘Budget for Jobs’ the Chancellor introduced a major reform of the structure of National Insurance contributions:

- instead of a single flat-rate charge of 10·45 per cent (for employers) or 9 per cent (for employees), a graduated structure of rates from 5 per cent upwards was introduced.
- the flat rate class 2 contribution for the self-employed was reduced by 26 per cent (down from £4·75 to £3·50 a week in 1986).
- to help fund these reductions in NICs, the upper earnings limit for employers' contributions of £265 was abolished.

Explaining the rationale for his reforms, Mr Lawson said:

‘These changes represent substantial reductions in the cost of employing the lower paid. They will significantly improve the flexibility of the labour market and the prospects for jobs... For business and industry as a whole the increase in the cost of the higher paid will be fully offset... by the reduced cost of employing paid workers... [these changes] amount to a direct and powerful attack on disincentives to employment’ (*Hansard*, 19th March 1985, Cols. 799–800).

The reduction in the combined burden of employers' and employees' NICs on the lower paid was dramatic. For someone on £80 a week it was reduced by 30 per cent; for an individual on £50 a week it was halved. These changes reinforced the effects of lower tax rates and higher personal allowances by easing the poverty and unemployment traps.

The Structure of NICs in 1989–90

Weekly earnings	Percentage NIC rate on all earnings	
	<i>Employees</i>	<i>Employers</i>
Below £43	– No NICs payable –	
£43–£74·99	5	5
£75–£114·99	7	7
£115–£164·99	9	9
£165–£325	9	10·45
Above £325	No NICs payable on earnings in excess of £325	10·45

(*Source:* The Autumn Statement 1988)

National Insurance Surcharge (NIS). The last Labour Government introduced the NIS in 1976. It was payable by employers at a rate of 3½ per cent on top of National Insurance Contributions. The Conservatives reduced the rate to 2 per cent in 1982, and then abolished the tax altogether in 1984. Had the Surcharge been retained at 3½ per cent, it would now be costing industry about £4½ billion a year.

3. THE BUSINESS EXPANSION SCHEME

The Business Expansion Scheme (BES) was introduced in the 1983 Budget as the successor to the Business Start-Up Scheme. The BES enables investors in small and growing firms to claim tax relief for their investment at their marginal rate of Income Tax up to a maximum of £40,000 per investor, per year.

Achievements of the BES. Since its inception the BES has helped provide over 2,000 British firms with more than £700 million of equity finance. A study by the chartered accountants Peat, Marwick McLintock in 1985 showed that almost half the investment raised under the BES would not have been raised in any form without the scheme; over 70 per cent would not have been raised as equity.

Improved Targeting. The 1988 Budget introduced a ceiling of £½ million on the annual level of investment that qualified for BES relief. While banks and the venture capital industry are now able to supply more of industry's needs for investment, smaller businesses looking for relatively modest amounts of capital still find it difficult to do so. The ceiling will help target the BES towards smaller firms, many of them outside the South-East.

The ship chartering industry and firms providing housing to rent under the new assured tenancy scheme are, however, eligible for up to £5 million of BES investment. By extending BES relief to assured tenancies the Government aims to reverse the decline in Britain's private rented housing market.

BES and Assured Tenancies. The extension of the BES to assured tenancies has already proved a considerable success in attracting private finances into rented accommodation. Mr Norman Lamont, Financial Secretary to the Treasury, expects that the Government's original estimate of investment of some £125 million in 1988–9 will be considerably exceeded (London, 21st November 1988). The *Financial Times* estimates that in its first year of operation, BES assured tenancy schemes are likely to attract investment of £½billion into the private rented sector (14th September 1988).

4. ENCOURAGING WIDER OWNERSHIP AND INVOLVEMENT

Since 1979 the Conservative goal of wider ownership has become a reality. Ownership of shares and homes has risen to record levels. More people than ever now own household goods which were once beyond the means of all but the wealthy. As Mr Lawson has said:

‘The nation has been fundamentally changed by the spread of ownership to an extent hitherto undreamed of. It is the basic human – and essentially capitalist – instinct of self improvement which is behind this phenomenon. And its moral worth is increasingly clear, as the visible enhancement of personal responsibility demonstrates ... Few changes have done more to create one nation: to create a true consensus ... one that emerges spontaneously on the ground, and develops from there’ (Speech to the Centre for Policy Studies, 19th January 1988).

Conservative legislation has been crucial in facilitating this spread of ownership.

Home Ownership and Mortgage Tax Relief. Since 1979 the number of owner occupiers in Britain has risen by almost 3 million. Mortgage tax relief is currently helping more than 9 million people buy their own homes. For someone on average earnings with a £15,000 mortgage the value of mortgage tax relief is about £500 a year in 1988–9. The limit for relief rose in 1983 from £25,000 to £30,000.

The 1988 Budget introduced two important reforms to the system of mortgage tax relief. First, new home improvement loans for owner-occupiers no longer qualify for relief. This change enables the Government to target help towards extending home ownership – rather than providing extra help to those who already own their own homes. Second, the relief now applies to the property, instead of the person or persons buying it. This brings to an end the anomaly of unmarried couples being able to claim twice as much tax relief for the purchase of a property as a married couple. These changes in no way effect the Conservative commitment to maintain the present system of mortgage tax relief, as the **Prime Minister** has made clear:

‘We would not have seen the enormous extension of home ownership without mortgage interest tax relief. I am a great believer in it ... So long as I am here, it will continue’
(*Hansard*, 14th July 1988, Col. 549).

Stamp Duty. The rate of Stamp Duty applying to house purchases was halved in 1984 from 2 per cent to just 1 per cent, making a substantial reduction in the cost of buying a home. At current prices the halving of Stamp Duty is saving the average first time buyer £620.

Wider Share Ownership. The number of adult shareholders in Britain has tripled in the last ten years to nearly 9 million people. The Government's privatisation programme has given a huge boost to wider share ownership as have a number of changes to the tax system:

- Personal Equity Plans provide special tax concessions to individuals investing up to £3,000 a year in ordinary shares. As long as the investment is kept in the plan for a minimum period of one year all reinvested dividends and capital gains are free of tax. Over 250,000 people have now taken out PEPs investing a total of almost £½ billion. The 1988 Treasury/Stock Exchange survey of share ownership showed that 40 per cent of PEP holders were new to share ownership.
- Stamp Duty on share transfers was reduced from 2 per cent to 1 per cent in 1984, and to just ½ per cent in 1986. This reduction has helped ensure that the UK remains internationally competitive with other world financial centres, as well as substantially reducing the cost of share dealing for the private investor.
- The Government has introduced two new types of employee share schemes: the all-employee share option scheme in 1980 and the discretionary share option scheme in 1984. In addition, the Government has made changes which favour such schemes in nine out of the last ten budgets. These steps have helped lift the

number of individual employee share schemes from 30 to 4,170 in just nine years. As a result more than 1½ million employees now have a stake in the companies for which they work. In total, employee share schemes control assets worth almost £3 billion.

Pensions. As part of its social security reforms the Government has introduced legislation which will extend the coverage of private pensions and give individuals far more flexibility and choice in the way they provide for their retirement. The main features of the reforms were as follows:

- The cornerstone of the Government's pensions strategy is the new personal pension, which became available in April 1988. Personal pensions enable employees to opt out of their employers' scheme and make their own arrangements, tailored to their own needs and circumstances. They also allow the 10 million employees who are not in an employer's scheme to make provision of their own, and if they wish, to contract out of the State Earnings Related Pension Scheme (SERPS). The self-employed are also able to take out personal pensions. General tax reliefs, similar to those enjoyed by holders of retirement annuities, have been extended to personal pensions.
- Members of occupational pension schemes now have the right to pay additional voluntary contributions (AVCs) to a separate pension fund of their choice, thus topping up their pension savings to the approved limit.
- Simplified occupational schemes are now available for employers, particularly smaller firms, many of whom were discouraged by the complexity and open commitment of the final salary scheme.
- Transfer between different pension schemes has been made easier when people change jobs.
- The Government has curbed the exploitation of tax reliefs, particularly by very high earners.

Summing up the advantages of the new system, **the Chancellor** said:

‘The changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers and much greater freedom for individuals to plan their own pensions. This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities’ (*Hansard*, 17th March 1987, Col. 825).

Profit-Related Pay. The 1987 Budget introduced legislation designed to encourage the spread of Profit-Related Pay (PRP). Under the new legislation an employer can set aside a pool of money, equivalent to at least 5 per cent of the annual pay bill, from which PRP payments would be made to employees. Half of PRP received by each employee is tax free, up to a maximum of 20 per cent of *total* pay or £3,000, whichever is the lower.

This tax relief – worth up to the equivalent of 4p off the basic rate of income tax to a man on average earnings – is designed to encourage greater flexibility in pay bargaining.

Already over 100,000 employees are covered by registered PRP schemes. On average, 7 per cent of the average employee's pay is profit-related. Explaining the advantages of PRP, the Paymaster General, Mr Peter Brooke, has said:

‘It provides a strong incentive to employees to help boost profits by co-operating in changes in working practices, the introduction of new technologies and so on; it provides a cushion for the business if profits fall, guarding against pressures to cut back on output and jobs and it helps ... employees ... to realise that they are part of the business, and that there is a community of interest in its overall commercial success’ (Treasury Press Release, 12th April 1988).

(E) INDIRECT TAXES

1. THE CONSERVATIVE APPROACH TO VAT

The 1979 Conservative Manifesto stated:

‘Growing North Sea oil revenues and reductions in Labour's public spending plans will not be enough to pay for the income tax cuts the country needs. We must therefore be prepared to switch to some extent from taxes on earnings to taxes on spending’.

This was done at once in the first Conservative budget. Labour's two-tier VAT system, with rates of 8 per cent and 12½ per cent, was replaced by a single VAT rate of 15 per cent. Since 1979 the scope of VAT has been widened to include hot take-away food and drink, building alterations (1984) and press advertising (1985).

Doesn't VAT Hit the Poorest Hardest? Large areas of consumer spending, about half the total, are exempt from VAT. Most foodstuffs, fuel, children's clothing and children's shoes are all zero-rated. Moreover, the Government has made clear its determination to keep these items free of VAT (see p. 61). Since poorer households tend to spend a larger proportion of their incomes on such zero-rated goods, VAT tends not to be regressive: it does *not* take proportionately more from the poor than from the rich. As **Professors Kay and King** point out:

‘Consumption of food does not rise in proportion to income ... because it [food] is both zero-rated and a substantial part of the budgets of poorer families the distributional impact of VAT is slightly progressive’ (*The British Tax System*, Oxford University Press, 1986, p. 134).

2. EC PROPOSALS FOR THE HARMONISATION OF VAT AND EXCISE DUTY

VAT. Under European Commission proposals for the harmonisation of VAT and the standardisation of indirect taxes throughout the Community, all Member States would apply one of two rates of VAT on *all* taxable goods and services:

- a reduced rate band of between 4 and 9 per cent applying to foodstuffs (excluding alcoholic drinks); energy for heating and lighting; water; passenger transport; pharmaceutical products; books, newspapers and periodicals.
- a standard rate band of between 14 and 20 per cent which would apply to all other taxable items.

Member States would be free to fix their national VAT rates at any point within these bands.

Excise Duties. The other major element in the Commission's proposals is a plan to standardise rates of excise duty on alcohol, tobacco products and hydrocarbon oils throughout the Community. The EC rate would be the average of existing national rates for each product.

Since, under Article 17 of the Single European Act, changes to EC tax law require the *unanimous* agreement of Member States there is no question of the proposals being implemented against the wishes of any EC Member State.

Fiscal Harmonisation: the British Position. While fully committed to the Single Market, the Government does not believe that the approximation of VAT rates across the Community is a necessary or desirable precondition for its completion. As Mr Lawson has argued, the EC should, in efforts to create a Single Market, be guided by two principles:

‘First, deregulation rather than harmonisation, should be our central concern ... the object of the exercise should be to *remove* bureaucratic and other barriers, not to create still more. Second, we should distinguish between steps which are genuinely essential to the completion of the internal market, and those which are incidental to it, and could be considered in the longer term’ (Speech to the Koenigswinter Conference, Cambridge, 8th April 1988).

Illustrating the latter principle he went on:

‘Clearly the completion of the Single Market implies the ultimate abolition of restrictions on cross-border shopping within the Community; and this will inevitably affect, through the operation of market forces, decisions by Member states on the levels of VAT and excise duties they choose to levy. But to conclude from this that the road to 1992 requires conformity by all Member States with a stipulated range of VAT rates for all goods and services – in particular, for food – is a bureaucratic non sequitur whose pursuit can only serve as a distraction from the issues to which we really should be devoting our energies’ (ibid.).

The Conservative Commitment. During the last General Election campaign the Prime Minister gave specific undertakings not to extend VAT to food, gas, electricity or young children's clothing and footwear. These commitments have been confirmed by the Prime Minister and other Ministers on a number of subsequent occasions. The **Prime Minister** has also made it clear that the UK could not accept proposals which restricted its right to apply VAT zero rates:

‘Any tax changes can only be made by unanimous vote. Not only would this Government vote against Lord Cockfield's proposals, but a number of our European partners would do so as well’ (*Hansard*, 16th July 1987, Col. 1271).

There is a substantial body of evidence to support the Government's view on the Commission's proposals for the harmonisation of indirect taxes:

- Individual states in the USA set different rates of indirect taxation. Yet America indisputably has a single market which is often held up as a model for the EC.
- The application in the UK of the Commission's proposals on excise duty would have a major impact on UK health and social policy. Duty on alcoholic beverage would fall by between 47 and 89 per cent, while duty on cigarettes would fall by 14 per cent. The price of table wine would fall by about 80p a bottle; a packet of 20 king size cigarettes would cost 16p less while the price of a 70 cl. bottle of spirits would fall by about £2.50. The Institute of Fiscal Studies (IFS) has estimated that, as a result of these changes, consumption of alcohol would rise by around 40 per cent, and consumption of tobacco products by 4 per cent.
- Neither the 1985 Milan European Council nor the 1988 Brussels European Council identified tax harmonisation as a priority area. Other issues, such as technical standards or the liberalisation of financial markets, are of far greater significance to the achievement of a Single Market than fiscal approximation.
- The Treasury and Civil Service Committee's investigation into the Cockfield proposals reached the same conclusion as the Government:

‘We do not believe that the proposals now put forward by the Commission for VAT are essential to the creation of a Single Market’ (Third Report, *The European Commission's Proposals on the Approximation of Indirect Taxes*, 2nd March 1988).

- Other Members of the Community also have grave doubts about the Commission's proposals. The Danish Tax Ministry estimates that if the proposed EC VAT rates were applied, Denmark would suffer a revenue loss of some £3.3 billion, equivalent to more than one third of its revenues from direct taxes. Not surprisingly, the Danish Government has been one of the strongest opponents of VAT harmonisation.

A Market Solution to Tax Harmonisation. The Government believes that there is scope for more uniform rates of indirect taxes throughout the EC while avoiding many of the problems that the Commission's proposals would cause. The British solution relies on

market forces and progressive deregulation to bring European rates of indirect tax into line. In essence, this approach involves major reductions in border controls and moves towards the elimination of controls on cross-border shopping. As the Government has pointed out, the British approach has two main advantages:

‘It has the advantage of allowing Member States to set indirect tax rates according to national circumstances and priorities. At the same time it recognises that competitive pressure will in fact lead to greater convergence’ (*Taxation in the Single Market: A Market Based Solution*, HM Treasury, 8th September 1988).

In short, Britain's proposals would help achieve the Commission's aim of more uniform rates of indirect tax throughout the EC, without the difficulties that most Member States would face if a standard rate were to be imposed.

Under the Chancellor's plans border controls would remain in order to guard against terrorism and drugs. The UK also believes that any proposals for harmonisation should not force individual Member States to lower tax rates on tobacco and alcohol when, for health reasons, they would prefer to maintain higher rates. As the Government has pointed out:

‘Allowing market forces completely unfettered sway, with greater (and ultimately unrestricted) access to cheap supplies [of alcohol and tobacco] would be a retrograde step’ (ibid.).

For this reason the Government has argued for a system of fiscal approximation that would enable Member States to maintain relatively high rates of tax on alcohol and tobacco.

The European Court and Zero Rates of VAT. The European Commission has long been critical of the extensive use of VAT zero rating by both the Republic of Ireland and Britain. This is a completely separate issue from the harmonisation proposals: it involves the interpretation of existing law (the Sixth VAT Directive – agreed to by a Labour Government in 1977) rather than the application of a new statute.

In June 1988 the European Court of Justice found that in the case of certain goods and services supplied to industry British zero rates were in contravention of the existing directive. However, the British view prevailed on the most important item private housing. The ordinary consumer is unaffected by the Court's ruling, and the Government has taken steps to mitigate the effects of the judgement on industry.

The Court's ruling in no way changes the Government's determination to resist the Commission's proposals for VAT harmonisation.

3. VAT ENFORCEMENT

Faster Collection. The Finance Act 1985 implemented a wide-ranging package of reforms designed to improve the efficiency with which VAT is collected. The reforms implemented the recommendations of the Keith Committee, set up five years earlier to examine the enforcement powers of the Revenue Departments. The Committee found that at that time some £1.2 billion in VAT was outstanding. In response to the Committee's recommendations, the Government has taken a number of steps to help improve the speed with which VAT is paid:

- All VAT offences, except serious fraud, have now been decriminalised and a system of financial penalties, surcharges and interest for VAT defaulters and late payers introduced progressively since 1985.
- The powers of Customs and Excise have been clarified.
- Taxpayers have been protected by a right of appeal and a recognition of 'reasonable excuse' for default.

Penalties. As a result of a Government review of the system of civil penalties for VAT offences, the 1988 Budget introduced a number of changes to help traders, especially small businesses. These represented a significant relaxation of the system with the introduction of a range of graduated penalties for failing to notify liability to be registered for VAT, rather than a single flat rate charge. These changes were achieved without undermining the Keith Committee's central recommendation – that traders who fail to comply with the law, or do not have a reasonable excuse, should face automatic financial penalties.

Helping Smaller Firms. The 1987 Budget contained a package of measures designed to reduce the burden of VAT compliance on smaller firms. The main change was a move to an optional cash accounting scheme for VAT for businesses with a turn-over of less than £¼ million. As a result, smaller firms no longer suffer the cash flow problem of having to pay VAT before they have received the money from their customers.

In order to establish whether further steps could be taken to reduce the burden of VAT compliance on smaller firms, Customs and Excise commissioned a major survey from Peat Marwick and McClintock, the leading Chartered Accountants. After surveying over 1,200 smaller firms the consultants concluded that the burden of keeping records for VAT purposes was overstated and that such records were, in fact, useful for other purposes. Those problems with record keeping 'are largely self-imposed and result from uncertainty as to what is required' (*Review of the Impact of VAT Record Keeping on Small Businesses*, November 1987).

4. EXCISE DUTIES

Since 1979 the real value of excise duties on both tobacco and most alcoholic drinks has risen well ahead of inflation:

Level of Duty 1988 Budget	Percentage Change in Real Terms 1979–88
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	Level of Duty 1988 Budget	Percentage Change in Real Terms 1979–88
Beer	21·7p/pint	+40
Table wine	82·8p/75 cl	–20·7
Spirits	£5·44/75 cl	–15·8
Tobacco	73p/20 king size	+50·0
Petrol	£1·07p/gallon	+65·0
Derv	90·4p/gallon	+25·1
Vehicle Excise Duty	£100	+ 5·0
All alcoholic drinks	N/A	+12
All tobacco	N/A	+48

(Source: H.M. Treasury)

Alcohol. Lower duties on wine reflect pressure from the EC for Britain to bring its duties more into line with those levied by other Member States. The standstill on duty on spirits recognises the important contribution of the Scotch whisky industry to the economy (exports were worth £1·1 billion in 1987) and the fact that the industry was particularly hard hit by the abolition of stock relief. Otherwise the Government's aim has been to promote the production and consumption of lower alcohol drinks. The 1988 budget substantially increased the duty on cider, consumption of which amongst young people has given particular cause for concern. The Chancellor also introduced new lower rates of duty to help promote 'coolers' – mixtures of alcohol and a soft drink – as an alternative to traditional alcoholic beverages.

Tobacco. Large increases in cigarette duty have been made on health grounds, helping to bring about a fall in consumption of about 20 per cent since 1980.

Lead Free Petrol. A small duty differential was introduced in favour of lead free petrol in the 1987 Budget with the aim of promoting its use as an environmentally safer alternative to leaded petrol. To help further boost consumption, unleaded petrol was exempted from the duty increase on leaded petrol in the 1988 Budget. The tax differential in favour of unleaded petrol is now 10·6p a gallon. As a result, the pump price of unleaded petrol is now about 6p a gallon less than that of 4 star and below 2 star.

Vehicle Excise Duty for cars and vans remains at the level of £100 set in 1985–86. Over the last 3 years the balance of taxation has shifted towards petrol duty, a measure which is of particular benefit to low mileage users, including pensioners. Some groups have argued for the abolition of VED and its replacement with an increase in the rate of duty charged on petrol. Such a change would put about 39p on the price of a gallon of petrol. High mileage business users and those living in the countryside would be particularly hard hit by increases of this order.

(F) CAPITAL TAXATION

Under the Conservatives the taxation of capital has been reformed and simplified. Labour's punitive levels of capital taxation which were particularly damaging to small family firms have been lightened. And Capital Gains Tax has been totally reformed, freeing individuals to dispose of assets which they had held simply because tax was paid on inflationary capital gains.

CTT and Inheritance Tax. Labour's seventeen rates of Capital Transfer Tax, with a top rate of 75 per cent, were replaced by Inheritance Tax (IHT) in the 1986 Budget. As with Estate Duty, a tapering charge on gifts made within 7 years of death remains. However, the number of rates has been reduced progressively, and the threshold at which IHT becomes payable has been increased substantially in real terms. Instead of Labour's complex range of CTT from 5 or 10 per cent (on life-time transfers and transfers on death respectively) to 75 per cent payable on all transfers over £25,000, IHT is levied at a flat-rate of 40 per cent on transfers in excess of £110,000.

As a result of these changes the number of tax-paying estates fell from 38,000 in 1978–9 to 20,000 in 1988–9. The starting point for IHT is now over 100 per cent higher in real terms than when Labour introduced the tax in 1974. Had Labour's 1974–5 threshold been indexed, rather than increased in real terms, an extra 55,000 households would now be liable to IHT. The flat-rate of 40 per cent means that for the family business, enjoying 50 per cent business relief, the effective rate of IHT cannot exceed 20 per cent, one of the lowest rates of inheritance tax in the industrialised world.

Capital Gains Tax (CGT). The purpose of CGT is to tax real increases in asset values. For this reason, gains since 1982 have, under the terms of the 1982 Budget, been indexed for tax purposes to the rate of inflation. But, as the **Chancellor** has said:

‘For gains that arose before 1982 the tax falls largely on purely paper profits resulting from the rampant inflation of the 1970s. In other words, it bites deeply and capriciously into the capital itself. (*Hansard*, 15th March 1988, Col. 1007).

To deal with this problem the Chancellor brought forward the base for the tax from 1965 to 1982 in the 1988 Budget. All gains made prior to April 1982 are now exempt from tax altogether both for individuals and companies. In addition the 1988 Budget abolished the 30 per cent flat-rate of CGT – instead, CGT is now levied at the individual's appropriate marginal rate of income tax (25 or 40 per cent). Explaining the rationale for this change, the **Chancellor** said:

‘In principle, there is little economic difference between income and capital gains ... so far as there is a difference, it is by no means clear why one should be taxed more heavily than the other. Taxing them at different rates distorts investment decisions and inevitably creates a major tax avoidance industry’ (*ibid.*).

Inflationary gains having been removed from the scope of CGT, the exempt amount – which had been increased substantially in 1982 because relief could not, at the time, be extended to pre-1982 gains – was reduced from £6,600 to £5,000. (Husbands and wives will, from April 1990, each have their own thresholds for CGT as well as for Income Tax.)

The rebasing of CGT deals with a long-running and widespread complaint about the unfairness of taxing pre-1982 inflationary gains. The changes will help ‘unlock’ assets held by both individuals and companies, ensuring a more efficient use of capital and assets.

Business and CGT. Businesses are able to claim retirement relief exemption for assets up to £125,000. The 1988 Budget further improved the position of businessmen, wishing to provide for their old age, by extending retirement relief to half of any gains between £125,000 and £500,000. This change should encourage elderly owner-managers to sell businesses to younger people as going concerns.

(G) MAKING TAXES FAIRER AND SIMPLER

1. ABOLISHING TAXES

Since 1979 the Government has abolished five major taxes:

- *The Investment Income Surcharge*, levied at 15 per cent on top of the appropriate marginal rate of Income Tax, was abolished in the 1984 Budget. Under Labour the top rate of tax on investment income was 98 per cent.
- *Capital Duty*, a 1 per cent charge on businesses raising capital, was abolished in 1988.
- *The National Insurance Surcharge* was abolished in 1984, saving employers an estimated £4½ billion a year.
- *Development Land Tax*, introduced by Labour in 1976, was abolished in 1985 (highly complex, it served mainly to discourage the development of land).
- *Capital Transfer Tax* on lifetime gifts made more than seven years before death was abolished in 1986.

2. CUTTING BACK TAX BREAKS

The Rationale. A major element in the Government's tax reform strategy has been the process of abolishing or reducing the value of a number of tax concessions. With the fall in the rates of Income Tax, there is less need for the plethora of special tax breaks that developed when Labour was in power. As Mr Lawson said:

‘While some tax reliefs can play a worthwhile role, the general presumption against them means that, as time passes, every relief must be reviewed with a critical eye’ (*Tax Reform: The Government's Record*, CPC, June 1988).

The Government's aim has been to increase the number of people paying taxes – to broaden the tax base – at the same time as lowering rates of tax. As Mr Lawson has pointed out, by reducing the number of tax breaks, the Government helps fund reductions in rates of tax:

‘Just as high tax rates have to bring with them high tax breaks, lower tax rates go hand in hand with lower tax breaks’ (ibid.).

Cutting back tax perks also helps reduce the complexity of the tax system and the cost of administering it. And a simpler, more neutral tax system gives individuals fewer incentives to spend or save simply for tax reasons.

The Record. A number of major changes have been made:

- Life assurance premium relief for new policies was abolished in 1984.
- New rules were introduced in 1986 to limit the surpluses which can be built up in pension funds free of tax.
- The 1987 Budget introduced a limit on the size of tax-free lump sums, and on tax relief on fast accrual pensions.
- The 1988 Budget curbed or abolished a number of special tax shelters. Business entertaining of overseas customers was brought into line with domestic customers and made non-deductible for tax purposes. The tax on company cars was doubled, and interest on loans for home improvements was made ineligible for tax relief. Tax relief for new, non-charitable covenants was ended. Commercial woodlands, which had afforded higher rate taxpayers a substantial and much abused tax shelter, were removed from the tax system altogether. As a result, forestry expenses are no longer permitted as a deduction for income tax against income from unrelated sources.

3. TAXATION OF HUSBAND AND WIFE

An Unfair System. Under our current system of taxation a married woman's income is treated as if it were her husband's. He is responsible for filling in a tax return for both of them, and the wife is taxed at her husband's marginal rate. The principles that underline this system date back to the early nineteenth century. They are entirely inappropriate and unfair in an age when the majority of married women go out to work.

The Government has always been aware of the need to reform this anachronistic system of taxation. In 1980, and again in 1986, it published consultative Green Papers outlining proposals for the overhaul of the taxation of husband and wife. The 1986 Green Paper (*The Reform of Personal Taxation*, Cmnd. 9756) floated the option of independent taxation of husband and wife with a system of personal allowances that could be

transferred between spouses if either partner should have insufficient income to use up all of his or her own tax allowance. The response to the Green Paper was disappointingly thin. Though there was some support for transferable allowances the Government did not feel there were sufficient grounds for pressing ahead with the Green Paper proposals. As Mr Lawson said:

‘Although there was no agreement on precisely what should be done, the response to the 1986 Green Paper ... showed an overwhelming majority in favour of two things: first, that married women must be given independence and privacy in their tax affairs; and second, that this must happen soon. In other words, the talking had gone on long enough’ (Speech to the Conservative Women's Conference, 24th May 1988).

Independent Taxation: The Government's Proposals. In his 1988 Budget, the Chancellor outlined plans for a radical reform of the taxation of husband and wife. From April 1990 – the earliest date by which the necessary changes can be made – husbands and wives will be taxed independently on income of all kinds. All taxpayers, single or married, male or female, will be entitled to the same personal allowance which will be set at the same level and ultimately replace the present single person's allowance (worth £2,605 in 1988–9). In addition, married couples will, from 1990, no longer have to share a single Capital Gains Tax allowance. Each partner will have a separate allowance, ensuring that the principle of independent taxation is applied both to income and capital taxation.

On its own, the removal of the married man's allowance and the wife's earned income allowance would leave two-earner couples worse off than before the reforms. To ensure that the combined allowances of a two-earner couple does not fall the Government plans to introduce a new married couple's allowance. In 1988–89 this would be worth £1,490 – the difference between the current single allowance and the married couple's allowance. In the first instance the married couple's allowance will go to the husband, thereby maintaining the value of his allowances. If, however, the husband's income is such that he cannot use all of the allowance, he will be able to transfer any unused portion to his wife.

Key Benefits of the New System. The Government's proposals give all married women privacy and independence in their tax affairs. Of course, those women who want their husbands to continue dealing with their tax affairs will be able to do so, provided they sign their tax return.

In its first year of operation, 1990–1, independent taxation will cost the Exchequer about £½ billion in revenue foregone. 1½ million wives will see their tax bills fall as a result of this reform, three-quarters of whom have incomes of less than £5,000 a year. Half of those who gain under independent taxation will be over 65. Married women over 65 will, for the first time, qualify for the extra age allowance in their own right, which can be set against all their incomes including savings and any pensions they receive on the basis of their husband's national insurance contributions. Moreover, the income limit on the age allowance (£10,600 in 1988–9) will apply separately to each partner, rather than to the

couple's joint income. As a result of these changes over 80 per cent of all elderly tax-paying couples will be better off (160,000 of them will be taken out of tax altogether).

Ending Tax Penalties on Marriage. The 1988 Budget not only included a major reform of the taxation of husband and wife; it also brought to an end two notorious tax penalties on marriage. Since August 1988 the £30,000 limit on mortgage interest relief has been applied to the property being purchased rather than the individuals purchasing it. As a result unmarried couples are no longer able to claim twice as much tax relief for the purchase of a flat or house as a married couple.

The Budget also brought to an end the unfairness of an unmarried couple with children being able to claim two Additional Personal Allowances (APA) each worth £1,490 in 1988–9. This means that a cohabiting couple, with both partners in work, could claim almost £1,500 more tax relief a year than an equivalent married couple. From April 1989 such couples will only qualify for a single APA, which will put them in the same position as a married couple.

4. TAX ADMINISTRATION

As part of its overall policy the Government has sought simultaneously to reduce the size of the Civil Service and to ensure that it gives taxpayers value for money. In the case of the Inland Revenue and the Customs and Excise this process has been aided by the abolition of five taxes (see p. 65), the simplification of the tax system and the introduction of computers.

The computerisation of PAYE has proceeded rapidly. In January 1986 only 4.7 million employee records (17 per cent of the total) were held on computer. Now *all* PAYE records are on computer, yielding a staff saving of 4,000 and providing a quicker and more accurate service to the public. Computerisation of the Schedule D system is expected to lead to reductions in staff numbers of about 1,800. Since 1979 there has been a substantial fall in the number of staff employed by the Inland Revenue and the Customs and Excise, as the following table shows:

	Customs & Excise	Inland Revenue	Total	Cost of collection as a percentage of revenue collected	
				(a)	(b)
1978–9	28,870	84,645	113,515	1.59	2.00
1987–8	26,565	66,612	93,177	1.11	1.67
Percentage change 1978–9 to 1987–8	8.0	21.3	17.9	30.2	16.5
(a) Customs and Excise					
(b) Inland Revenue					

(Source: *Board of Inland Revenue Report 1987–8*; and *HM Customs and Excise Report*)

Customs & Excise	Inland Revenue	Total	Cost of collection as a percentage of revenue collected
			(a) (b)

1987–8).

Improving the Service to the Public. A consistent aim of the Government has been to improve the quality of the service provided by the Inland Revenue and Customs and Excise to the public. As part of this strategy, the two revenue departments issued a Taxpayers' Charter in July 1986, setting out people's entitlements and rights as taxpayers. The Charter explains taxpayers' entitlements under a range of headings including courtesy, fairness, privacy and information. It also provides details of how taxpayers can appeal against maladministration or what they consider to be unfair decisions by the Revenue or Customs and Excise.

Since 1987 the Inland Revenue has published an annual departmental statement providing a full account of its main priorities and its targets. The 1988 statement identifies six key themes which are likely to dominate the Revenue's work over coming years:

- *Better Service to the Public.* This is being achieved by well focused staff training and the use of improved equipment, including modern computer systems.
- *More effective enforcement of the tax laws,* to be achieved by reducing time spent on more routine functions and improving the way in which work is organised. Emphasis will, however, continue to be placed on respecting the rights of the public and containing the costs of complying with the law, especially for small businesses.
- *Better staff development and training* with personnel and pay arrangements taking increasing account of performance.
- *Greater specialisation* to meet the increasing complexity of business.
- *Improved Communications.* The Government's aim is to help the public to understand the tax system by increasing the range of clearer and simpler forms and leaflets and by publishing better information about the Department's work and performance.
- *More Accountability.* This can be achieved by giving staff more individual responsibility for their work, and by further developing management, budgeting and reporting systems.

Compliance. Both the Inland Revenue and Customs and Excise have devoted considerable efforts over recent years to reducing tax evasion in order to ensure that everyone pays their fair share of the burden of taxation. In 1986–7 such efforts by the Inland Revenue yielded £1.68 billion, equivalent to 1½p off the basic rate of Income Tax. The cost-effectiveness of the Revenue's compliance work is high, ranging from a ratio of cost to revenue collected from 1:6 to 1:31.

Since 1980 the Inland Revenue's investigation staff has almost doubled – from 1,359 to 2,600. In addition, many other Revenue staff spend part of their time investigating possible abuse. The yield from investigations has increased six fold since 1979 from £111 million to £741 million. This substantial increase does not, however, reflect an increase in evasion. Rather it has been achieved by directing more resources to tax evasion inquiries and increasing the efficiency of those enquiries.

The implementation of the Keith Committee's recommendations has helped bring about a marked reduction in the level of unpaid VAT. Before the introduction of a system of penalties for late payment, less than 25 per cent of returns and payments were received by the right date. By March 1988, 80 per cent of returns and tax were being received in time to avoid incurring a default. In 1987–8 the average amount of VAT outstanding at any one time was reduced by £158 million.

From April 1988 tax inspectors have also been able to charge employers interest on shortfalls in PAYE payments. This implements one of the Keith Committee's recommendations, and represents an addition to the existing penalties for late payment.

(H) CHARITIES

Dramatic Rise in Giving. Under this Government there has been a massive increase in giving to charities. Overall, charitable giving by the public has doubled in real terms since 1979 to over £770 million. This increase has been matched by a surge in charitable donations by businesses:

Notified Receipts by Britain's 200 largest Charities 1979–86
(£ million)

	1979– 80	1986–7
Voluntary income (covenants, legacies, gifts, voluntary funded raising)	228·2	770·2
Other income (central and local government fees and grants, sales of goods and services, rents, investments etc.)	189·9	692·7
Total	418·1	1,462·8

(Source: Charities Aid Foundation)

The Government has helped boost charitable giving by providing tax incentives for donors and removing unnecessary obstacles to giving. The total cost of tax relief for charitable giving in terms of revenues foregone is about £400 million a year. Measures to help charitable giving have been included in every budget since 1980:

- The period required for tax relief on charitable covenants has been reduced from seven to four years. The 1988 Budget brought an end to tax relief for covenanted transfers of capital between individuals, but left the generous arrangements governing covenanted giving to charities unchanged. Relief against higher rates of

Income Tax for individuals making covenanted charitable payments was introduced in 1980; the 1986 Budget removed the £10,000 limit for higher rate relief altogether, providing a substantial incentive to top rate taxpayers to contribute to charities. Overall, covenanted giving to charities increased by almost 60 per cent between 1978 and 1985, the latest year for which figures are available.

- VAT zero rate relief has been extended to a whole range of goods donated to, or purchased by, charities.
- The abolition of Capital Transfer Tax in 1983 removed a major disincentive to charitable giving. Gifts to charity are exempt from Inheritance Tax and, since the 1982 Budget, have not been subject to Stamp Duty.
- The 1986 Budget enabled companies to claim Corporation Tax relief for single gifts to charities, up to a maximum of 3 per cent of the amount of dividends paid by the company in the relevant period.

Payroll giving enables employees to claim tax relief on regular donations to charity made directly from pay packets. The scheme, which has been running since April 1987, is operated by employers through charity agencies (such as the Charities Aid Foundation). The original limit of £100 a year was raised to £120 in 1987, and then doubled in the 1988 Budget to £240. Already there are over 3,000 schemes operating covering over 60,000 employees. But, as Mr Lawson has said:

‘We want to see many more schemes, and many more people taking part. It is up to charities to take advantage of the vast potential that now exists; and to employers to make sure that employees know all about payroll giving’ (HM Treasury Press Release, 18th July 1988)

(I) INTERNATIONAL COMPARISONS

In the field of tax reform, as in many other areas of economic policy, Britain's lead has been followed by countries around the world. The emphasis overseas has been on reducing rates of direct tax, especially top rates, and on broadening the tax base by removing or reducing tax relief which distort decision-making. The following table compares Britain's tax rates with those of the other major industrial nations:

Country	Starting Rate Percentage	Starting Rate Threshold	Current Top Rate percentage	1979 Top Rate percentage	Top Rate Threshold £
Canada	25·5	5,003	43·5	62	25,000
France	12·8	6,698	56·8	60	53,463
Germany	22	3,439	56	56	65,670
Italy	22	3,358	62	72	253,924
Japan	17·5	4,286	78	93	152,607
UK	25	4,096	40	98	19,301

Country	Starting Rate Percentage	Starting Rate Threshold	Current Top Rate percentage	1979 Top Rate percentage	Top Rate Threshold £
US	15	5,086	34.7	56	22,086

(Source: H.M. Treasury)

Notes

The figures relate to 1988 (1988–9 in the case of the United Kingdom). It is assumed that the income of the married couple is wholly employment income of the husband.

Conversions to sterling were made at the purchasing power equivalents of sterling in July 1987 – which are calculated on the basis of OECD figures. Purchasing power parities give a better indication of real values than exchange rates as they are calculated by reference to prices of the same basket of commodities.

In determining gross income levels, personal reliefs, employment income reliefs and other standard reliefs have been taken into account. Where social security contributions are deductible in computing taxable income, they have also been taken into account (i.e. France, Germany, Italy, Japan).

The figures in the table reflect national taxes and, where applicable (Canada, Japan and the US), local income taxes at typical rates.

(J) OPPOSITION POLICIES

1. LABOUR PARTY

The High Tax Party. When last in power Labour's tax policy was dictated by the needs of a massive programme of public expenditure. Yet despite raising the basic and higher rates of Income Tax to record levels, public borrowing rocketed to a peace-time peak – and the Labour Government was forced to turn to the IMF to prop up the nation's crumbling public finances.

In opposition the Labour Party has persisted with policies for high public expenditure and punitive taxation. Not only has the Labour Party failed to support any of this Government's reductions in the basic and higher rates of Income Tax, it also opposed many of the key reforms that have reduced the complexity of the tax system and helped it to operate in a more equitable fashion:

- In 1979 Labour voted against the reform of Value Added Tax.
- In 1984 Mr Roy Hattersley, then Shadow Chancellor, dismissed the Government's Corporation Tax reforms as a 'major mistake' (*Hansard*, 14th March 1984, Col. 415).
- Labour has also opposed the reform of the taxation of husband and wife, a change that will, for the first time, give millions of married women privacy and independence in their tax affairs. Mr Chris Smith, a Shadow Treasury spokesman, criticised the Government's proposals for independent taxation as 'merely

pretend[ing] an interest in the needs and wishes of women' (*Hansard*, 17th March 1988, Col. 1313).

- Labour has been equally critical of the Government's reform of Capital Gains Tax, voting against the modernisation of CGT in the 1988 Budget.

Taxation and Incentives – Ideology Unchanged. As well as opposing specific proposals for reforming the tax system, Labour has steadfastly refused to accept that lower tax rates help improve the country's economic performance. The corollary of this view – that high rates of tax have no impact on incentives or economic performance – appears to form the cornerstone of Labour's tax policy.

In 1979, when the basic rate of Income Tax was cut from 33p to 30p and the higher rate from 83p to 60p, Mr Denis Healey professed himself to be mystified that 'somehow or other [these] cuts in Income Tax will transform economic performance in the boardroom and on the shopfloor' (*Hansard*, 15th June 1979, Col. 469). Nine years later Labour remains totally unconvinced that tax cuts have benefited the British economy – despite the fact that the economy has grown continuously since 1981, with output, exports and productivity rising to record levels and unemployment falling rapidly. Mr Gordon Brown, the Shadow Chief Secretary to the Treasury, has made it clear that Labour sees absolutely no link between levels of taxation and the performance of the British economy:

'I find that there is no respectable evidence; there is no authoritative study; there is no definite survey. There is nothing at home or abroad that can justify the ideology of incentives producing the results that have been claimed for it by this Government' (*Hansard*, 26th April 1988, Col. 231).

Losng Policies for the General Election. Such attitudes were reflected in the tax policies on which Labour fought and lost the 1987 election. The Party's massive £34 billion spending programme (see p. 38) would, had it been funded entirely from taxation, have led to a doubling of the basic rate of Income Tax or a doubling of VAT. But instead of admitting to the electorate that taxes would have to be substantially increased under a Labour Government, Mr Kinnock tried to pretend that only the very rich would be affected. Mr Bryan Gould, the Party's campaign manager, claimed that only those on £26,000 a year or more would face increased taxes (*Financial Times*, 22nd May 1987). Yet this flatly contradicted the pledge made by Mr Roy Hattersley, Labour's Shadow Chancellor, to reverse any cuts in the basic rate of Income Tax announced in the 1987 Budget:

'When the Chancellor cuts the standard rate, as he undoubtedly will, the Labour Party will vote against it in the House of Commons. What is more, we will reverse that decision when we are elected' (Speech to the International Equity Dealers Association, 15th January 1987).

Thus, following the 2p reduction in the basic rate of Income Tax in the 1987 Budget, Labour entered the election campaign with a firm commitment to increase the basic rate

from 27p to 29p. Such an increase would take £3 a week from the man on average earnings and would have hit all 25 million income taxpayers.

Moreover, during the campaign it became clear that Labour proposed two further measures which would have substantially increased the burden of tax on millions of ordinary taxpayers:

- Mr Kinnock admitted that Labour planned to ‘abolish the ceiling on National Insurance Contributions’ (ITV, *This Week*, 28th May 1987), a move that would hit all those earning more than £15,340 a year. The Inland Revenue estimates that such a change would have made 5 million people worse off.
- Although Labour's Manifesto made no mention of it, Mr Kinnock claimed that the Party's plans to abolish the married man's tax allowance had been ‘spelled out in neon-lit detail’ (Press Conference, London, 4th June 1987). Such a move would make 13 million taxpayers worse off.

Many within the Labour Party were quick to blame its tax policy for the election defeat. Mr Larry Whitty, Labour's General Secretary, argued that the election had been lost on economic issues ‘including explicitly Labour's taxation policy’ (*Labour Weekly*, 26th June 1987). Dr John Cunningham, Labour's Environment Spokesman, conceded:

‘It clearly wasn't acceptable to people in the last general election ... To describe people earning £25,000 a year as “rich” just isn't on ... Our position has to be rethought out from the very beginning’ (BBC TV, *Newsnight*, 29th September 1987).

The Policy Review. According to Mr John Smith, Labour's Shadow Chancellor, the Party's policy review should set about reversing Labour's damaging public image as the Party of high taxation:

‘We are going to adjust our economic policies to the reality of economic growth [which means that Labour is] not going out as a high-taxing Party’ (*The Guardian*, 7th October 1987).

Yet despite all the evidence – the failure of the Labour Government's economic policies in the 1970s, the electorate's rejection of Labour policies at three successive General Elections and the growing recognition within the Party that high tax policies are vote losers – there is no reason to believe that Labour is seriously committed to low taxation. Indeed, there is little doubt that the rapid accumulation of spending pledges since the General Election (see p. 40) would force Labour to opt for a high tax strategy. Yet Labour's review document, *Social Justice and Economic Efficiency*, published in June 1988, tries to suggest that a future Labour Government would not increase taxes for the majority of taxpayers. According to the document, Labour proposes to:

‘introduce a range of levels of [Income Tax] starting with a lower rate than the present basic and moving upward according to increased income. We believe that the starting rate should be lower than 25 per cent and the highest rate higher than 40 per cent’ (p. 22).

But the unsuccessful candidate for the deputy leadership of the Labour Party, Mr John Prescott, has urged the Party to come clean and admit that a future Labour Government would simply *have* to raise taxes:

‘We must learn the lesson from the last election when our taxation policy was a mess. For example, it is not credible for Labour to suggest that our policies for full employment or our policies for investing in the health service, funded by taxation, free at the point of use, can be financed on a programme of low taxation. It can't and the electorate know it can't. Socialism is still the language of priorities. We need to argue our case, not duck the issues’ (*Tribune*, 3rd June 1988).

Yet duck the issues is precisely what Labour seems to do. It is already clear that Mr John Smith' talk of turning Labour into a low tax party was simply a smokescreen.

Policies to Increase Taxation. Labour voted against the reduction of the basic rate of Income Tax to 25p and the higher rate to 40p in the 1988 Budget. Since then Labour has urged the Government to increase the higher rate to 60p, Mr Kinnock declaring that ‘the top-rate tax cuts must be reversed’ (Labour Party Press Release, 25th August 1988). Although Labour has been less keen to clarify its position on the basic rate of Income Tax, its decision to vote against the reduction to 25p obviously implies a desire to see a basic rate of at least 27p. When pressed to say whether a Labour Government would raise the basic rate of Income Tax, Mr Kinnock dodged the question stating: ‘We work entirely on the basis of fair taxation ... and sufficiency of revenues’ (ITV, *Weekend World*, 10th April 1988). Labour's Shadow Chancellor, Mr John Smith, has been more candid, admitting that Labour's plans would hit all higher rate payers and some basic rate payers (BBC, *On the Record*, 12th February 1989).

Mr Chris Smith has already let it be known that Labour remains committed to the abolition of the National Insurance Contribution upper earnings limit:

‘We have made it clear that the existence of a ceiling on National Insurance Contributions is profoundly regressive ... we want to see a properly progressive tax system that does not leave that anomaly in place’ (*Hansard*, 17th March 1988, Col. 1315).

This would leave all 5 million taxpayers earning more than £16,900 worse off.

Mr Hattersley has confirmed that a new wealth or capital tax on the richest taxpayers will be included in the next Labour Manifesto – even though he has admitted that it ‘wouldn't raise very much revenue’ (BBC TV, *Conference Day*, 3rd October 1988).

In July 1988 the Labour Party National Executive Committee called on a future Labour Government to introduce two new taxes to replace the rates: a charge on the property's capital value and a local income tax. The replacement of rates with two new taxes would be an administrative nightmare which would still leave millions paying nothing in local

bills for local services. And, for many householders, Labour's proposals would mean a substantial increase in their tax burden.

As the spending pledges pile up and Labour's real position on different taxes emerges, the Party remains as far as ever from dropping its obsession with high levels of taxation. It is already clear that Mr Kinnock's professed aim of achieving a 'fair tax [system] that ... does the business of encouraging production' (ITV, *Weekend World*, 10th April 1988) is totally incompatible with Labour's 'revised' tax policy.

Socialism though Taxation. Labour not only plans to raise existing taxes and introduce new ones; it also plans to use the tax system to implement its wider social and economic policies. To do so, Labour plans to introduce a series of tax breaks – despite being highly critical of existing tax concessions. *Social Justice* states:

'Our tax system has been eaten away by a wide range of tax breaks and dodges ... Any tax incentives should promote innovation and enterprise, and should help to enhance a productivity economy' (p. 23).

The report suggests that under Labour the Business Expansion Scheme would be abolished, and a whole range of tax breaks might be introduced for 'business formation in potentially productive areas ... [to] channel resources to the regions ... [for] the workplace provision of child care ... for the employment of women and other target groups' (ibid.). The Government's reforms of Corporation Tax, particularly the removal of tax incentives for investment, have 'little merit' according to the report (ibid.).

Clearly, Labour wish to use the tax system as an instrument of an interventionist economic policy. Instead of the Government's approach of 'fiscal neutrality' – minimising the distortions in decision-making caused by the tax system – Labour would introduce a range of tax subsidies to encourage what it regards as desirable behaviour. To finance new tax breaks, notably the reintroduction of capital allowances, Labour would have little alternative but to push tax rates up.

Killing the Business Expansion Scheme. By abolishing the Business Expansion Scheme, Labour would rob small and growing firms of a valuable source of investment finance which, since 1983, has helped over 2,000 firms raise £700 million of investment. Almost half the finance raised under the BES would not have been raised in any form without the scheme. Labour has not said how it would fill the investment gap created by its abolition of the BES.

Mortgage Relief. According to *Social Justice*, 'mortgage relief available to home owners through MIRAS would continue to be paid under Labour' (p. 23). The wording appears to be deliberately designed to cloud the issue of whether MIRAS would be restricted to the basic rate of Income Tax. In the 1987 Manifesto Labour undertook to 'maintain mortgage tax relief at the standard rate of Income Tax'. If it was to be restricted to the basic rate, some 900,000 higher rate mortgagors would lose tax relief.

But Mr Clive Soley, the Party's Housing Spokesman, apparently takes the view that mortgage tax relief should go altogether, though, for tactical reasons, he seems to believe that it could not be abolished immediately: 'You can't do away with it overnight ... you do need to change it over a period of time' (BBC Radio 4, *Today*, 11th January 1989).

2. THE SLD

The Inheritance from the 'Alliance'. The tax policy of the Liberal-SDP 'Alliance' was, until the break-up of the two parties, dominated by the belief that a merger of the tax and benefits system offered some sort of economic panacea. *The Time Has Come*, the 'Alliance's' election manifesto, outlined complicated proposals for the integration of the tax and benefit system. The main features of the Alliance proposals were:

- The replacement of income support, Family Credit and free school meals with a new basic benefit which would also be paid to anyone whose income was too low related to their needs.
- Employees' National Insurance Contributions and Income Tax would be integrated, though not for pensioners. The new system would form the basis of a full tax credit scheme.
- A number of benefits would be increased – for children, housing and the disabled. A new carers' benefit would be introduced.

The Alliance studiously avoided costing their scheme or even attempting to provide an indication of the numbers of winners and losers. But given the complexity of the integrated system and the proposed levels of benefits, it was clear that the 'Alliance' proposals would be very expensive to implement.

Income Tax. Perhaps the best indication of the 'Alliance's' real attitude towards taxation is the fact that they voted against the 1p reduction in the basic rate of Income Tax announced in the 1986 Budget and the 2p cut in the 1987 Budget. The SLD also voted with the Labour Party against the reduction in the basic and higher rates in the 1988 Budget. Mr Paddy Ashdown, the Party's new leader, described the 1988 Budget as 'wrong for the country' (Speech to the SLD Conference, 29th September 1988). He has made it clear that, like the Labour Party, the SLD wants to see a substantial increase in public expenditure rather than a reduction in tax rates:

'What Britain needed was not a windfall gain for the well off, but more investment in health, in education, in training. In the ideology of the idiot right, private expenditure is good but all public expenditure is bad. That is just nonsense' (ibid.).

Short-Lived Radicalism. The policy document *Voices and Choices for All*, which the SLD quickly abandoned in January 1988, called for 'a comprehensive programme of tax reform'. This would have included the extension of VAT 'over several years to food, children's clothing, domestic fuel, newspapers and financial services'.

As *Voices and Choices* perceptively pointed out, ‘many of these proposals would be unacceptable by themselves’. In particular, the pledge to extend VAT to food and children's clothing would hit many low-income families particularly hard. The Government has made plain its determination to resist European Commission proposals to extend VAT to these items (see p. 60). Remarkably, Mr Alan Beith, the Party's Treasury spokesman, shares the Government's view, saying that he is ‘strongly opposed to it [harmonisation]’ (*Hansard*, 11th May 1988, Col. 423).

The SLD Emerges. After the break-up of the ‘Alliance’ the SLD renewed its pledge to integrate the tax and benefit systems:

‘In our General Election manifesto, we committed ourselves to an immediate improvement in the incomes of pensioners, families with children, the unemployed, the disabled people and carers. In the longer term, we also committed ourselves to restructure the tax and benefit system so as to create one integrated system which would be simpler and fairer. We stand by both commitments’ (*A Democracy of Conscience*, January 1988).

Intriguingly, *A Democracy of Conscience* echoed an earlier theme of *Voices and Choices* by hinting at the need for targeting of benefits:

‘One of the final priorities for the democratic policy making machinery of our party will be to examine how to ensure that benefit and services reach those who need them most, and that the tax and social security systems are reformed accordingly’ (*ibid.*).

A Democracy of Conscience contains no details as to how precisely the tax and benefit systems might be reformed. While the SLD, like the Labour Party, are committed to increasing public expenditure, their policy statements give no indication of how the money will be raised. Crucially, the SLD have given no clear indication of whether they favour increases in levels of taxation in order to fund their programme of public expenditure.

Mr Beith was highly critical of the 1988 Budget arguing that ‘the scale of the cuts in [the] top rate [of Income Tax] is deeply offensive’ (SLD Press Release, 15th March 1988). The SLD voted against the reduction in the basic rate, and argued that any surplus money should have been ‘reinvested, not used for current spending’ (*ibid.*). Curiously, Mr Beith has called for a reduction in rates of Corporation Tax which are ‘too high’ (*ibid.*) and a cut in National Insurance Contributions (Liberal Party Press Release, 19th February 1988). Further evidence of Mr Beith's confused attitude towards tax cuts was provided just a month before the budget when he was reported by *Liberal News* as wanting ‘tax cuts and more [spending] on health’ (12th February 1988).

Mr Ashdown wants to increase the burden of NICs: he has called on the Chancellor to ‘remove the ceiling beyond which employees pay no further National Insurance Contributions’ (Speech at SLD Conference, 29th September 1988).

Mortgage Interest Relief. The Party's Conference in 1988 endorsed a call to phase out mortgage tax relief. Mr Simon Hughes, the Party's Environment and Housing Spokesman, said that the present system of mortgage interest relief was 'pouring public money down the drain ... [it] must be reformed' (*The Independent*, 26th September 1988).

Local Income Tax. The SLD have also pledged themselves to introduce a local income tax to replace the rates. Apart from the massive complications involved in operating such a tax, the author of the scheme, Mr Philip Truscott of the SLD, has admitted that couples with a joint income of more than £12,000 are likely to be worse off with a local income tax than under the Community Charge.

3. THE SDP

In *A Fair Budget* (March 1988), the SDP outlined their proposals for the 1988 Budget involving a wide-ranging package of reforms to the tax system. Its main features were:

- a cut in the top rate of Income Tax to 40p
- a restriction of all tax reliefs to 27 per cent
- an increase in the top rate threshold for Income Tax to £25,400.
- abolition of the upper earnings limit on NICs and of the married man's allowance.
- an increase in the employee's NIC threshold to £48 a week.

The SDP's budget proposals were indicative of the Party's inconsistency and uncertainty in economic matters, representing both a break with earlier 'Alliance' policy and a very belated recognition of the benefits of lower levels of Income Tax. However, the SDP have still not recognised the case for a lower basic rate of Income Tax – under their plans the basic rate would remain at 27p. The Party's budget proposals were reflected in a later policy document, *A Fair Deal, Tax and Benefit Reform* (24th August 1988). According to calculations published in *The Guardian* the implementation of the package could cost taxpayers an extra £6–7 billion a year and would make all those earning £24,000 a year worse off.

APPENDIX

Budget 15th March 1988

The 1988 Budget repeated the hat-trick of the 1987 Budget by cutting taxes, reducing borrowing and increasing public spending. The Chancellor announced cuts in the basic and higher rates of Income Tax totalling £4 billion; a reduction in the PSBR of £7 billion and an extra £2½ million of public spending on priority programmes. Taxes were reduced, reformed and simplified.

Basic rate of Income Tax cut from 27p to 25p. New target of 20p set for the basic rate.

All five higher rates of Income Tax up to 60p consolidated into a single top rate of 40p.

Personal Allowances increased by twice as much as inflation. Single person's allowance and wife's earned income allowance raised to £2,605; married man's allowance to £4,095; additional personal allowance and widow's bereavement allowances to £1,490; age allowance to £3,180 for a single person, £5,035 for a married couple (£3,310 and £5,205 respectively for those aged 80 and over). Income limit for age allowance raised to £10,600.

Minor Allowances. Three minor allowances abolished: dependent relative allowance (worth up to £145 per annum – last increased in 1960); housekeeper allowance (worth £100 per annum – last increased in 1960); son or daughter's services allowance (worth £55 per annum – last increased in 1953).

Higher Rate Threshold. Raised from £17,900 to £19,300.

Independent Taxation. Major reform of taxation of husband and wife announced. From 1990 *all* taxpayers, male or female, married or single, will have a personal allowance to set against their own income. Married couples will have an additional allowance – the Married Couple's Allowance – which will go in the first instance to the husband. If the husband does not have sufficient income to make full use of it, he will be able to transfer any unused portion to his wife.

Ending Tax Penalties on Marriage. For mortgages taken out from August 1988, the £30,000 limit on tax relief to apply to the residence – house or flat – irrespective of whether there are one or more borrowers, married or single, living there. This ends anomaly of unmarried couple being able to claim *twice* as much tax relief for a property purchase as a married couple. Rules enabling a cohabiting couple, with at least two children, to each claim an Additional Persons' Allowance (APA) changed: from 1989 they will be entitled to no more tax allowances, in total, than a married couple.

Pruning of Tax Breaks. Scale charges for company cars doubled for 1988–9; commercial woodlands taken out of tax altogether (no tax relief on planting, no tax on felling); loans for home improvements made ineligible for tax relief; business entertaining of overseas customers brought into line with home market customers and made non-deductible for tax (also see Covenants and Maintenance).

Covenants and Maintenance. All new covenants made by individuals taken out of the tax system altogether – except for those to charity. People receiving payments under covenant removed from liability for tax on them; those making the payment cease to be able to claim tax relief on them. But, for new students, generous compensation made available through parallel reduction in scale of parental contribution. In general, recipients of maintenance payments will not be liable to pay tax on them. Payments to be made from taxed income, save for limited tax relief on payments to separated or divorced spouse.

Inheritance Tax rates cut from four to one (40 per cent), with threshold up from £90,000 to £110,000. So with business relief, rate of IHT on family business to be below 20 per cent. Number of taxable estates reduced by a quarter.

Capital Gains Tax. Rebased to 1982, eliminating from CGT liability all inflationary gains made in the 1970s. Annual exempt amount reduced from £6,600 to £5,000. From 1990 husbands and wives each to have their own annual exemption and to handle their own CGT affairs. Capital Gains taxed at Income Tax rates (25 and 40 per cent) rather than flat rate of 30 per cent, treating gains as top slice of income.

Business Expansion Scheme. Limit of £½ million placed on amount any company can raise in a year, to target available funds on smaller, newer and riskier businesses. Scheme extended, with limit of £5 million, to companies engaged in letting residential property on the new assured tenancy basis. Limit of £5 million for ship chartering.

Small Companies' rates of Corporation Tax cut from 27 per cent to 25 per cent in line with Income Tax.

Retirement Relief for Capital Gains Tax, hitherto limited to £125,000 extended to *half* realised gains between £125,000 and £500,000.

Lloyd's. Minor amendment made to Reinsurance to Close legislation in order to simplify taxing arrangements following extensive discussions.

North Sea Oil. Changes made in tax regime for Southern Basin and onshore fields to boost the pace of oil and gas activity.

Wider Ownership. Changes made to help unquoted companies to set up employee share schemes.

Personal Equity Plans (PEPs). Annual limit raised from £2,400 to £3,000 with up to £540 (against £420) in unit or investment trusts.

Charity. Annual limit for annual payments to Payroll Giving Schemes, qualifying for tax relief, raised from £120 per annum to £240 per annum. Arrangements governing covenants to charity unchanged.

VAT Registration Threshold raised to £22,100, the maximum increase allowed under European Community law.

Excise Duties raised as a whole broadly in line with inflation. On beer and wine the increase was slightly more than inflation; spirits duties unchanged; tobacco duty up in line with RPI; petrol by rather more than RPI to offset unchanged Vehicle Excise Duty. New lower rate on 'coolers' – to encourage young people to move to drinks with a lower alcohol content.

Vehicle Excise Duty for cars unchanged at £100. Most rates on heavy vehicles also unchanged.

Lead Free Petrol. Duty differential in favour of unleaded petrol more than doubled from 5p to over 10p a gallon.

BUDGET 14TH MARCH 1989

Key Features

The 1989 Budget reaffirmed the essence of the Government's economic strategy: a firm monetary policy to bear down on inflation sustained by a balanced budget (for the time being in substantial surplus). It continues the process of tax reform and introduces further measures to remove distortions and improve the working of markets.

Repaying Debt. £14 billion of public sector debt will be repaid in 1989–90 (the same amount as in 1988–9).

Growth and Inflation. The Chancellor forecast growth at 2½ per cent in 1989–90 (as compared with 4½ per cent in 1988–9). Inflation is forecast to fall to 5½ per cent by the end of 1989 – and to 4½ per cent by the second quarter of 1990. Consumption is expected to fall sharply while investment is forecast to rise by 4½ per cent – almost twice the rate of growth of the whole economy.

Personal Allowances raised in line with inflation: Single person's and wife's earned income allowance increased to £2,785; additional personal allowance to £1,590; married man's allowance to £4,375. Age allowance for over 80s extended to all those over 75 and raised to £3,540 (single) and £5,565 (married). Age allowance for those aged 65–74 raised to £3,400 (single) and £5,385 (married). 40 per cent rate threshold raised to £20,700.

Age Income Limit raised to £11,400. The rate at which the age allowance is withdrawn reduced to £1 for each £2 of income, rather than £2 in every £3. This removes the only marginal tax rate over 40 per cent.

Pensioners' Earnings Rule abolished. Pensioners who work after retirement will no longer have their pension cut.

Tax relief for health insurance will be available from April 1990 on premiums for private health insurance paid by, or on behalf of, those over 60.

National Insurance system reformed to reduce burden on lower paid and improve incentives to work. Those earning £43 per week to pay 2 per cent on earnings below £43 and 9 per cent on all earnings above £43 up to a limit of £325 (1989–90 figures). All employees earning just under half average earnings or more gain £3 per week.

Personal Equity Plans. Annual investment limit raised to £4,800. Limit for investment in authorised unit and investment trusts raised to £2,400. Trusts required to invest mainly in UK equities. New issue shares, including future privatisations, brought within PEPs. Significant simplifications to operation of the scheme.

Limits on approved All-Employee Share Schemes raised. Annual limit on employee share schemes increased to £2,000 or 10 per cent of pay up to a limit of £6,000. Monthly limit for 1980 Finance Act Save As You Earn Schemes increased from £100 to £150.

Employee Share Ownership Plans (ESOPs). Clarification that Corporation Tax relief is available for payments by companies to ESOP trusts set up to distribute shares to the company's employees.

Profit Related Pay (PRP). Upper limit for tax relief raised to £4,000. Employees able to set up schemes for headquarters units with PRP based on the profits of the whole undertaking. Requirements for PRP to equal at least 5 per cent of pay abolished. Administration and operation of tax relief for PRP improved.

Occupational pensions improved – by enabling employers to provide whatever total pensions they wish to reward employees with a ‘cap’ on tax relief based on earnings of £60,000 a year, to be increased annually in line with inflation. Limit applies to new schemes or new members joining existing schemes.

Personal pensions improved. Contribution limits for those over 35 made more generous. Changes to make it easier for those with personal pensions to manage their investments. Limit placed on tax relief on contributions based on earnings over £60,000.

Changes to Life Assurance. Income and capital gains attributable to policy holders taxed at basic rate of Income Tax. Life Assurance Duty abolished from 1990.

Unit Trusts. New regime introduced to enable unit trusts to compete more effectively in Europe. Reduction in Corporation Tax rate from 35 per cent to the basic rate of Income Tax for some unit trusts. Relief for management expenses and interest on borrowings introduced.

VAT threshold raised to £23,600, the maximum permitted under EC law.

Small Companies Corporation Tax ceiling raised from £100,000 to £150,000. The 35 per cent rate will apply to firms with profits over £¾ million – up from £½ million. Between those rates intermediate rates continue to be payable.

Earnings Assessment. Income Tax under Schedule E no longer assessed on the amount earned in a tax year, but on the amount received. Reduces delays and complications in settling tax bills for directors and other employees receiving bonuses or commission.

Tax on Company Cars. Tax increased by a third in 1989–90.

Lead Free Petrol. Tax on unleaded fuel cut by nearly 4p a gallon – tax on two and three star raised by 4p a gallon to bring it into line with four star. Unleaded petrol should be about 10p a gallon cheaper than leaded – the second largest tax differential in the EC.

Other Excise Duties. No change in duties on tobacco and alcohol. No change in Vehicle Excise Duty or duty on Diesel fuel.

Charities. VAT zero rating extended to classified advertisements, fund raising events, and autoclaves used by charities. Cars leased to the disabled relieved of car tax. Limit on Payroll Giving doubled to £480 a year.

Confidentiality. Disclosure of information about private affairs of a specific taxpayer by officials or former officials of the Revenue Departments made a criminal offence.

The Fundamental Objectives

Summing up the 1989 budget, Mr Lawson said: ‘I have reaffirmed the Government's commitment to the defeat of inflation through the maintenance of prudent monetary and fiscal policies. I have budgeted for a debt repayment of £14 billion – the largest ever. I have announced a major reform of, and reduction in, employees' national insurance contributions; and I have honoured our pledge to abolish the earnings rule for pensioners’ (*Hansard*, 14th March 1989, Col. 309).

3. INDUSTRY AND ENTERPRISE

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(A) THE FREE MARKET ECONOMY

1. THE REVIVAL OF INDUSTRY

The Basic Case for Free Enterprise. Economic prosperity is founded on industrial success. Without successful businesses, and without the enterprise of people who make

businesses successful, there can be no hope of a sustained rise in living standards. And, without the revenue yielded by a healthy industrial economy, the Government cannot hope to meet its commitments to defence, to law and order and to the social services.

Creating the right conditions for industry to thrive must, therefore, be a government's first priority. This means encouraging free and competitive markets, for under these conditions business flourishes. No commercial strategy, however elaborately conceived, can adequately replace the free market as a means of determining production or meeting consumer demand. The 1979 Conservative Manifesto pledged this Government to work 'with the grain of human nature'. Letting the market work does just that.

Industry's Revival. Guided by the market, rather than cajoled by government-inspired industrial strategies, British industry has undergone a striking renaissance under this Government. As the **Prime Minister** has said:

'Britain's industrial base is now healthier than at any time for at least a generation' (Speech to the Institute of Directors, London, 24th February 1987).

Britain is engaged in a fierce battle for markets with many foreign competitors, including those from the newly emerging industrial nations in South East Asia. It is therefore all the more significant that our competitors are now recognising our new-found industrial strength. This point has been made by Lord Young, Secretary of State for Trade and Industry:

'In the 50s, the 60s and the 70s we became the sick man of Europe. Now, in 1988, competitors have no doubt. "The most dynamic economic nation in Europe" writes an influential German newspaper. Or, as *Fortune* says, we have suddenly stopped declining and come roaring back. I quote from our competitors overseas because they know; if they are worried, then we really are having an effect' (Speech to the CBI, London, May 1988).

A striking tribute to Britain has been paid by Mr Toshio Yamazaki, Japan's Ambassador to Britain, who commented:

'If there were Business Olympics, Britain would be winning quite a few gold medals' (Speech to Institute of Directors Convention, London, 23rd February 1988).

Manufacturing. Nowhere is the resurgence of British industry seen more clearly than in manufacturing.

- Britain's manufacturing output has grown, year by year, for six years – and underlying growth remains strong. Growth in 1987 was 6 per cent. Output is now nearly 7½ per cent above its 1979 level and 27 per cent higher than its level at the depth of the recession in early 1981.
- The profitability of manufacturing companies in 1987 was at its highest level for almost twenty years – 4½ times the level of 1981.

- Investment in manufacturing industry has increased by 33 per cent since its trough in 1983 and is still growing strongly.
- For decades Britain's share of world trade in manufactured goods dropped, but since 1981 we have held our share and in 1987 actually increased it slightly.

Manufacturing Productivity. The recovery of manufacturing industry in Britain has been made possible by the vast improvement in productivity. Chronic overmanning, and a resistance to the introduction of new technology, meant that throughout the sixties and seventies Britain languished right at the bottom of the international league table of productivity growth.

But, in sharp contrast to this dismal performance, the rate of manufacturing productivity growth in Britain since 1980 has outstripped that of all our major competitors. In the three months to July 1988, manufacturing productivity, measured as output per head, was over 58 per cent higher than in the final quarter of 1980.

Britain's productivity performance under this Government in relation to its competitors has been summed up thus by *The Sunday Times*:

‘The advance of Britain's industry in the 1980s is in stark contrast with the stagnation which appears to have overtaken most other leading industrial countries. The trends appear to have turned decisively in Britain's favour for the first time in more than a century. The rate of advance of the other leading industrial economies as measured by productivity growth, has been declining through the 1970s and 1980s. Productivity growth has been negligible in America ever since the early 1970s. The performance of West Germany, France and Japan has been subsiding steadily since the 1960s. But in Britain productivity growth has actually been accelerating, and the longer this goes on, the more difficult it becomes to challenge the claims that nothing short of a British industrial renaissance is in progress’ (10th April 1988).

New Technologies. Within manufacturing there has been a marked shift from traditional industries to those based on new technology. For example, production growth of the UK electronics industry in the ten years to 1986 was faster than that of any of our major competitors except Japan. In Scotland, output in the electronics industry rose by around 133 per cent between 1979 and 1986. The output of the pharmaceutical industry has also increased rapidly – by over 40 per cent between 1981 and 1987, reflecting the substantial advances made in that industry in terms of technological innovation.

Textiles. Furthermore, many traditional industries have put themselves in a much stronger position by adopting new techniques and harnessing modern technology. The textile industry is a good example. This industry has been transformed by the extensive restructuring which has taken place in the last few years. New technology has been introduced and the calibre of management has improved markedly. Considerable rationalisation has eradicated surplus capacity. As a result, productivity has risen by around 40 per cent since 1980, and in 1987 the industry increased its overseas sales by 12

per cent to 3.5 billion, reflecting the healthy growth of its exports within the European Community.

Motor Industry. Britain's motor industry is now characterised by high levels of production and investment. In the six months to September 1988 car output was 8 per cent higher than in the previous six months. Capacity is set to rise 7 per cent by 1991, according to a study by *Cardiff Business School* published in October 1988. UK output of commercial vehicles for the six months to September 1988 was up 33 per cent compared with the previous six months. And production of commercial vehicles for export was 38 per cent higher than in the corresponding period of 1987.

The extent of business optimism in the UK motor industry is reflected in large increases in investment. Ford has announced plans to invest £725 million to build a new generation of engines at its Bridgend plant in South Wales. It is Britain's largest ever single motor industry investment. 3,000 jobs will be created from 1991 and another 3,500 temporary jobs can be expected in the construction industry. Ford is planning investment in Britain totalling £1.8 billion over the next five years to make Britain its 'centre of excellence' in Europe.

The Rover Group, which is the UK motor industry's largest manufacturer and biggest exporter, has achieved an impressive turnaround in performance and is now flourishing in the private sector (see p. 93). In the first six months of 1988 the Rover Group made a pre-tax profit of £87.1m. – ending nearly a decade of continuous losses. Austin Rover car sales worldwide rose by 4.3 per cent with a 5.6 per cent increase in the UK and a 1.5 per cent increase in exports. In 1987 the Rover Group's export earnings were well over £1 billion.

Leyland-Daf is planning investment of over £100 million. A new commercial van is to be produced at the former Freight Rover site in Birmingham. The company plans to increase component purchases from £300 million to £450 million. Truck production at the former Leyland assembly plant in Lancashire is now running at 16,000 a year – twice the level of output before the merger between DAF and Leyland trucks. The success of the merger has given the lie to Labour's apocalyptic warnings at the time of the Leyland-Daf deal in 1987.

Other Sectors. The resurgence of Britain's manufacturing industry has been more than matched by the growth of other business sectors. Industrial production as a whole passed its 1979 peak three years ago and has continued to grow since then (in 1987 at a rate of 3 per cent). The level of company profitability across all sectors (except North Sea oil companies) is higher than it has been for twenty years: the year's trading profits of non-North Sea companies rose by an average 20 per cent between 1986 and 1987.

The rapid growth of the small business sector is shown by the remarkable statistic that since 1979 the number of new businesses starting up has exceeded the number being wound up by an average of 500 *every week*. And in 1988 net new business start-ups averaged 1,000 a week – the highest ever level.

The Service Sector. The crucial importance of the service sector in the revival of Britain is discussed in section E.

2. COMPETITION

The key to the effective operation of free markets is competition. Lord Young has underlined this point:

‘Competition offers both rewards and penalties. It seeks out those who produce the goods and services which give the consumer best value for price and quality. It provides the spur to improved performance and efficiency from industry and commerce. Competitive markets provide the best environment in which individuals can create wealth efficiently. An open economy provides such competition. The need to beat fair competition puts pressure on British firms to restrain costs and prices and to improve quality. The experience of foreign competition has often encouraged British industry to more efficient production methods, higher standards of design and quicker responsiveness to changing industrial and consumer needs’ (Centre for Policy Studies Autumn Address, Blackpool, 8th October 1987).

The promotion of competition is one of the Government's central objectives. (For its record up to 1986, see *The Campaign Guide 1987*, pp. 162–3). Where the Government has or had direct influence over a market, it has ensured that as much competition as possible is introduced. Thus, the privatisation of British Telecom was accompanied by considerable liberalisation of the telecommunications market, with the licensing of a competing fixed-link telecom company – Mercury – and of two competing cellular radio systems. In transport, bus and coach service licensing have been abolished, allowing the growth of new services at lower cost (see p. 260). The Government's proposals for the privatisation of the electricity supply industry will ensure that the generating side of the industry is subject to genuine competition between a range of electricity providers (see p. 185).

Mergers Policy. Mergers are a normal part of the working of the market. They help keep management on its toes and ensure that resources are used efficiently. But sometimes mergers can be good for firms but not for everybody else. For example, when two leading companies in the same field merge, competition may be reduced. If markets are to be kept open to free competition, then the Government must be prepared to intervene where the market is, for one reason or another, not functioning properly. Such intervention must be kept to a minimum: nothing stifles competition as much as over-regulation. This approach forms the basis of the Government's policy on monopolies and mergers.

The Government completed a fundamental review of merger policy in 1984, after which Mr Norman Tebbit, then Secretary of State for Trade and Industry, concluded that the relevant provisions of the Fair Trading Act 1973 remained the appropriate legislative framework for merger policy. Mr Tebbit also made clear that the primary consideration in deciding whether or not a merger should be referred to the Monopolies and Mergers Commission should be the likely effect on competition.

In early 1988, the Department of Trade and Industry published a paper on mergers policy. It reaffirmed the principle that competition should continue to be the primary, though not the exclusive, consideration in deciding whether or not to refer a merger to the MMC. The Government's paper contained proposals for improving the speed and flexibility of the merger control process. There are three elements to this strategy:

- a voluntary pre-notification procedure;
- arrangements to enable companies to agree with the Director-General of Fair Trading modifications to a merger proposal, backed by statutory undertakings, to avoid a reference to the MMC;
- a new statutory charge to cover the costs of an improved merger control procedure. Details of how this charge will be levied remain to be settled.

All these proposals will help to make the mergers control process more efficient, protecting the public interest without burdening business with excessive regulation.

Mergers and the EC Single Market. The creation of a single European market will bring about fundamental changes in the nature of the market in which British companies must compete. But, as Lord Young has said:

‘1992 will not call for a sea-change in mergers policy – just a further evolution of the approach we have taken for many years’ (Speech to CBI, London, 12th May 1988).

There are benefits to be had in terms of efficiency and effectiveness, in the creation of large, internationally competitive, UK companies. Such companies might command a large share of the UK market without detrimental effect, providing there is international competition in that market. As Lord Young has pointed out:

‘If we are open to products from the rest of Europe, and perhaps the rest of the world, then it may not matter if there is only one UK supplier because that supplier faces competition from outside’ (ibid.).

Competition in the market is the key consideration, not where that competition comes from. Clearly, one of the major opportunities that completing the Single Market will create will be to facilitate the development of more major internationally competitive British companies. As the market grows, so will the opportunities for companies to expand without jeopardising competition.

Restrictive Practices. As part of its drive to encourage competition the Government is tackling restrictive practices, cartels and monopolies. As Mr Francis Maude, Under-Secretary of State at the Department of Trade and Industry, has said:

‘Cartels, and other practices which distort competition, cheat the consumer by depriving him or her of all the benefits which competition offers ... competition gives the individual real freedom of personal choice’ (Press Release, 22nd April 1988).

Reforming the Restrictive Trade Practices Acts 1976 and 1977 (RTPA) is one of the principal elements in the crucial phase of the Government's campaign. The RTPA covers restrictive agreements or practices involving two or more firms – for example collusive agreements between firms on prices and market shares. It is widely regarded as being no longer suitable in present day conditions.

This area of anti-competitive behaviour was the subject of a Green Paper, *Review of Restrictive Trade Practices Policy* (Cm. 331), published in March 1988. The central aim of the Government's proposals is to make the law much more effective in tackling seriously anti-competitive cartels. The Green Paper proposes:

- focusing the law on the effects of an agreement: if the agreement is going to distort or restrict or prevent competition, it will be prohibited;
- creating a competition authority – based on the Office of Fair Trading – with stronger powers of entry and search to uncover evidence of collusion;
- giving the authority a discretionary power to impose stiff fines on firms found operating an anti-competitive agreement;
- encouraging those who suffer damage as a result of anti-competitive activities to seek compensation through private actions.

The DTI has published guidelines to explain the policy (*Competition Policy – How it Works*, December 1988). Firms, and their legal advisers, will have to decide themselves whether or not an agreement will distort, restrict or prevent competition. The competition authority will, if asked, advise firms whether, on the facts available to it, it believes an agreement is likely to fall foul of one of the guidelines.

As well as increasing competition in many areas of economic activity, these reforms will make the law less complex and costly; they will also impose less unnecessary bureaucracy on business. This proposed legislation will also enable Britain's law on cartels to be brought more closely into line with European competition law in this area. As businesses become more international, this increasing similarity will be of considerable benefit.

Competition in the Professions. The Government has taken steps to relax monopoly restrictions in the professions. In 1986 it introduced competition in house conveyancing by allowing non-solicitor conveyors in England and Wales to compete with solicitors. Solicitors' fees for conveyancing have fallen by around one third since the measures were introduced. The Government has also ended the opticians' monopoly on the supply of spectacles.

Further measures to increase competition in the professions are being planned. The Lord Chancellor, Lord Mackay of Clashfern, is planning the biggest legal shake-up this century (see p. 384). A Green Paper was published in January 1989 outlining fundamental reforms of legal practice.

The Government also believes that no opportunity should be lost to increase fair and open competition between those providing family practitioner and hospital services. The Government's proposals were outlined in the November 1988 White Paper on Primary Health Care (Cm. 9771) and in the White Paper on the future of the health service published in January 1989 (see p. 289).

The reduction of restrictive trade practices will open up the professions to more competition and so make them more responsive to consumer demand. As Lord Young has said:

‘At present many of the professions such as lawyers and accountants enjoy a *carte blanche* exemption from Restrictive Trade Practices legislation. This will no longer be the case. Under the proposed new regime they will have to justify any exemption (Press Release, 8th March 1988).

(B) THE ENTERPRISE CULTURE

1. ENCOURAGING PRO-ENTERPRISE ATTITUDES

The skills, ability and initiative of individuals are the key to creating wealth. As the **Prime Minister** has put it:

‘... the most powerful force for a prosperous country [is] the liberated energies of free people’ (London, 25th May 1988).

This Government has restored to Britain an economy and a culture in which enterprise is actively fostered and initiative encouraged. The battle to overcome Labour's legacy of decline and dependency has had to embrace major reforms in all areas of policy. Central to this process has been the control of inflation, for without low inflation it is impossible for wealth creators to have any confidence in the economy to which they are contributing.

Increasing Incentives. At the same time the Government has provided direct incentives to enterprise. By cutting the rate of both income and corporation taxes, it has helped stimulate both individual and corporate enterprise. The Government's policy of deregulation has also acted as an incentive to greater business enterprise (see p. 106). Businesses prosper when they are competing in an open market, and not when weighed down by a mass of unnecessary bureaucracy. Equally the social security system has been restructured to remove the worst effects of the unemployment and poverty traps (see p. 301).

Trade Union Reform. Other Government reforms have encouraged a pro-enterprise approach and discouraged attitudes which are harmful to the enterprise culture. Thus, reform of the trade unions has been a necessary step in order to curb the destructive influence of bodies which, in many cases, have shown themselves to be opposed to innovation and progress (see p. 148).

Education and Training. Teaching young people about the value of enterprise and preparing them for work in the modern economy are vital to the process of consolidating the enterprise culture. As Lord Young has said:

‘There has been a well-documented, anti-enterprise streak in British attitudes for decades. It is based on many different elements in our national make-up, and has been a strong and pervasive influence which has channelled the talents of our young away from business. Young people were not exposed to the excitement or challenge of running a business. Parallel to these attitudes was a distaste for the practical and the technical which pervaded our educational system to the detriment of technical innovation and vocational skills. In some cases education has even come to reject such notions as excellence or standards or competition. It was not one-sided; for just as destructive was the gulf which appeared between industry and education. Education was seen as a separate part of our society unrelated to the world of commerce. The gap between the two simply encouraged mutual incomprehension and neither side made any attempt to repair the damage. We now accept that if we do not motivate our best young people to use their talents in industry and commerce then our natural base for wealth creation is weakened’ (Centre for Policy Studies, Autumn Address, 8th October 1987).

The Government has sought to encourage constructive attitudes towards enterprise and wealth creation by introducing comprehensive training programmes (see p. 132), by giving support to those wishing to start their own business, and by restructuring the education system – particularly by establishing the City Technical Colleges which seek to prepare young people for a changing technological age (see p. 333). Equally important, the Government has sought to reduce the gap between education and commerce, by encouraging direct links between schools and local businesses.

2. THE DEPARTMENT FOR ENTERPRISE

In January 1988, the Department of Trade and Industry published a White Paper, *DTI – the Department for Enterprise* (Cm. 278), which explained how the work of the DTI was being altered to take account of the fundamental changes in industry which have taken place since 1979. The theme which runs through the whole White Paper is the Department's role as a champion of enterprise. This point was developed by Lord Young when he introduced the White Paper to Parliament:

‘In an economy with a GDP of some £400 billion, the main role of the DTI with its budget of £1 billion must be, in conjunction with other departments, to influence attitudes and to encourage open markets in order to promote enterprise and prosperity. ... The best way to accomplish this is to influence people's attitudes, to help them acquire the skills and information which they need to compete effectively and to give them the scope and opportunity in open markets to compete. The White Paper policies which I have outlined today represent this consistent and co-ordinated strategy for enterprise. DTI – the Department for Enterprise will now carry this enterprise strategy forward’ (*House of Lords Hansard*, 12th January 1988, Cols. 1075 and 1078).

3. THE ENTERPRISE INITIATIVE

The January 1988 White Paper also launched the Government's Enterprise Initiative, a major programme of business support initiatives, designed to help small and medium-sized firms improve their performance in a number of key areas, such as marketing and design. These are areas in which British companies must excel if they are to compete effectively in tough international markets.

Under the Enterprise Initiative, firms with fewer than 500 employees are encouraged to take expert consultancy advice in a number of key management functions. These functions are design, marketing quality management, manufacturing systems, financial and information systems and business planning. Up to two days of consultancy advice from expert businessmen is available free, paid for by the DTI. After that, DTI supports consultancy sessions of between 5 and 15 man-days from approved private sector consultants for the company concerned by meeting half the cost. In Assisted and Urban Programme Areas two-thirds of the cost is paid.

More than £50 million is being provided for these business development initiatives in 1988–9, and a total of £250 million in the three years to 1991. This money is being made available with a view to assisting 1,000 consultancy projects every month, a target which has now been achieved. By January 1989, 17,000 applications for consultancies had been received, and 11,500 had actually been given.

It is essential that the business consultancy should be impartial and of high quality – and that it should be provided by the private sector. The DTI has therefore engaged private sector contractors, such as the Institute of Marketing and the venture capital organisation, 3i, to act as project managers in the provision of consultants for the key functions covered by the initiatives.

Lord Young has underlined the importance of the Enterprise Initiative:

‘The Enterprise Initiative ... forms the biggest and most comprehensive self-help package ever offered to British business. It constitutes a formidable array of advice and practical support to encourage enterprise within Britain's companies. The Enterprise Initiative aims to ensure that the best business practice becomes common practice. Firms will be able to develop their ideas and identify their role in markets at home and overseas with expert help and guidance. The support will help companies prepare for the competition of the Single European Market in 1992’ (*Business Enterprise*, July 1988).

4. INNOVATION AND TECHNOLOGY

Innovation – harnessing the new technology – has a vital role to play in the wealth creation process. The willingness and ability of businesses to change, and to invest in new technology, has been greatly strengthened by the successful economic climate of recent years.

The Government looks to industry to fund its own research and development, because firms themselves are best able to assess the commercial risks and potential rewards of financing R&D and innovation. By cutting rates of business taxation and maintaining downward pressure on inflation, the Government had increased both the means and the opportunities for business to invest in R&D. The responsibility now lies with industry to take advantage of this favourable investment climate to improve its performance in this respect. There are encouraging signs that it is beginning to do so: R&D carried out by British industry totalled £5.56 billion in 1986, a rise of more than 13 per cent in real terms since 1981. R&D investment by industry increased by about 7 per cent in real terms between 1985 and 1986. Commenting on these figures, Lord Young said:

‘I welcome the improvement in expenditure on R&D performed by UK industry in 1986 and am especially encouraged to see the increases in the aerospace and electronics sectors. But we must not be complacent. UK industry still lags behind its major competitors in the proportion of its R&D which it funds. I hope that our companies will take note of the benefits to be gained and, that when we have figures for future years, we shall see greater company financing of R&D, bearing in mind their increased profitability over the last few years’ (Press Release, 21st January 1988).

Increased Government Spending. The Government's own commitment to R&D is reflected in the growth of public spending in this area. *UK Government-funded civil R&D is greater as a percentage of GDP than that of Japan or of the United States.* Total Government spending on R&D will be £4.9 billion this year, of which £1.4 billion will be on science. Total spending by the DTI on all forms of R&D and innovation is planned at about £475 million in 1988–9, compared to just £142 million in 1979–80.

Collaborative Research. The DTI itself is now putting greater emphasis on collaborative research, especially long-term research involving higher education institutions and industry. It seeks to encourage partnerships between individual firms, and between them and research bodies, to get research under way which otherwise would not be undertaken. This shift in emphasis reflects the Government's view that innovation policy should be focused primarily on assisting research in the early stages before commercial applications can be developed, and on helping projects which are likely to have widespread benefits. Funding of research which is ready for commercial use should be the responsibility of the private sector.

Business and Education (see also p. 326). The Government has recognised the importance of increasing links between schools and businesses. Both pupils and teachers can benefit from a clearer understanding of the needs of industry, while industry itself ignores the education system at its peril.

To encourage a partnership between education and industry the Government has launched the Enterprise and Education Initiative in order to give every school child work experience and to provide more teachers with experience of business. Under the initiative the Government aims to ensure:

- two or more weeks' work experience in normal school hours for all children before they leave school;
- business experience for 1 in 10 teachers each year.

The DTI will spend £12 million over the next two years to pump-prime the Initiative, including £5.3 million to fund at least one adviser in every local education authority area in England, Scotland and Wales.

LINK. The new LINK initiative is one of the principal means by which the DTI is stimulating collaboration between industry on the one hand and higher education institutions and Research Councils on the other. It aims to bridge the gap between science and the market-place, by helping industry to exploit developments in science while, at the same time, helping to make scientists more aware of industry's needs. A further key objective of the initiative is to boost the amount of money spent by industry on R&D.

Money is concentrated on certain specific areas selected on the advice of the LINK steering committee consisting of academics and businessmen. So far five programme areas have been chosen:

Programme Area	Funding from: (£ million)		Duration (years)
	DTI	SERC*	
Molecular Electronics	5	5	5
Advanced semi-conductor materials	9	3	5
Industrial measurement systems	5½	5½	6
Nanotechnology	6	—	4
Eukaryotic genetic engineering	1½	0.8	5

*Science and Engineering Research Council

(Source: *British Business*, February 1988)

Total Government spending on LINK over the next five years is expected to be about £210 million. Spending by industry must match the Government's at least £ for £. Total funding for LINK should therefore be at least £420 million.

LINK is the first initiative on R&D supported by a full range of government departments. It lays the foundation for future support of industrially-relevant collaborative R&D. As Mr Kenneth Baker, whose Education Department will be the major contributor to the LINK initiative, has said:

‘These new collaborative research programmes present academics with a challenge and an opportunity to work with industry in priority areas of science and technology. ... Collaboration between industry and the science base will encourage technology transfer; it will also provide academics with an insight into industry's needs’ (Press Release, 3rd January 1988).

Other Collaborative Initiatives. In addition to LINK, the DTI encourages national collaborative research programmes, promoting longer-term joint projects in advanced technologies. The DTI promotes contact and links between different firms, and between such firms and research establishments, at the pre-competitive research stage. Once such projects are well advanced, the Government will make future direction and commercial exploitation matters for the firms involved themselves – in accordance with its established policy in this area (see above). Several such joint research projects promoted in the first instance by the DTI have been established in high-tech areas such as robotics and super-conductivity.

International Collaboration. The Government recognises the importance of international collaboration in technology programmes – particularly with our European partners (see p. 540). Few European countries can compete on their own with the resources available to the USA or Japan in major multi-billion pound research programmes such as space research. But collaborative research can maximise the potential benefits for industries in different European countries. Joint, pan-European research programmes such as EUREKA and the Horizon 2000 space project, were the result of a growing recognition within Europe of a technology gap with the continent's main industrial competitors.

Airbus. One notable example of the success of the collaborative approach has been the Airbus consortium. Airbus – in which British Aerospace plays a crucial role – has developed a range of aircraft to compete in a market previously dominated by American manufacturers such as Boeing. Airbus has been a commercial success, with almost 1,000 orders booked or delivered so far. However, it has been heavily subsidised and the Government is currently putting pressure on Airbus to improve its management and finances.

Space Research. It is in the field of space research, where the high risk and huge costs involved rule out individual national programmes, that the benefits of international collaboration are most apparent.

European Space Agency (ESA). Collaboration through the European Space Agency is the linchpin of the Government's space policy. Britain is one of the founding members of ESA, and our main space effort has been directed through it for the last ten years, accounting for some 70 per cent of the civil space budget. In particular, Britain is an active partner in ESA's Horizon 2000 project, a 20-year programme of space research. This programme has received a 20 per cent real terms increase in funding over the last three years.

In addition, the Government announced, on 18th April 1988, that it will be taking a 5.5 per cent share in the Columbus polar satellite, Europe's contribution to the American-led project to build an international space station. The Government will be putting over £250 million into the project with British industry contributing a further £5 million. The Government interest in the Columbus project arises because of its potential to provide earth observation data for the commercial market. To that end the Government has also

decided to establish, at a cost of £20 million, a new Earth Observation Data Centre at Farnborough. The Columbus project will provide over 2,000 man-years of work in the UK. British Aerospace will be involved in satellite construction and other UK companies will provide ground facilities for operational control and data processing.

Although the Government is always ready to consider support for commercially viable space projects, such as Columbus, some projects offer only dubious benefits at huge cost. The Government does not share ESA's enthusiasm to put a man in space, a view shared by the House of Lords Select Committee on Science and Technology (United Kingdom Space Policy, Second Report, 1987–8, HL 41), which described this objective as 'an expensive and hazardous diversion'. For the same reasons the Government will not be joining the Ariane 5 space launcher project which would cost at least £10 million every year for eight years and is unlikely to yield a satisfactory return.

Similar considerations lay behind the Government's decision not to support the HOTOL space project, which would ultimately cost £4 to £6 billion, a wholly unreasonable burden to place on the taxpayer. HOTOL is a completely new kind of space plane aimed at reducing the cost of launching satellites by the beginning of the next century. The HOTOL project is at a very early stage of research and many problems need to be solved before commercial viability can be assured. It must be for British industry in collaboration with its international partners to back such research.

5. REGIONAL POLICY

The most effective regional policy is the promotion of enterprise and wealth creation in all parts of the country. The Government's enterprise policies, described above, are even more relevant to the areas of the country where it has been hardest to achieve economic growth.

Most regional imbalances in Britain are the result of the steady decline over several decades of traditional manufacturing industries such as shipbuilding. Virtually all industrialised countries have similar regional disparities, in income per head and employment opportunities. Many of Britain's most deprived areas are those where the passing of such industries has left an industrial vacuum. The recovery of Britain's industrial fortunes, promoted by the policies of this Government, has now begun to fill that vacuum with new forms of enterprise.

A modern economy demands a modern regional policy, based on the principle of wealth creation in the free market. So, as Mr Kenneth Clarke, then Chancellor of the Duchy of Lancaster, said:

'We are changing our regional policy to make it more effective, and to concentrate all our efforts and resources on encouraging new and lasting business growth ... we aim to use regional policy to change and modernise the industrial economy of the North, Scotland and Wales. ... The north needs businesses as varied and as strong as those that are thriving in great numbers in the south. The north does not want a preserved and

subsidised economy, or a weak, branch-line economy. We are creating in the regions an economy that is ever more similar to the thriving economy of the south east, capable of selling goods and services in today's markets' (*Hansard*, 25th January 1988, Col. 37).

Enterprise in the Regions. One element of regional policy is now being implemented through the Enterprise Initiative. Firms employing fewer than 500 people in the Assisted Areas qualify for a higher level of grant under this Initiative, covering two-thirds of the cost of the consultancy projects. And, in recognition of the problems smaller firms in the Development Areas face in raising capital and stimulating innovation, there are two types of grant available to enterprises with fewer than 25 employees. Investment grants of 15 per cent are provided towards the costs of fixed assets, subject to a maximum grant of £15,000. An Innovation grant of 50 per cent, subject to a maximum grant of £25,000, will also be available to such firms to support product and process developments. In addition, there are many forms of support available to firms in inner city areas. These are described in Chapter 5.

Regional Development Grant. The old-fashioned Regional Development Grant (RDG), which provided automatic grants to help companies set up or expand in the Assisted Areas, has no place in a modern regional policy. It was thus brought to an end by the Regional Development Grant (Termination) Act 1988. In essence, RDG was a blanket subsidy to industrial investment; it is therefore inappropriate in an economy in which both service and manufacturing industries are showing themselves more than willing to invest anyway (for fuller discussion of the shortcomings of the old regional policy, see *The Campaign Guide 1987*, pp. 85–6).

The serious disadvantage of RDG was that it was an automatic grant, open to companies of any size and without any prior assessment of the benefits likely to result from the projects supported. Many of the projects supported by RDG would have taken place anyway. Furthermore, as an automatic grant system, the cost of RDG was bound to increase as investment and confidence grew in a successful economy of the kind created by Conservative policy. As Mr Clarke put it:

‘If we use RDG as our main instrument of policy, the better companies do, the more they invest, the more the Government have to spend automatically. In my opinion, we should not be subsidising profitable and successful companies to make investment they would have made anyway’ (*ibid.* Col. 39).

Regional Selective Assistance. There is, however, a strong case for retaining a grant system to enable projects in the Assisted Areas to go ahead if they would be jeopardised by lack of grant support. For this reason, the Government has retained Regional Selective Assistance (RSA) as an essential part of its regional policy. RSA is an investment grant based on the fixed capital cost of the project and the number of jobs expected to be created or safeguarded by it. The key feature of RSA is that it is only available for projects in Development and Intermediate Areas that would not be expected to go ahead without it.

The Importance of Inward Investment. The decision to retain RSA also reflected the Government's recognition of its value in helping Britain attract inward investment from international companies. Internationally mobile investment projects will, by their nature, frequently meet the criteria by which qualification for RSA is determined.

Inward investment is extremely important to Britain and particularly to the regions. In 1987 more than 300 companies announced inward investment projects in the UK, helping it to retain its position as the first choice European location for most overseas direct investment. Since 1980, nearly 2,000 such projects have created or safeguarded over 225,000 jobs. Much of this investment has gone into areas of otherwise high unemployment: Nissan's factory at Washington, which now employs over 1,600 workers, is perhaps the best-known example.

Helping the Regions. Of the inward investment projects announced in 1987, nearly one-quarter went to the north of England, and nearly a fifth went to Wales. Inward investment since 1979 has created or safeguarded over 50,000 jobs in Scotland, over 33,000 in Wales, over 23,000 in the North East and over 17,000 in the North West.

English Estates. The DTI's longest standing instrument of regional industrial policy is the English Estates Corporation. Its task is to provide and facilitate the provision of industrial and commercial premises in the Assisted Areas and inner cities of England where shortage of private sector provision is a constraint on development. In 1987–8 English Estates planned programme in the assisted areas was increased from £33.5 to £37 million. In 1988–9 its programme was increased by a further £5 million.

Government Spending: The Overall Position. The abolition of Regional Development Grant does not mean that the Government is cutting spending in the regions. Plans set out in the 1988 Public Expenditure White Paper show that spending on the Assisted Areas will be some £900 million over the next three years (including spending on RDG as it runs down), compared with some £700 million planned a year earlier. This figure does not include spending on the Enterprise Initiative which will be some £207 million over the whole country over the next three years. And spending by the Government on the regions is supplemented by contributions from the European Regional Development Fund. In 1988, the UK was allocated £87 million from the Fund of which £9.5 million relates to 109 industrial projects and £77.4 million to 263 infrastructure projects.

Regional Prosperity. While the encouragement of enterprise and business growth in the regions is an important element of Government economic policy, an over-emphasis on regional problems in today's circumstances can obscure the fact that Britain's economic revival is shared by all regions of the country. Unemployment has been falling fastest in the North East, the North West and the West Midlands.

The concept of a 'North-South' divide is over-simplistic; it ignores the fact that there are many areas of prosperity in the North, just as there are pockets of economic stagnation in the South and East. A county-by-county analysis of GDP per head shows that more prosperous areas are to be found in all parts of the country. A much more relevant

distinction than the artificial one between North and South is one between those areas which have been able to embrace change successfully and adopt enterprising attitudes and those which have found it harder to adapt, particularly those previously dominated by labour-intensive heavy industries. By focusing on the development of enterprise throughout the whole country, the Government is pursuing a policy which is achieving the objective of all regional policies: to tackle economic disparities between different parts of the country.

(C) PRIVATISATION AND THE NATIONALISED INDUSTRIES

1. INTRODUCTION

Privatisation has established itself not only as a central theme of this Government's economic strategy, but as a major and increasingly important element of economic policies world-wide. It is hardly surprising that privatisation has proved to be such a success, for in it are contained all the main elements of the Government's economic philosophy which have proved such an effective cure for the 'British disease': a belief that competition in free markets is preferable to state-controlled industrial strategies, the promotion of enterprise at the expense of bureaucratic interference and the promotion of a business philosophy designed to meet the needs of consumers rather than the convenience of producers. Furthermore, privatisation has attracted its own widespread popular appeal through its contribution to the process of widening share ownership. As the Chancellor, Mr Lawson, has put it:

'Not so long ago, the question was, why privatise a state-owned industry? Now thanks to the manifest success of privatisation, the question is why should any industry stay in the state-owned sector?' (London, 27th June 1988).

The extent, and success, of the privatisation programme in Britain has established the policy as one of the key economic revolutions of the eighties.

2. THE CASE FOR PRIVATISATION

The case for privatisation is simple. State-run industries are protected from the operation of the free market, and thus they have little incentive to compete or to perform as efficiently as possible. Their investment decisions are not determined by sensible commercial criteria, but by government's spending priorities. And, because state firms can fall back on Government in times of trouble, they are protected from the ordinary commercial forces which apply to private companies. Their survival does not depend on responding to the market.

Nationalised industries can also be subject to political and bureaucratic interference. Sometimes the nationalised industries have been used as the instruments of crude party politics. For example, Mr Denis Healey, when Chancellor of the Exchequer, forced British Gas to sell at a loss in order to buy popularity for the then Labour Government with low domestic gas prices. Similarly, the restructuring of British Steel, which was needed to make the corporation competitive, was delayed by Labour administrations frightened of angering their trade union masters and losing votes in steel towns.

In 1979 the nationalised industries accounted for 10.5 per cent of Britain's GDP and one seventh of investment. They employed some seven per cent of the total workforce. Run as they were by Labour as instruments of a hopelessly inadequate industrial and economic policy, it is not surprising that many of these industries were uncompetitive, inefficient loss-makers. In 1979 their losses and borrowing were costing the country over £50 million every week.

It was clear that the only way to reform these industries was to have them run as proper businesses by exposing them to the disciplines of the market. Many could be transferred straightaway to the private sector. For those not immediately ready for privatisation, the first step was to replicate the disciplines of the market-place as closely as possible. Nine years of privatisation have vindicated this approach.

3. THE PRIVATISATION PROGRAMME

Nineteen major former state-sector companies, and a number of other businesses have now been privatised so far (along with 655,000 jobs), accounting for nearly 40 per cent of the former state sector. The major privatised companies are (with year of privatisation in brackets):

Ferranti (1980), British Aerospace (1981), Cable and Wireless (1981), Amersham International (1982), National Freight Consortium (1982), Britoil (1982), Associated British Ports (1983), Enterprise Oil (1984), Jaguar (1984), British Telecom (1984), Sealink (1984), Vickers Shipbuilding and Engineering Ltd (1986), British Gas (1986), British Airways (1987), Rolls Royce (1987), Royal Ordnance Company (1987), British Airports Authority (1987), Rover Group (1988) and British Steel (1988).

Other smaller businesses which have been privatised include Britain's warship-building yards, and the subsidiaries of the National Bus Company.

The success of the Government's privatisation programme has fundamentally altered the role of the DTI. The Bennite dream of using the DTI as a kind of holding company, running and controlling the commanding heights of the economy has been shattered. The DTI is left with the more appropriate and useful role of laying down rules to promote competition and encourage enterprise.

Companies Transformed. The transformation of the privatised companies from inefficient extensions of Whitehall to growing independent companies has been quite remarkable. Increased turn-over, profits and productivity have become their hallmarks.

Cable and Wireless has increased its profits nearly five times since it was privatised. The pre-tax profit of the *National Freight Consortium* has multiplied six and a half times since it was returned to the private sector. *British Telecom* has increased profits to record levels since privatisation, enabling it to invest heavily in new technology – the company invested £2.4 billion in the year to March 1988 – while at the same time freezing prices which means that telephone charges have fallen by 12 per cent in real terms since privatisation.

It is not just in terms of profit that the success of the privatised companies and of the whole privatisation programme can be measured. *British Gas*, for example, is expanding into new areas of profitable business and has purchased a substantial share in Bow Valley industries, a Canadian oil and gas exploration and production company. *Associated British Ports* has moved heavily into the property market, acquiring the Grosvenor Estate Properties Group early in 1987 and increasing its property activities since. Such enterprise is helping to create jobs and redevelop run-down areas.

British Aerospace and Rover Group. Even more significantly, the huge success of British Aerospace since it was privatised in 1981 enabled the company to take over the Rover Group in 1988 – so effecting a further privatisation and offering the car company a successful future in the private sector. Commenting on the advantages of the British Aerospace takeover of Rover, Mr Kenneth Clarke said:

‘In the hands of British Aerospace, Rover Group would have the best available chance of developing its independent role in the vehicle industry.... This will strengthen Rover Group's ability to compete at home and abroad and thus benefit all those who work with and for it, as well as the economy as a whole’ (*Hansard*, 29th March 1988, Col. 887).

Sir Graham Day, Rover's Chairman, has also been quick to point out the benefits of the BAe-Rover deal:

‘The two groups are complementary and not competitive. Aside from certain synergies, it means that Rover Group will remain in British ownership. In addition it offers a speedy route to privatisation with the minimum disruption to our management, workforce, dealer networks and suppliers. One of the major benefits is that we can now look forward to a period of stability ... and I am confident that this will have a positive impact on our market’ (Press Release, 29th March 1988).

British Aerospace has indicated that it has plans to spend more than £1 billion over the next five years on developing Rover. As Mr Bernard Friend, BAe's Financial Director, said: ‘We're buying the business to develop it’ (*The Times*, 12th May 1988).

A Better Deal for Consumers. The success of privatisation can also be measured by the improved quality of customer service that privatised companies are providing. BT's record investment in new technology, helping it catch up after years of under-investment when it was nationalised, is improving key services such as Directory Enquiries and providing advanced facilities such as digital exchanges. Similarly, the commitment of British Gas to improving customer service is reflected in a falling number of complaints to the Gas Consumers' Council – only three customers in every two thousand contacted the council with a complaint in 1987. As Mr Lawson has said:

‘[Privatisation] is good news for the customer, because a private sector company will not succeed for long – indeed it may not survive for long – if it does not satisfy its customers. For example, it was pressure from consumers, backed by the regulator, which prompted British Telecom to repair its call boxes more quickly, so that over 90 per cent are now in working order, compared to 75 per cent in October. It is most unlikely that the improvement would have occurred so remarkably quickly if BT had remained nationalised and with no competitor – and the emerging competition from Mercury will help to keep standards high’ (London, 27th June 1988).

Privatisation and Telecommunications. Major improvements in the telecommunications market have come about as the result of the introduction of substantial competition. British Telecom now faces direct competition from Mercury – a subsidiary of the privatised Cable and Wireless – in many areas, including the provision of public payphones. Significantly, British Telecom has reduced some of its prices for services which face direct competition from Mercury.

Mobile Communications. The market for mobile communications in the UK, such as cellular phones, paging and private mobile radio (PMR), is growing at around 10 per cent per annum and contributing substantially to the level of competition in the whole of the telecommunications sector. The UK's first two cellular mobile telephone networks, Vodafone and Cellnet, were launched in January 1985. The latest development in the telecommunications market is the Government's plan to issue licences for ‘Telepoint’ cordless telephone services. Four licences have now been issued and new ‘Telepoint’ systems will shortly be on the market. ‘Telepoint’, based on the CT2 technology, employs pocket-sized cordless telephones on which only outgoing calls can be made, by linking ‘base stations’ at centres like air terminals, railway stations and motorway service stations, with the public telephone network. By liberalising the telecommunication market the Government has allowed competition to develop, as the *Financial Times* pointed out in a recent survey:

‘Expansion has been seen to come far more rapidly under the more liberalised operating regimes.... In this sense, the UK experiment has had a substantial impact’ (12th September, 1988).

OFTEL. Where the scope for competition is limited by the fixed-link nature of the telephone network, OFTEL, the regulatory body set up by the Government on privatisation, protects the interests of the consumer. OFTEL's first priority is to see that

as much fair competition as possible is allowed to develop, but it also protects the interests of telephone users by controlling prices and investigating and, where appropriate, remedying customers' grievances.

OFTEL has responsibility for policing the price control formula for telephone charges. An initial formula, keeping price rises 3 percentage points behind the rate of inflation, was established for five years from privatisation in 1984: now this has been replaced with a price system of RPI – 4.5, offering consumers the prospect of even lower telephone charges. Customers are now witnessing new and improved services and guaranteed rights. For example:

- BT has recently announced that it intends to introduce itemised bills in 270 towns and exchanges during 1989.
- From 1st April 1989 customers will receive £5.00 per day for failure to repair faults within two working days and businesses will be able to claim up to £5,000 for failure to provide services by the agreed date.

Professor Bryan Carsberg, Director General of Telecommunications stated:

‘The arrangements I have agreed with BT represent a new charter for securing customers' rights. So far as I am aware, they give customers stronger guarantees than are available in any other country of the world’ (Press Notice, 24th March 1988).

Growing Satisfaction with BT. The success of both BT as a privatised company and OFTEL as its watchdog is clearly illustrated by public surveys carried out in 1988. In an OFTEL survey in November 1988, 83 per cent of those asked were either very satisfied (31 per cent) or fairly satisfied (52 per cent) with BT's service and 67 per cent thought that the service represented either very good value (17 per cent) or fairly good value (50 per cent) for money.

4. PRIVATISATION OVERSEAS

A clear sign of the remarkable success of the UK's privatisation programme has been the way in which similar policies have been enthusiastically adopted in countries all around the world. Britain is justly recognised as the pioneer of privatisation, and many Governments and state enterprises have sent delegations here to study at first hand the privatisation techniques that have been employed. As the **Chancellor** has pointed out: ‘the very word “privatisation” has passed into a number of languages, including Japanese’ (London, 27th June 1988). Some of the main features of the programme are of international interest for several reasons: the size of some of the UK sales (the Government is now planning the world's largest privatisation (electricity)); the emphasis given to employee and ownership; and the innovations in methods of sale and the use of special or ‘golden’ shares to protect essential national interests.

In Sweden, the state holding company, Procordia, has transferred numerous companies to the private sector. In Italy, government holdings in banks, telecommunications companies

and the State Airline, Alitalia, have been sold. Even communist countries have responded to the British example. In 1985, Estonian radio and television repair services were turned into worker-run, profit-orientated enterprises. Consequently, radios and televisions have been repaired in two to three days rather than two to three weeks. In 1986, the Cuban National Assembly passed a law privatising the majority of public housing.

The world-wide conversion to privatisation is the result of pragmatic decision-making by political leaders. The sale of state-owned homes in China has been justified by Deng Xiaoping's famous saying: 'It doesn't matter if a cat is black or white as long as it catches mice' – indicating that he too realises that socialism and nationalisation are very bad mouse-catchers.

The methods adopted for privatisation varies from country to country depending on a number of different circumstances. However, these differences are less remarkable than the widespread acceptance of the industrial logic which underpins the philosophy of privatisation.

5. PRIVATISATION AND WEALTH CREATION

Privatisation is an important source of revenue for the Government, helping the Exchequer to reduce debt while financing both tax cuts and increases in priority public spending. Since 1979, direct proceeds to the Exchequer as a result of the privatisation programme have exceeded £18 billion. The Government expects to raise a further £5 billion from privatisation in 1988–9. Raising money is not, however, the primary objective of privatisation. As Mr Lawson has pointed out:

'With the UK budget deficit almost entirely eliminated even without a penny piece from privatisation sales, this charge could scarcely be more ludicrous' (ibid.).

The revenue from the sale of assets alone does not by any means represent the full extent of the financial benefits of privatisation. Privatisation is part of the wealth creation process, producing increasingly profitable enterprises which make healthy contributions to the Exchequer by way of tax. For example, in 1987–8, British Telecom paid to the Treasury by way of tax, dividends and debt repayment a total of £1,472 million, following an earlier payment of £1,391 million a year earlier. Thus, in just two years BT has paid to the Treasury almost as much money as was raised by the sale in the first place.

6. THE FUTURE PROGRAMME

The manifest success of privatisation has confirmed the Government's determination to keep up the momentum of the programme. Certainly the collapse of share prices in October 1987 did nothing to dent the Government's resolve to carry on with the policy, as Mr Norman Lamont, Financial Secretary to the Treasury, explained when he addressed the Bow Group shortly after the Crash:

‘Whatever happens in the markets over the next year or so, I see no reason to believe that we will not be able to keep to our announced programme and make a start in this Parliament on transferring both the water and electricity industries to the private sector. The arguments for privatising these industries are very strong and are not affected by the level the stock market may turn out to be’ (17th November 1987).

Future Sales. Privatisation will continue with the sale of the electricity supply industry and of the twelve water authorities in England and Wales. The privatisation of the electricity industry, which is described fully in Chapter 6, will be the largest privatisation yet. Water privatisation is discussed in Chapter 8. Moves are also under way to transfer Girobank and the remaining nationalised shipyards (see p. 102) to the private sector. In the cases of the shipyards and Girobank, the Government is considering bids from private sector concerns to take them on, reflecting its policy of varying the exact method of privatisation depending on circumstances of the company concerned.

Leaving only a Small State Sector. When all the planned privatisations have taken place, 60 per cent of what was in the state sector in 1979 will have passed into private ownership.

7. PREPARING BRITISH STEEL FOR PRIVATISATION

The British Steel Act 1988 turned the British Steel Corporation into British Steel plc, a company whose shares were wholly owned by the Government. The Act allowed privatisation to go ahead in November 1988, through the sale of the Government's shares in the company. The £2.56 billion issue was 3.3 times oversubscribed. There were 650,000 applications for 1.5 billion shares from private investors and company employees. Every applicant received some shares, though larger applications were scaled down. All 63,000 applications from employees and pensioners were met in full. As *The Guardian* commented:

‘[the Government] got the pricing of British Steel right ... with trading at a couple of pence above the offer price, the Government achieved exactly the effect that it ought to have been seeking. The price was low enough to ensure that the issue was oversubscribed and high enough to ensure taxpayers got the market price for their company’ (6th December 1988).

British Steel's Recovery. British Steel has been transformed since 1979. When the Government came to power, the Corporation was losing £1.75 billion a year, despite having received over £3 billion of public money since it was nationalised in 1977. It was overmanned and uncompetitive in a market in which steel-making capacity far outstripped demand.

Unlike Labour, this Government was not afraid to take the hard decisions necessary to make BSC competitive. The Corporation was thoroughly restructured and surplus steel-

making capacity eliminated. This, of course, did lead to job losses, but thanks to special Government initiatives and the general growth of the enterprise economy, many of those made redundant have found new jobs. Corby, for example, which lost a whole steelworks, was declared an Enterprise Zone, and is now a prosperous Midlands town with one of the fastest falling unemployment rates in the country.

For British Steel, the results of the restructuring process have been dramatic. Productivity has increased by 132 per cent since 1978–9. And in July 1988, the Corporation was able to announce the best ever result in its history – making a net profit of £410 million. British Steel is now one of the most profitable integrated steel-makers in the world, and is increasing its output in what is still a highly competitive market.

This excellent performance laid the foundation for British Steel's transfer to the private sector, as its Chairman, Sir Robert Scholey, acknowledged:

‘The very encouraging improvement ... has provided the basis for British Steel to be brought to the forefront of the privatisation programme in the present Parliament ... British Steel firmly believes that transition to privately-owned status as a single entity will assist it to respond to the challenges in the competitive markets where it operates’ (Press Release, 6th July 1988).

Ravenscraig and Dalzell. BSC have made it clear that, subject to market conditions, there will continue to be a commercial requirement for steel-making at Ravenscraig for at least the next seven years, and a similar requirement for plate-rolling at Dalzell. Despite the fact that BSC's stripmills are currently running at below 70 per cent of their potential capacity, because of over-capacity in the market as a whole, BSC have also decided on commercial grounds that their present hotstrip mills, including the Ravenscraig mill, will continue to operate at least until 1989. With regard to Ravenscraig, Mr Clarke pointed out while he was an industry minister:

‘This [decision] therefore gives assurance to Ravenscraig's iron and steel making facilities for a period much longer than the three year commitments that the Government has been able to give in each of the two previous reviews in 1982 and 1985’ (*Hansard*, 3rd December 1987, Col., 1107).

European Steel Quotas. In June 1988, the eight-year old system of European steel quotas, which restricted the output of European steel-makers, was finally abolished. The Government had been pressing for the abolition of quotas for some time, not least because the system was inhibiting British Steel's chances of taking advantage of its competitive position. Commenting on the abolition of quotas, Mr Clarke said:

‘We have stuck to our guns because we believe that it was in the interests of consumers, steel users and the British Steel industry that we should do so’ (*The Guardian*, 25th June 1988).

There is still considerable steel-making over-capacity in Europe, but with the abolition of quotas, market forces will act to ensure this is eliminated. But, as one of the strongest steel-makers, British Steel should have nothing to fear from the return of free market conditions to the European steel market.

8. THE INCREASE IN SHARE OWNERSHIP

Reversing the Trend. Throughout the 1960s and 1970s, as state control and public ownership advanced, direct share ownership by individuals steadily declined. Private industries were nationalised, and as British industry went into progressive decline, the enthusiasm individuals had for investing in it unsurprisingly grew less. Between 1958 and 1979 the number of adults directly owning shares fell by over 35 per cent. Just 7 per cent of adults directly owned shares in 1979.

Since 1979, this trend has been reversed. A joint Treasury Stock Exchange survey carried out at the beginning of 1988 revealed that there were then around nine million adult shareholders in Britain: over 20 per cent of the adult population. In the nine years of this Government share ownership has tripled. Britain is currently second only to the United States in the level of share ownership.

Privatisation: A Key Factor. Industry's recovery and economic growth has led to an increase in investor confidence and hence in the level of share ownership. However, the evidence suggests that one factor above all accounts for the rapid rise of share ownership: privatisation. Share ownership began to rise substantially with the privatisation of British Telecom in 1984, in which two million people bought shares. The TSB and British Gas flotations, both towards the end of 1986, provided major further boosts, attracting 3 million and 4½ million shareholders respectively.

The central role of privatisation can be seen from the fact that 13 per cent of all adults own privatisation shares (15 per cent if TSB is included). Among the public at large, BT, TSB and British Gas shares account for the bulk of shareholdings in privatised companies: earlier privatisations were more directed at the employees of the companies concerned, and this is reflected in their share registers.

Labour's Baseless Smears. A common allegation made by the Labour Party, and other ideological opponents of popular capitalism, is that investors who take the opportunity to buy shares in privatised companies are motivated purely by the prospect of short-term financial gain. The facts do not support this allegation. In fact, throughout 1987, according to the Treasury/Stock Exchange survey, there was no significant fall in the number of shareholders in the privatised companies, despite the panic selling which accompanied the Stock Market crash. On average, about two-thirds of initial shareholders retained their shares. British Gas, with nearly three million shareholders, still retains the world record for the largest share register. The number of shareholders in the National Freight Consortium, which was privatised in 1982, grew by a quarter in 1987, partly as a result of the company's profit-sharing scheme. As Mr Lawson has said:

'People who, at the outset, may well have been suspicious of the privatisation programme are now participating in it. And they have held on to their shares. After the initial flurry of selling, share registers have been remarkably stable, and British Gas still has nearly 3 million shareholders. What's more, more than half of them report that they check the share price every week' (London, 27th June 1988).

A New Role for Small Investors. The truth is that many thousands of small investors appreciate the value of the stake they have been able to obtain in the former nationalised industries. Many have enjoyed the novel experience of attending company AGMs and making their voices heard. Indeed, many of the problems which have come to light with regard to the quality of services provided by British Gas have been as the result of pressure from small shareholders. That such problems have emerged in no way discredits the privatisation programme – no one argues that the very act of privatisation automatically creates perfect companies without fault. Rather it reinforces the point, crucial to the case for privatisation, that pressure from small shareholders, anxious to protect the value of their investment and see it grow, can act as a potent force for the improvement of private companies.

Although, unsurprisingly, the Treasury&Stock Exchange survey reveals that share ownership is most prevalent among professional and managerial groups, where one third of adults own shares, the fastest growth in share ownership has been among manual workers, growing from 2 per cent in 1979 to around 11 per cent now. Again, privatisation can take most of the credit for effecting this change. Perhaps the most visible evidence that share ownership has spread to all social and economic groups is the appearance in the popular newspapers of advice columns for small investors.

Incentives to Share Ownership. It is not just through privatisation that the Government has encouraged the wider ownership of shares. Favourable tax treatment of employee share schemes (see below) has encouraged the growth of share ownership by people in the company for which they work. More generally, the Government has introduced tax incentives to share ownership by halving the stamp duty on share transactions, abolishing investment income surcharge and easing the capital gains tax regime.

Personal Equity Plans (PEPs) were introduced in January 1987 as a major incentive to share ownership. Changes in the 1988 Budget made them even more attractive to investors. Everyone over 18 can invest up to £3,000 in a PEP. Money placed in a PEP is invested in shares either directly or through unit trusts. As long as the investment is kept in the PEP for a minimum period between one and two years, all reinvested dividends and all capital gains are entirely tax free. Inland Revenue figures show that in 1987 over 266,000 PEPs were taken out and £466 million was invested.

Employee Share Ownership. Growing numbers of people own shares in the company for which they work: according to the 1988 Treasury&Stock Exchange survey, about 1½ million people are employee share owners. This in itself is a significant development. As a company shareholder, an employee has a personal link with the business for which he or she works. This encourages greater employee interest and

involvement in the firm's activities and does a great deal to improve industrial relations. A survey carried out by the Wider Share Ownership Council in Autumn 1986 showed that more than 80 per cent of companies with employee share schemes surveyed felt that the schemes improved the loyalty and enthusiasm of their workforce. The National Freight Consortium, which is substantially employee-owned, has lost only two afternoons through industrial action since the Government sold the company to its employees in 1982.

Employee Share Schemes. The policies of this Government have actively encouraged employee share ownership. Tax reliefs associated with employee share schemes have now been included in eight out of the last nine Budgets. The Government has introduced two entirely new employee share schemes: the all-employee savings related share option scheme in 1980 and the discretionary share option scheme in 1984. As a result of the Government's enthusiastic support for employee ownership, the number of all-employee share schemes has increased from less than 30 in 1979 to nearly 1,500 today. It is estimated that well over 10,000 companies participate in all-employee schemes. In addition, there are over 3,000 discretionary share option schemes in existence.

Privatisation and the Spread of Employee Share Ownership. As with share ownership in general, it has been the privatisation programme which has given the biggest single boost to employee share ownership. Throughout the programme the Government has given preferential treatment to employees of the privatised companies to give them a special opportunity to benefit from the transfer of their company to the private sector, as Mr Lawson has pointed out:

‘One particular objective [of privatisation] has been to encourage employees to acquire shares in the companies they work for – a valuable way of enhancing their commitment to the firm. Special incentives have therefore been given for employees to acquire shares in every privatisation where a majority shareholding has been sold in a stock market flotation. As a result, 90 per cent of those employees who were eligible have become shareholders in their companies’ (London, 27th June 1988).

The proportion of employees taking up shares in some of the larger privatisations is shown below:

Company	Percentage of Employees
British Aerospace	90
Cable and Wireless	99
Amersham International	99
National Freight	36
British Telecom	96
British Gas	99
British Airways	90
Rolls-Royce	96.2

Company	Percentage of Employees
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(Source: New Bridge Street Consultants, October 1988)

As a result of the privatisation programme to date, nearly half a million employees have become shareholders. The privatisation programme as planned will give a considerable further boost to this number. Employee share ownership is a major objective of the future privatisations of both the electricity and water industries. Despite dogmatic union opposition to these sales, there is every reason to assume that the employees of these industries will be as keen as their counterparts in British Telecom, British Gas and elsewhere to acquire a stake in the future of the company for which they work.

9. THE NATIONALISED INDUSTRIES*

For electricity and coal, see pp. 184 and 197. For British Rail, see p. 256.

As far as those industries still in the state sector are concerned, the Government has tightened up financial disciplines, exposed their activities where possible to market competition and generally demanded higher standards of management and efficiency.

Remarkable Improvement in Productivity. Labour productivity in the nationalised sector has gone up sharply, and in the last three years has been outstripping even the high increase in the productivity of private manufacturing industry. Indeed, increased labour productivity has been the key to improved overall performance. The electricity supply industry, for example, reduced its controllable real costs per unit sold by 4.6 per cent over the three years to 1987. Lower costs and improving productivity have led to an increase in profits of the nationalised industries. This has been done without raising prices in aggregate faster than the general inflation rate.

Cutting Subsidies. Now that the nationalised industries are more productive, competitive and profitable, it is hardly surprising that they are proving to be much less of a drain on the taxpayer. In 1979, they were costing over £50 million a week: now the total subsidy to these industries works out as less than £9 million a week. The Government plans a total external finance limit of *minus* £386 million by 1990–1: in other words a repayment to the taxpayer.

Nationalised industries still account for some 5½ per cent of total UK output and just under 4 per cent of total employees – though figures will be reduced still further when the privatisations now being planned have been successfully completed. The Government has made it clear that it believes that the state-run industrial sector should be reduced still further. As Mr Lawson said during the 1987 General Election campaign:

‘We will privatise what we consider it is sensible to privatise and what is ready to privatise. We are not, at this stage in the business of looking for things that we cannot privatise. We are in the business of looking for things that we can’ (2nd June 1987).

Post Office. In a drive for greater efficiency the Post Office has reorganised its operations into four distinct businesses: Letters, Parcels, Counters and National Girobank. All four businesses contributed to a total pre-tax profit of £212.2 million for 1987–8. The Post Office today is one of the very few in the world that consistently makes a profit without any form of subsidy. In the EC it is the only one with a subsidy free profit record over 12 successive years.

Royal Mail. The Post Office now handles some 51 million letters a day – an increase in volume of 30 per cent in five years. This has helped to create 18,000 new Post Office jobs in the past two years with the prospect of a further 22,000 over the next five years if growth continues as predicted. The Royal Mail has a monopoly for all deliveries under £1, but the Government has made clear that it would be prepared to suspend the monopoly in the event of industrial action in the Post Office which caused a serious decline or cessation of the service. During the last election the Prime Minister made a commitment not to privatise the Royal Mail, but she did not rule out privatisation of other parts of the Post Office.

Post Office Counters and the MMC. Post Office Counters began trading as a Limited Company on 1st October 1987, offering the prospect of a new retail force competing with greater freedom and on more equal terms with its high street rivals. The monopolies and Mergers Commission were asked to investigate and report on whether the Post Office, in providing counter services, could improve efficiency and the service provided without any significant increase in costs. The MMC report, *Post Office Counters Services* (Cm. 398) published on 23rd June 1988, made 68 recommendations – to which the organisation is now responding positively.

Shipbuilding. There is nothing like enough work for the shipbuilding industry – and yards in the Far East compete fiercely for what does exist. Since the mid-1970s, the merchant shipping industry has been in crisis. In 1973 the world order book stood at 129 million tonnes, but by the end of 1985 it was down to only 26 million tonnes. New orders fell from 14.9 million tonnes in 1981 to 9.8 million tonnes in 1987. Excess capacity is still estimated at around 40 per cent with very little prospect of a return to current full capacity before the turn of the century.

In the UK there are four main shipbuilding groups split between the private sector and the public sector, employing around 35,000 people. The public sector is made up of British Shipbuilders and Harland & Wolff in Belfast. There are 7 merchant shipbuilding companies and 5 warshipbuilding companies in the private sector.

British Shipbuilders. In 1977 the last Labour Government created the nationalised British Shipbuilders – winning the decisive vote in the Commons by a majority of one. The Aircraft and Shipbuilding Industries Act 1977 amalgamated 27 companies involved in

shipbuilding, ship repairing and marine engineering. The Corporation today is solely a merchant shipping and engine building company: its warshipbuilding yards have been privatised, joining its ship repairing business, several engineering companies, and the rig builder Scott Lithgow in the private sector. British Shipbuilders now has a total labour force of only 4,000 compared to around 87,000 at the time of nationalisation. 35,000 jobs have been transferred to the private sector and a further 48,000 jobs have been lost.

British Shipbuilders: Key Facts

	<i>£ million</i>				
	1983–4	1984–5	1985–6	1986–7	1987–8
Trading Loss	161	25	125	148	23
Government Support	351	256	130	298	122

(Source: Department of Trade and Industry)

Altogether British Shipbuilders has lost £924 million since nationalisation. It has needed just over £2 billion by way of support, £1,950 million of it since 1980.

Government Policy. The Government's objective has been to return as much of the corporation as possible to the private sector. The Govan yard on the Clyde was sold to the Norwegian Company, Kvaerner Industrier, on 11th August 1988 and continues to operate as a shipbuilding company in the private sector as Kvaerner Govan Ltd. Agreement is now close for the sale of Clark Kincaid in Greenock and negotiations for the sale of Appledore Yard in Port Glasgow are under way. The Government has also accepted that the preferred bidder for Marine Design Consultants should be the team led by the Managing Director. The Chancellor of the Duchy of Lancaster, Mr Tony Newton, announced to the Commons that the remaining undertaking, North East Shipbuilders Ltd (NESL) would have to close. Commenting on the offers received by the Government, he said:

‘British Shipbuilders’ clear advice to me is that none of these proposals could form the basis of a viable future for merchant shipbuilding in the Sunderland Yard. None provides evidence of sufficient financial resources. ... None gives evidence of sufficient work for the future ... all would entail levels of subsidy which, in one case in particular could have faced difficulty under the sixth Directive (EC)’ (*Hansard*, 7th December 1988, Cols, 315–6).

Support for Sunderland. Mr Newton announced in December 1988 a package of measures, costing £45 million, designed to assist those affected and to promote alternative development in the town. The measures included a new enterprise zone, an increase of £7 million for factory space to be provided by English Estates and £10 million of special measures to promote enterprise and employment.

(D) SMALL BUSINESSES AND DEREGULATION

1. THE GROWTH OF THE SMALL BUSINESS SECTOR

The rapid growth in the number of small businesses in Britain is one of the clearest indications that under this Government an enterprise culture has taken root. Indeed, as the *Financial Times* has pointed out the term 'enterprise culture' is 'largely synonymous with the growth of self-employment and small businesses' (28th April 1988). Since 1979 there has, on average, been a net increase of 500 in the number of businesses registering for VAT *every week*. In 1988 the net increase in small businesses was 1,000 every week. There are now around 2.5 million small firms in Britain: they employ 25 per cent of the labour force and account for 36 per cent of private sector employment.

The European Dimension. The growth of small businesses is part of the changing pattern of all mature industrial economies and is not a phenomenon confined to Britain. European Community statistics show that in the four main European economies (including Britain) companies employing up to 500 people account for between 93 and 97 per cent of all businesses, and for between 39 and 53 per cent of the work-force. Support and encouragement for small enterprises is now a feature of many European countries' economic policies. France, for example, has switched the emphasis of its industrial support policy towards measures more likely to help small firms. The European Commission is tailoring its programmes to take more account of smaller enterprises.

The important role that small businesses have come to play in advanced economies is highlighted by the fact that while larger concerns are cutting their work-forces through rationalisation and the introduction of new technology, the expanding small business sector is creating new jobs. Between 1982 and 1984, firms with fewer than 20 employees created one million additional jobs, more than offsetting job losses from larger firms.

2. SUPPORT FOR SMALL FIRMS

Cutting the Tax Burden. Like all businesses small firms benefit first and foremost from a sound low-inflation, low-tax economy. There are many unavoidable risks associated with setting up and running a modest enterprise: small businessmen do not want the additional fear of high inflation to contend with. Equally, it is important that the efforts of small entrepreneurs are rewarded through low income tax rates. And, by cutting the rate of Corporation Tax for small firms from 38 to 25 per cent, the Government has not only provided a substantial incentive to enterprise by small firms, but enabled them to keep more of their profits for investment in expansion. Other tax reforms which have been of particular benefit to small businesses are:

- *The abolition of Capital Transfer Tax on lifetime giving* which has made it much easier to hand small businesses on from one generation to the next.
- *The improvement of the VAT system*, easing the problems small businesses experience with slow payment and bad debt. VAT has also become simpler to operate: companies with an annual turnover of less than £250,000 can now, if they wish, account for VAT annually on the basis of cash paid and received.

Preventing Damage by Trade Unions. The Government's trade union reforms have also been particularly welcome to small businesses: the provisions of Labour's 1975 Employment Protection Act, which gave trade unions the right to make pay claims solely on the basis of 'comparability', have been repealed. And, by restoring the balance between management and trade unions, through its trade union legislation, the Government has helped to ensure that restrictive trade union practices, which contributed so much to the decline of heavy industry, have not been allowed to take hold in the small firms sector.

Training. The Government recognises the great importance of providing up-to-date training for those who might wish to go into business for themselves. Its 'training for enterprise' programmes aim to equip both existing and potential small business operators with the skills to create, manage and develop their own enterprises. Over £19 million was spent on these programmes in 1987–8, helping up to 68,000 people. In addition, the Government's more general training initiatives – and in particular the new Employment Training programme and the 'Business Growth through Training' programme – will help to meet the needs of the small business sector (see p. 136).

By their very nature, small firms may face difficulties – in raising finance, in finding help and advice, in winning public contracts – which larger, more established companies do not experience. The Government has designed measures to help such firms overcome these specific handicaps.

Business Expansion Scheme. This scheme (which offers income tax relief to individuals investing up to £40,000 in unquoted UK trading companies) has been particularly successful in attracting investment into small businesses. As a result of the 1988 Budget, it has been more specifically targeted towards smaller companies by setting a £500,000 limit on any investment qualifying for BES relief within a twelve month period. As the **Chancellor** explained when he announced this change:

'Many new businesses have been greatly assisted by the Business Expansion Scheme, which has now been running for nearly five years. During that time it has enabled new and expanding companies to raise equity finance amounting to some £150 million a year. However, the rapid growth of the venture capital market since 1983 has meant that companies looking for more modest amounts can still find it difficult to do so. To improve the targeting of the BES, I therefore propose to introduce a limit of half a million pounds on the amount any company can raise under the scheme in any one year. Investment should thus be better directed at the smaller and newer businesses,

particularly those outside the South East of England, which can still find it hard to raise equity finance in other ways' (*Hansard*, 15th March 1988, Col. 1002).

Loan Guarantee Scheme. Bank lending remains the major source of finance for most small firms. Developing companies can encounter difficulties in securing loans because they often lack an established track record or sufficient security for banks to advance a loan. To counteract this problem the Government introduced the Loan Guarantee Scheme in 1981, under which the Department of Employment guarantees, up to a maximum of 70 per cent, loans to small firms of up to £100,000. Over £635 million has been made available under the scheme so far, and over 19,000 businesses have received loans. The scheme has now been extended, and as part of the 'Action for Cities' initiative the loan guarantee for small businesses in inner city Task Force Areas has been raised from 70 to 85 per cent.

Small Firms Service (SFS). The Small Firms Service provided by the Department of Employment has been expanded considerably to provide more advice, technical assistance and publications. In 1987–8 the 14 SFS centres and 180 Area Counselling Offices handled over 266,000 enquiries, 27,000 new counselling cases and 39,000 counselling sessions. In preparation for 1992, four Centres for European Business Information have been opened in London, Birmingham, Newcastle and Glasgow. As Mr John Cope, the Government's Small Firms Minister, has said:

'The SFS Centres are a one-stop shop for advice and counselling on every type of problem, and a gateway to all forms of assistance – financial and otherwise – from Government, local authorities and private industry' (Press Release, 5th July 1988).

Local Enterprise Agencies. These agencies have increased in number from around 20 in 1981 to over 400 today. Through the Local Enterprise Agency Grant Scheme, the Government encourages the development of viable agencies: 186 were supported in 1987–8 at a cost of around £2.7 million. Contributions made to these Agencies by businesses attract 100 per cent tax relief.

Local Enterprise Agencies have been shown to be of great benefit to the firms that consult them. A survey for 'Business in the Community' carried out in 1987 showed that small firms using the agencies are twice as likely to survive until their third year than firms which do not make use of such agencies.

Business Support Initiatives. A commodity almost as precious to developing businesses as finance is advice. The provision of advice was dramatically strengthened by the introduction of the DTI's Enterprise Initiative (see p. 84). The provision of subsidised consultancy advice for firms employing fewer than 500 people in key managerial areas such as design and marketing is playing a central role in developing the small firms sector.

Enterprise Allowance Scheme (EAS). Launched in August 1983, the EAS has helped over 300,000 unemployed people to set up in business on their own (for further comment, see p. 137).

Government Contracts. The Government has offered direct support to small businesses by encouraging them to compete for Government contracts. Small firms have been given improved access to information about purchasing departments, their procedures, requirements and points of contact. Tendering and approval procedures have been simplified. The Ministry of Defence has been at the forefront of this campaign with its Small Firms Initiative, launched in 1986, which included the creation of a small firms advice division in the Ministry's Procurement Executive.

Competitive Tendering. The Government's promotion of competitive tendering in local government is also of great potential benefit to some small firms, allowing them the opportunity to compete with local authorities for the provision of several basic services. The Local Government Act 1988 obliges councils to put six of their services out to competitive tender, broadening the scope for small private enterprises to make a contribution towards the more efficient running of local amenities.

Uniform Business Rate. The introduction of the Uniform Business Rate after 1990 will ensure that the contributions made by business to the cost of local government will be on a much fairer and more consistent basis. Many companies – especially those in the North – will pay less, easing the burden that is imposed on them by certain high-spending local authorities. The choice of business location will no longer be distorted by rate bills which can vary widely according to the relevant local authority's attitude towards spending. Indexation to the rate of inflation will protect businesses from extravagant left-wing authorities. There will be transitional arrangements to lessen the effect of any rate rises as a result of the introduction of the UBR. A limit will be imposed on any rise in any one year, and a special lower limit will almost certainly be set for small firms.

3. DEREGULATION

Progress So Far. The Government's policy of deregulation has lifted much of the weight of burdensome bureaucracy from industry's shoulders. Small firms are particularly concerned about red tape, which diverts scarce management time away from wealth creating activity. In addition, regulation can prevent new businesses acquiring, and retaining, orders for their products. The Government's most recent deregulation White Paper, *Releasing Enterprise* (Cm. 512), published in November 1988, listed some 120 measures introduced so far to remove restrictions on business. They include tax changes (see p. 54), the setting up of simplified planning zones in November 1987, the introduction of time limits for planning appeals, and improved arrangements for loans below £15,000 under the Loan Guarantee Scheme.

The Next Steps. The White Paper also announced a number of new initiatives, including:

- *A major programme of secondments, interchange and training*, to improve understanding between Government and business. Since 1979 secondments of civil servants to industry and commerce have more than doubled, but much more needs to be done.
- *Experimental 'Government business shops'*. People starting businesses want to deal with their tax, national insurance and VAT at a single point. The Government has set out to find how to deliver services better. Six experimental 'Government business shops' are being set up around the country. Two have opened already – in Glasgow and Merthyr Tydfil – and four more will be opening in 1989 in Manchester, Doncaster, Reading and Newcastle.
- *Better Licensing*. There are too many licensing and registration requirements in some areas of business. For example, there are up to 17 needed for a major supermarket and 10 for a pub with video games. All government departments are co-operating in a review of the way licences are issued.
- *Plainer Words*. The Government will now try to make sure that its written material provided for business people is as simple and accurate as possible.

Compliance Cost Assessments. The Government has also acted to ensure that compliance cost assessments – studies showing the impact of proposed new Government regulations on business – are more widely publicised. They help business by ensuring that it is made fully aware of what proposals the Government is considering. As Mr Francis Maude, Corporate Affairs Minister, has said:

'Compliance cost assessments make sure that whenever we make a decision, we do so in the full knowledge of the effect it will have on business. By making the studies better known our intention is that companies will take advantage of the opportunity to make their voices heard' (10th February 1988).

This move highlights an essential feature of a successful deregulation programme: that business and Government keep in close contact over how the programme should proceed and what measures are necessary. As Mr Maude said: 'Government must rely on business to tell us what the real problems are' (22nd February 1988).

(E) SERVICE INDUSTRIES

1. THE IMPORTANCE OF SERVICES

Although there has been a sustained and dramatic improvement in the fortunes of British manufacturing industry since the depths of the world recession in the early 1980s, much of Britain's overall economic revival is attributable to the rapid expansion of the service sector. And, as prosperity spreads and wealth increases, there is a growing demand for service industries. It is therefore crucial that Government policies benefit not only the traditional manufacturing industries, but also the newer services such as computer programming, financial services and retailing. An abiding feature of the Labour Party's

industrial policy is its obsession with manufacturing industry, as if nothing else counts. Lord Young has warned against this outdated attitude:

‘So far as the wealth of the nation is concerned, a pound added in value in manufacturing is just the same as a pound in added value in services ... why should the manufacture of hula hoops be seen as more valuable than the design of a bridge or the manufacture of sweets more valuable than the output of a software engineer?’ (Midhurst, 1st November 1987).

Its Contribution. Today, the UK service sector contributes more than twice as much to output, and three times as much to employment, as manufacturing industry. Since March 1983, employment in Britain's service industries has grown by 9 per cent to a record 14.5 million jobs. Over 2.3 million people – 11 per cent of the country's work-force – are employed in banking, insurance and finance.

Service Industries in Europe. The UK is by no means unique in the growth of its service sector, although the outstanding ability of British enterprise to adapt to the new industrial age inspired by these industries is apparent in our position at the top of the European growth league. As the following table shows, the service sector has expanded fast and created large numbers of new jobs throughout Europe:

Percentage of Employees in Industry and Services 1970–1985

	1970		1979		1985		1970–85	
	Industr y	Service s	Industr y	Service s	Industr y	Service s	Industr y	Service s
UK	44.1	52.7	38.3	59.1	32.0	65.5	-27	+24
Germany	48.4	43.1	43.3	51.0	40.2	54.4	-17	+26
France	38.1	48.7	35.3	56.0	31.2	61.4	-18	+26
Netherlands	38.1	55.7	31.8	63.0	27.6	67.6	-28	+21
Average for 12 members	NA	NA	37.3	53.0	33.0	58.6	-	-

(Source:
Eurostat
Employment
and
Unemployment
(1987))

Invisible Exports. It is in the contribution that service industries make to our overseas trade effort – invisible exports – that the value of these industries to the UK's economy is most apparent. In 1987, the UK's private invisible exports grossed over £76 billion, representing 16 per cent of the total world invisible trade. In both 1986 and 1987, according to OECD figures, the UK had the largest surplus on invisible trade anywhere in the world.

The table below shows the contribution made to invisible earnings by some of the major service sectors:

Invisible Earnings			
<i>£ million (gross unless other stated)</i>			
	1977	1985	1987
Insurance (net)	917	3,262	4,834
Banking (net)	61	1,270	1,394
Pension Funds (net)	17	618	732
Stock Exchange (net)	na	318	554
Tourism	2,352	5,442	6,237
Consulting Engineers (net)	305	562	418
Process Engineers (net)	200	282	280
Films and Television	36	155	241
Shipping	3,433	3,271	3,341

(Source: British Invisible Exports Council)

Service industries which trade internationally and earn invisible income now constitute 43 per cent of total employment in this country.

2. THE CITY

Of our invisible exporters, the City of London is the most successful. In 1987, the City's invisible earnings were of the order of £10 billion, making financial services our most successful export industry. The City of London is one of the world's major financial centres, with the largest insurance market and one of the world's leading three stock exchanges. Europe has no rival to the London Stock Exchange, as the following market capitalisation values show:

Market Capitalisation (\$ billion) at November
1987

UK	495.4
W. Germany	159.4
France	99.6
Italy	89.2
Spain	45.5
Belgium	28.8

Finance for Industry. As well as being a major contributor to Britain's economy in its own right – accounting for some 7 per cent of our national income – the City plays a vital

role as a source of capital for Britain's industry. Industry raised £23.4 billion on the International Stock Exchange in 1987.

Venture Capital Industry. Another very valuable source of finance to business in this country is Britain's growing venture capital industry. As Lord Young has said, the growth of this industry in the UK 'must be one of the main success stories of the 1980s' (*Financial Times*, 24th May 1988). In 1987, it invested more than £1 billion in new and expanding businesses – a record amount and a 76 per cent increase on 1986. Consumer-related business was the most important single sector, accounting for 22 per cent of all companies formed.

Venture capital is also a growth business throughout Europe, and in 1987, for the first time, more venture capital finance was raised in Europe than in the USA (Ecu 3.9 billion in Europe compared with Ecu 3.8 billion in America). Britain is the largest venture capital market in Europe and, as a proportion of GDP, our own venture capital pool is larger than that in the USA.

'The Junior Stock Markets'. The development of Britain's 'junior stock markets' has supplemented the International Stock Exchange and the venture capital industry as sources of industrial finance. Over £1 billion has been raised to date on the Unlisted Securities Market (USM): 78 companies joined the USM in 1987. The Stock Exchange's own junior market – The Third Market – was set up in January 1987 specifically to help small firms raise equity. By January 1988, it had 37 members.

'Big Bang'. The deregulation of the financial services sector – 'Big Bang' – which took place on 27th October 1986 has played a crucial role in helping the City maintain its position as one of the foremost financial centres in the world. Through 'Big Bang' the Stock Exchange abolished minimum commission rates and abandoned the anti-competitive distinction between stockbrokers and jobbers. At the same time, new technology has been introduced, speeding up the time it takes to complete transactions and making it easier to ensure that shares are traded competitively. Deregulation in the City has helped to establish an open and fully competitive domestic and international equity market. Customer business on the International Stock Exchange – measured by the average density value of transactions – has increased by well over £1 billion since 1986.

Commenting at the time of the first anniversary of Big Bang, Sir Nicholas Goodison, Chairman of the International Stock Exchange, said:

'It has been a year of revolution and growth on London's stock market. In 12 months, our Exchange became the first major exchange to transfer its trading in equities and government bonds from a physical floor to an electronic display and telephone dealing network; and it became the world's first truly international exchange. London has resumed its traditional role as a centre for international securities trading. That is an historic development, true to the international tradition of this nation and this City' (*The Times*, 27th October 1987).

3. THE STOCK MARKET CRASH

The efficiency of the stock exchange was put to a severe test in October 1987 when there was world-wide collapse in share prices, accompanied by frantic selling of stocks. The International Stock Exchange responded extremely well to the problems of the financial markets. In the five heaviest days of trading (19th–23rd October) when Stock Exchanges elsewhere in the world closed, shortened their hours, or suspended dealing in major stocks, the London Stock Exchange remained open, enabling a record volume of equities to be traded.

4. REGULATING THE CITY

The deregulation of financial services underlined the Conservative commitment to ensuring that financial markets, like all markets, work as efficiently and as competitively as possible. It in no way undermined the Government's equally strong commitment to ensuring that those markets operate fairly and that fraud is combated and punished. As Mr Paul Channon, then the Secretary of State for Trade and Industry, made clear:

‘The Conservative Party has always stood for the maintenance of law and order – that applies as much in the City as anywhere else’ (21st January 1987).

Financial Services Act 1986. The system of City regulation established by the Act is built on four key principles: flexibility, confidence, efficiency and competitiveness. The primary purpose of the Financial Services Act is to protect investors – the consumers in financial markets – as Mr Maude has made clear:

‘A process of consumer protection in any field can easily end up turning into a system of producer protection, with barriers to new entrants in the form of high marginal costs and so on. So we have built in provisions for competition. But we need to be very much on our guard to ensure that the all important investor protection aspects don't become converted into producer protection (*The Observer*, 17th April 1988).

The Financial Services Act, the main provisions of which took effect at the end of April 1988, provides comprehensive definitions of investments and of investment businesses. Under the Act it is an offence to carry on an investment business in Britain without authorisation (unless one of the specific exemptions in the Act applies). In order to become authorised, investment businesses have to show that they are fit and proper organisations to practise. Authorisation must come either from the Securities and Investment Board (SIB), which is a private and independent body invested with wide powers by the Secretary of State, from a self-regulatory organisation (an SRO) or a recognised professional body. These latter bodies are themselves authorised by the SIB and must submit their own rulebooks to the SIB for approval, in the same way that the SIB's rulebook has to be approved by the Secretary of State. In order to be approved, the rule books of the other regulatory bodies must offer at least the same degree of investor protection as that of the SIB.

Self-Regulation. The essence of this system is self-regulation: the SIB and the SROs are independent bodies, and not part of government. Self-regulation provides for a flexible and effective system, responsive to the needs of consumers and administered by producers rather than bureaucrats. It is paid for by investors and investment professionals rather than the taxpayer.

Nevertheless, it is important to remember that the self-regulatory system exists within a comprehensive statutory framework laid down by the Financial Services Act. Lord Young has summed up the benefits of this system:

‘Striking the right balance between competition and investor protection is crucial. This must be far better done by those directly concerned within an externally imposed statutory framework.’ (London, 26th April 1988).

Combating Fraud. The Financial Services Act and the self-regulatory system it has introduced are only part of the Government's concerted attack on financial fraud. A series of measures have been introduced since 1980 to ensure that unscrupulous practice in the City is effectively outlawed and that powers exist to bring offenders to justice (for details, see *The Campaign Guide 1987*, p. 159–60).

Insider Dealing. It was this Government which made insider dealing illegal after Labour in 1974 had abandoned moves by Mr Heath's Government to clamp down on this activity. The 1980 Companies Act made insider dealing a criminal offence, and when it became clear that there were difficulties in obtaining enough evidence to prosecute, measures were included in the 1986 Financial Services Act to enable the Secretary of State to appoint Inspectors with power to collect the evidence. Since then the Criminal Justice Act 1988 has increased the maximum penalty to 7 years in jail, and also made insider dealing an extraditable offence. There have been 10 prosecutions since 1980, of which 7 have led to convictions. The new Companies Bill will extend the DTI's powers, and make it easier to crack down on internationally organised fraud.

Barlow Clowes. On 27th May 1988, the Securities and Investment Board (SIB), after discussion with the Department of Trade and Industry, made a successful application for the winding-up of Barlow Clowes Gilt Managers Ltd and for the appointment of a provisional liquidator. The SIB was using new powers available to it under the Financial Services Act, but the decision to proceed in this way was taken jointly with the Government.

As a result of public concern over the DTI's handling of the licensing of Barlow Clowes, the Secretary of State, Lord Young, announced in June 1988 an unprecedented investigation into the DTI's exercise of its regulatory functions. The investigation, conducted by Sir Godfray Le Quesne QC, was published, at the first available opportunity, on 20th October 1988. The report was accompanied by a statement from Lord Young which made the following points:—

- The UK operation of Barlow Clowes, which the DTI licensed, was supervised responsibly by the DTI, relying on the advice of highly respected advisers. Investors in the London fund will receive at least 75p in every £1 invested from the liquidators.
- The Gibraltar operation of Barlow Clowes, which was not licensed by the DTI, but which probably did require a licence for its operations, was not known by the DTI to be dealing in securities in this country. Again, therefore, the DTI behaved reasonably. Investors in Gibraltar will receive at least 30p for every £1 invested from the liquidators.
- Since the Department behaved reasonably both in licensing the UK operation and in not licensing the Gibraltar operation, there is no justification for compensation from the taxpayer. Lord Young announced that he had sent a copy of the Le Quesne report to the Ombudsman who is now conducting an inquiry into Barlow Clowes. The Government has co-operated fully with him and will consider carefully any report he makes.

The Regulatory System in Operation at the Time. During the period covered by Sir Godfray Le Quesne's report, the Prevention of Fraud (Investments) Act 1958 was still in force. The fundamental weaknesses of the old system were:

- i. The only sanction the Department had available against unlicensed dealers was prosecution. Thus the assets of investors who had put them with an unlicensed dealer could not be protected.
- ii. a licence could only be granted or refused. No conditions could be imposed on a licence holder.
- iii. the powers available to the Department against licensed firms were limited. If a firm breached the rules applicable to it, the only sanction available was to start the procedures for the revocation of the licence. These could last for a year or more during which time trading could continue.
- iv. no powers of investigation or winding up were available against a partnership or an unincorporated business. The main Barlow Clowes business was conducted through a partnership until Spring 1987.

The New Improved Regulatory System. It was because the 1958 Act was defective that the Government replaced it with the Financial Services Act 1986 which came into force on 29th April 1988. No regulatory system can eliminate fraud completely, or guarantee investors against loss, but the steps already taken by the Government mean that the particular circumstances described in the report can never occur again.

(F) OVERSEAS TRADE ISSUES

Overseas trade has long been vital to Britain's economy. Despite being small in area and containing only about 1 per cent of the world's population, Britain is the world's fifth largest trading nation: exports of goods and services account for around one third of the

country's GDP. In 1987, exports of goods amounted to £79.6 billion and imports of goods to £89.2 billion.

1. TRADE AND THE EUROPEAN ECONOMY

As a member of the European Community, Britain is part of the world's largest trading bloc, accounting for about one third of total world trade. The European Community is by far Britain's most important trading partner. In 1987, 49 per cent of our exports went to other EC countries, and the Community was the source of 53 per cent of our imports. Our next biggest trading partner, North America, accounted for just 16 per cent of our exports and 11 per cent of our imports in 1987.

The following table shows the UK's trade with our European partners (1987 figures):

	Imports from (£bn)	Percentage of EC Total	Exports to (£bn)	Percentage of Total
Belgium/Luxemburg	4.4	8.9	3.8	9.6
Denmark	1.9	3.8	1.2	3.0
France	8.4	16.9	7.8	19.7
West Germany	15.8	31.8	9.4	23.9
Greece	0.4	0.8	0.4	1.0
Ireland	3.5	7.1	3.8	9.6
Italy	5.2	10.5	4.1	10.4
Netherlands	7.1	14.3	5.8	14.7
Portugal	0.8	1.6	0.7	1.8
Spain	2.1	4.2	2.2	5.6
EC Total*	49.6	100.0	39.4	100

*Totals may not add up due to rounding.

(Source: Eurostat)

The Single Market. The importance of the European Community as Britain's dominant overseas market will substantially increase as the Community moves closer to 1992 and the remaining barriers to trade between the Community's Member States are cleared away. In terms of population the European Community with 323 million inhabitants constitutes the largest market in the industrialised world (the USA has a population of 244 million, Japan a population of 122 million).

At present, the Community market is still fragmented. The completion of the Single Market will change this, creating a huge European market much more closely resembling our own domestic market as it is at present. Clearly the opportunities to increase the level of the country's trade with our European partners will be immense, especially since the completion of the Channel Tunnel will also link us physically to the continent. As Lord Young has said:

‘By 1993 Europe will be *our* home market. With the opening of the tunnel we will be physically part of the rest of Europe. We should be thinking now about Bonn and Barcelona – just as we do about Bradford, Birmingham or Bristol’ (London, May 1988).

The implications for Britain's overseas trade of the completion of the Single Market are described more fully in Chapter 21.

Europe and the World. The European Community is pledged to the development of world trade, to the abolition of trade restrictions and to the lowering of customs barriers. It is also committed to the ending of quantitative restrictions and dumping.

There is already duty-free trade between the ten Member States of the Community which joined before 1986. Duties on trade with Spain and Portugal are being phased out over a seven to ten year period. The ten apply the common external tariff to imports from countries which neither belong to, nor have any special relationship with the Community. Portugal and Spain are moving towards adoption of the tariff.

2. FREE TRADE AND THE GATT

The concept of the Single European Market reflects the ideal of free trade. The Government is committed to an open multilateral trading system and to the continuing liberalisation of free trade. The completion of the single market will do much to help this process.

Free trade extends choice to the consumer and acts as a spur to economic growth, since it ensures that industry has to operate in a competitive environment. The British economy would undoubtedly suffer if we were to adopt protectionist policies, both because of our obvious dependence on world markets and because protectionism would remove from industry the spur of competition.

GATT. Britain is one of the original signatories of GATT – the General Agreement on Tariffs and Trade – which enshrines the principles of free and fair trade. There are now 95 signatories to GATT, while a further 30 apply it on a provisional basis. Around four-fifths of world trade takes place under the set of rules which GATT comprises, the aim of which can be summarised as the reduction and removal of barriers to trade in goods.

To date, seven rounds of multilateral trade negotiations have taken place under the auspices of GATT, and an eighth round – the ‘Uruguay’ round – is currently under way. Significantly, the eighth round brings services within the remit of GATT for the first time, a development of great importance to Britain with its strong service sector. The Uruguay round provides for a further liberalisation and expansion of world trade, especially with regard to developing countries. The round is also looking at ways of extending the GATT remit to agricultural trade.

The European Community has called for a strengthening of GATT, joining calls from both the USA and Japan for more effective arrangements. Under the EC plan, which was

submitted for consideration under the Uruguay round in March 1988, GATT would have a mechanism for monitoring national trade policies and would be reinforced by a more regular involvement of trade ministers in its activities. The EC has also called for enhanced co-operation between GATT, the IMF and the World Bank, so that trade receives more attention in global economic policy-making.

Multi-Fibre Arrangement. In line with its belief in the principles of free trade and the GATT, the Government retains few restrictions on its international trade. The UK's principal import control measure is the Multi-Fibre Arrangement (MFA), designed to limit imports of textiles and clothing. The Government has stressed that the MFA is a temporary measure, designed to give the British textile industry the opportunity to adapt to the enormous changes which have taken place in the industry world-wide. It is not the Government's intention to protect the textile industry in perpetuity.

The present MFA ends in 1991: the question of returning textiles to normal GATT disciplines on the basis of strengthened rules is being discussed in the current GATT round. Any decision to wind up the MFA will undoubtedly be conditional upon provisions being made to ensure that the competitive advances made by the industry are not wiped out. Similarly, Britain will be looking to the newly industrialised countries to open their markets to us and to accept more fully their GATT responsibilities.

Britain's textile industry employs around 500,000 people and accounts for 9 per cent of total employment in manufacturing industry. It is in the industry's own interest to build on its successes of the last eight years to prepare for a time when the MFA does come to an end. As Mr Alan Clark, Minister of State for Trade, has said:

'We would wish to ensure that no undue disruption of the United Kingdom Market in textiles and clothing would result from a return of textiles and clothing to normal GATT rules' (*Hansard*, 30th June 1988, Col. 630).

Turkish Imports. A surge of imports from Turkey of acrylic hosiery yarn at very low prices has led to a great deal of concern among UK acrylic yarn spinners since the middle of 1987. Such imports are covered by separate informal voluntary restraint agreements between the EC and the Turkish textile and clothing export associations. These agreements were reviewed in December 1987 and a new restraint level for acrylic yarn was included.

British spinners of acrylic yarn have argued that this level is too high, but at the time of the negotiations there was insufficient firm evidence of serious injury on which to argue for tighter levels. Although the Turkish share of the UK market rose to 9.5 per cent in 1987, world import penetration actually fell from 55.4 per cent in 1986 to 49.7 per cent in 1987, suggesting that Turkish imports of acrylic yarn were in fact substituting for other imports rather than adding to import penetration. These statistics indicate that the UK acrylic yarn industry is performing reasonably well.

However, if sufficient evidence of injury resulting from the dumping of Turkish acrylic yarn can be demonstrated, then the Government is willing to raise the matter further within the EC, with a view to seeking anti-dumping action.

Dumping. In line with its belief in free and fair trade, the Government acts to ensure that unfair trading practices are corrected. Dumping – the sale of a commodity in an overseas market at a loss on normal commercial costs to the supplier – is in particular to be resisted as it is, by definition, an anti-competitive practice.

To counteract this practice, GATT allows for the imposition of special anti-dumping duties. The European Community has acted to tighten its anti-dumping laws to crack down on ‘screwdriver’ facilities: plants used by Japan and other exporters to assemble finished goods within the Community from ready-made components, thus avoiding Community levies on the product itself. Under the new rules if a foreign company starts up local manufacture in the EC of a product on which dumping duties have been imposed, the local content in the manufacture must be at least 40 per cent. Otherwise, the product is considered an import and is subject to dumping regulations.

3. ‘OPPORTUNITY JAPAN’

The Japanese market is one of great opportunity for Britain. As a result of pressure from the UK and our trading partners, Japan has stimulated domestic demand – and growth and imports have increased rapidly. UK exports to Japan increased by almost 30 per cent in the twelve months to May 1988. In the same period, imports from Japan rose by only 11 per cent. Japan is now one of our fastest growing export markets.

British business has in the past tended to write off the Japanese market, which was widely perceived as being protected by a wall of tariff and non-tariff barriers. Now, however, with one or two notable exceptions, Japanese tariffs are generally low and non-tariff barriers are few. So, as Lord Young has said:

‘Britain can no longer afford to ignore a market which has the biggest domestic product per capita in the world, and which has the potential to become our third largest market after the USA and the European Community’ (*British Business*, 15th July 1988).

Mrs Thatcher has set a target for British business to double the value of its exports to Japan over the next three years. At a dinner in honour of the Japanese Prime Minister, Mr Noburu Takeshita, who was visiting Britain at the time, the **Prime Minister** said:

‘We recognise and welcome the fact that Japan is now importing more. But we would like to see it taken further still, to the point where it is as natural for your people to buy the best, whether it is made at home or imported from abroad, as it is for ours. And so we should increase our trade. British exports to Japan have grown 50 per cent in the last two years. I should like to set the objective of doubling them in the next three’ (*The Times*, 5th May 1988).

The DTI has launched an 'Opportunity Japan' campaign to ensure that business is fully briefed about the state of the Japanese market. The campaign is focusing particularly on about 2,000 companies whose size, quality and sector suggest that they have most to gain from exploiting trading links with Japan.

The need for the 'Opportunity Japan' campaign is apparent in the comments of Mr Hagime Tamira, Japan's Minister of International Trade and Industry, who pointed out:

'British business has not been sufficiently aware of the opportunities in the Japanese market brought by the rise of the Yen and the high Japanese growth rate' (*The Times*, 12th July 1988).

Mr Tamira went on to describe the target of doubling UK exports to Japan in three years as 'very ambitious' but concluded that 'achievement of the target is not impossible' (*ibid.*).

Bringing Down Barriers. Where barriers to trade with Japan still exist the Government is pledged to do all that it can to ensure that these are removed. The necessary negotiations can take place bilaterally, or through the EC or in the GATT Uruguay Round.

When he visited Britain in May 1988, the Japanese Prime Minister assured Mrs Thatcher that he would take a personal interest in resolving outstanding problems regarding access for British companies to the Tokyo stock exchange and discriminating taxes on the imports of whisky. Since then action has been taken on both problems. Japan has proposed a welcome reform of its liquor taxes. When they are implemented, Scotch whisky will for the first time be subject to the same tax burden as Japanese whisky: thus the taxes charged on Scotch whisky will be halved from April 1989. The Tokyo stock exchange admitted British firms of stockbrokers on 16th December 1987; they are now the largest overseas contingent after the United States.

(G) CONSUMER PROTECTION

The DTI's Enterprise White Paper, published in January 1988, sets out the Government's general approach to consumer protection:

'The policy emphasis will reflect the Government's belief that the best form of protection comes from consumers making well informed choices and acting in their own interests' (para 2.33).

Competition in open markets is the best way of ensuring that consumers get what they want. It is not for government to decide what should be available to consumers, since such an approach reduces choice (thus penalising the very people it is trying to help) and imposes additional costs which industry would pass on to consumers.

Keeping Consumers Informed. However, competition in open markets depends on consumers being properly informed. That can often be achieved by voluntary action by traders and trade associations without the need for legislation. The DTI itself runs a number of consumer safety campaigns which provide a cost-effective way of reducing accidents involving no extra administrative burden on industry. In addition, the DTI funds a number of bodies such as the National Consumer Council and the National Council of Citizens' Advice Bureaux which provide an important source of advice and information to consumers.

Where regulation is necessary – for example, in the case of highly flammable foam furnishings – the Government has not hesitated to act: such furnishings are prohibited by regulations made under the Consumer Protection Act 1987. In all cases regulations must strike a balance between the legitimate need to protect the consumer and the need to avoid over-burdening industry with unnecessary regulation.

Consumer Protection Act. The Government maintains a legislative framework which is consistent with this aim. The Consumer Protection Act 1987 has introduced new product liability laws which strengthen the rights of consumers against the suppliers of defective goods by providing that where any damage is caused wholly or partly by a defect in a product the producer, importer or ‘own brander’ shall be liable for the damage.

General Safety Requirement. The Act also provides much better protection for consumers by introducing a general safety requirement under which it has become a criminal offence to supply any consumer product that is not reasonably safe. The general safety requirement has now been backed up by a set of safety standards which will provide the criteria that the courts, business and consumers will need. Goods that meet these approved standards will satisfy the general safety requirement.

(H) OPPOSITION POLICIES

1. LABOUR PARTY

Industrial Policy and Ideology. Labour's industrial policy reflects its basic hostility to the market and its ideological devotion to government intervention in the economy. It follows clearly from the Labour Party's socialist objectives, as Mr Neil Kinnock explained before he became Labour leader:

‘It is inconceivable that we could transform this society without a major extension of public ownership and control’ (*Marxism Today*, June 1983).

Labour's manifesto at the last election, *Britain Will Win*, was a blueprint for increased state control. The commitment to planning, although partially disguised behind phrases such as ‘social ownership’, was clearly evident. Labour has failed to learn the essential lesson of the 1970s – that government's role should be restricted to creating a climate for enterprise in which business can flourish. When a government imposes its decisions on

business, it is all too often for short-term political reasons that hold back long-term industrial development and stifle enterprise. Writing about the experience of the last Labour Government, Lord Donoghue, head of the Prime Minister's Policy Unit, admitted:

‘Labour's new problem was that its general commitment to industrial investment and maintaining full employment, as well as its close ties with the trade unions, made it politically difficult to cut out the bad parts of British industry, even though that was essential for its long-term efficiency and survival’ (*Prime Minister: The Conduct of Policy Under Harold Wilson and James Callaghan*, May 1987, p. 52).

Under Mr Neil Kinnock Labour's approach is still the same. The ties with the trade unions are as close as ever and the commitment to detailed planning remains. Mr Bryan Gould, Labour's Trade and Industry spokesman, has called for a Labour Government which would ‘work with industry to secure an effective industrial strategy’ which ‘would therefore positively encourage the proper comprehensive organisation of industry at every level’ (*The Guardian*, 2nd February 1988).

Labour's ‘New’ Industrial Policy. Labour now claim, in Mr Kinnock's words, that:

‘faced with a market economy ... we have got to run it better than the Tories’ (Conference Speech, 4th October 1988).

But, as always, Labour are totally unable to measure up to the challenge, as some of them admit. A paper submitted to the Party's productive and competitive economy review group by the pro-Kinnock Labour Co-ordinating Committee summed up the problem candidly. It attacked the ‘anti-enterprise culture within the [Labour] party’, stating:

‘Many party activists are positively hostile to the idea that the party should have something to say about productivity, competitiveness, efficiency or enterprise’ (*The Guardian*, 21st April 1988).

Labour's traditional antipathy to the market economy is still clearly reflected in Party policy.

Crippling Management. Labour's proposals to increase trade union power would inevitably produce enfeebled managements. Mr Bryan Gould has confirmed that:

‘The trade union movement would be brought back into the decision-making on the economy under a Labour Government’ (*The Independent*, 3rd February 1988).

Labour's plans for returning power to the unions and tying the hands of management include not only the removal of the ban on all types of sympathetic action (see p. 154), but also legislation on ‘rights on unfair dismissal, the minimum hourly wage, the minimum paid holiday, maternity and paternity leave, anti-discrimination, health and safety standards, rights to participate in a union, and fair disciplinary measures, as their

1988 policy review document makes clear (*Social Justice and Economic Efficiency*, p. 12).

Killing off Foreign Investment. Labour's plans – for high taxes, economic planning and interfering in the affairs of individual companies – would drive foreign investment away – investment which has involved nearly 2,000 projects since 1980, creating or safeguarding almost a quarter of a million jobs.

Intervention by Local Authorities. Labour wish to give local authorities significant new powers to intervene in the local economy. Given the prejudices, partisan obsessions and general incompetence of many Labour local authorities, this would be bound to damage industry severely – especially since Labour propose to give local authorities a power to levy a local income tax. Conservative successes in regenerating depressed areas have been based on *removing* local barriers to success – such as excessive local tax bills and regulations. A Labour Consultative paper in 1987 told Labour councils to prepare for ‘an interventionist role within the private sector’ (*Local Government Reform in England and Wales*, p. 129). The recent policy review states that:

‘Labour councils have already demonstrated how local enterprise can bring employment opportunities to even the most depressed communities’ (*Social Justice and Economic Efficiency*, p. 18).

Labour and Competition Policy. For Labour, competition policy is just another instrument for controlling and regulating industry. As regards merger policy, Labour's plans include:

- the scrapping of the so-called ‘Tebbit guidelines’, which make competition the principal ground for the referral of a bid to the MMC. Labour would vastly widen the ‘public interest’ criteria for referral, enabling a Labour Government to block bids on the grounds of ‘employment security, impact on trade performance ... retention of technology ... referral can [also] be expected in strategic industries, particularly in high technology sectors, and will be automatic in the case of newspaper acquisitions’ (*Making the City Safe*, March 1987);
- shifting the onus of proof, so that a company proposing an acquisition would have to prove that the merger was in the public interest;
- a requirement that all mergers of ‘significant size’ be pre-notified to the Office of Fair Trading;
- the creation of a statutory right for employees to be consulted during the notification period.

Clarity in competition policy – a quality that the CBI regard as crucial – would be entirely lost. The referral and investigation process would become slower and more bureaucratic. And, crucially, government would be given a *carte blanche* to intervene to prevent mergers.

Labour and Privatisation. At the 1987 election Labour's commitment to renationalisation was cloaked in the guise of 'social ownership'. The Manifesto sought to conceal the true nature of Labour's plans:

'We shall extend social ownership by a variety of means, as set out in Labour's detailed proposals' (*Britain Will Win*, 1987).

The 'detailed proposals' – which Labour clearly hoped to conceal from the electorate – were contained in Labour's key policy document, *Social Ownership – A Vision for the 1990s* endorsed by the 1986 Conference. That document confirmed Labour's ideological devotion to State control of industry:

'We reaffirm Clause IV of the party's constitution. "Common ownership of the means of production, distribution and exchange" is as relevant today as it has ever been'.

Nationalisation for the 1990s: A New Disguise. Labour's policy review has renamed nationalisation once again by declaring that a future Labour Government would:

'designate a new category of company, the public interest company, for those industries with a statutory responsibility to service both consumers and the national interest' (*Social Justice and Economic Efficiency*, p. 5).

These industries include the water, gas and electricity industries and the rail, post and telecommunications networks. Labour admit that:

'in some cases a change of ownership or control as well as regulation may prove necessary to safeguard the interests of the consumer and the economy' (*ibid.*).

Many Labour Spokesmen have indicated that *a full return to the public sector* awaits many businesses privatised under this Government. Mr Hattersley, for instance, has said:

'the public utilities – gas, electricity, telecom – should be in public ownership ... it's very much better to have a public monopoly than a private monopoly' (Today, Radio 4, 28th October 1987).

Mr Bryan Gould has said, with regard to British Steel:

'the steel industry is most appropriately owned in a form of public ownership. We shall decide that form and the order of priorities by which it is to be secured when we return to power' (*Hansard*, 23rd February 1988, Col. 184).

So the 'public interest companies', for which the policy review has called, are the latest euphemism for renationalisation, succeeding the much vaunted 'social ownership'. The rhetoric changes; the substance of policy remains unaltered. Shareholders could not expect to be compensated. As Mr Kinnock has said:

‘No, we are not going to buy back shares because, I’m not going to use up the enormous resources that would command’ (ITV, *Weekend World*, 10th April 1988).

Mr Gould has dreamt up some complicated ways of taking away shareholders' rights without giving them any compensation. He is reportedly working on a plan under which Labour would buy shares in each of the main public utilities in turn. A Labour Government would buy enough shares to regain control of a utility, create a ‘golden share’ to ensure continuing control, then sell ordinary shares on the market and use the funds to buy into another utility. Mr Gould has said that Labour will not be buying all the shares back:

‘It is very unlikely that we could come into office and – even if we decided we had the money – simply acquire all the privatised industries in one go. ... That would mean spending available resources on things we might not give absolute priority to. That is why we are looking for options that give us some degree of control without that expenditure’ (*The Sunday Times*, 30th October 1988).

It is clear that under this plan investors would be deprived of their say in their company's affairs but not receive compensation – in other words, nationalisation on the cheap. Labour's ‘new’ policy would have all the same results as old-style nationalisation – politically motivated decisions, massive subsidies from the taxpayer and a total lack of consumer awareness among the nationalised giants created.

Furthermore, Labour have failed to explain just how many ‘public interest companies’ would be created. Labour's policy document, *Social Ownership*, before the last election referred to purchasing shares in ‘key industries’:

‘Labour will acquire or maintain a strategic stake in defence industries: vital national industries such as oil, aerospace, ship-building and steel; key manufacturing industries, including the information technologies and motors; centres of innovation; and industries supplying the public sector’ (p. 12).

Labour's Regional Policy. Labour's policy review has produced nothing new in terms of regional policy. The twin instruments of Labour's regional policy continue to be intervention and subsidisation:

‘We require ... the direction of new investment to the regional economies ... [we] will consider how to achieve these objectives through ... location incentives and controls’ (*Social Justice and Economic Efficiency*, p. 5).

Talk of ‘location incentives and controls’ is code for subsidies to companies that invest in the regions and penalties for the firms that locate elsewhere. Subsidies give an unfair advantage to recipients and frequently cause job losses elsewhere in the country. Moreover, research by the DTI indicates that the cost per job ‘created’ by Government subsidies in the 1960s and 1970s was about £50,000 at current prices. To ‘solve’

unemployment using such policy measures today would cost about £100 billion – five times the annual cost of the health service.

Labour and the City. The Labour Party displays unconcealed hostility to the people employed in the City and has persistently failed to understand the importance of the financial sector to Britain's economy. In London, 20 per cent of the total working population are employed in banking, finance and insurance while the City's invisible exports in 1987 were in the order of £10 billion. Mr Kinnock gave his view of the City in an article 15 years ago, when he described it as:

‘The army of brokers, jobbers and other quaintly named parasites’ (*Labour Monthly*, December 1974).

The NEC's statement to the Labour Party conference in 1987 pointed out that the party must take account of the expansion of the service sector because:

‘Already five times as many people work in banking alone as in the production of motor vehicles’ (*Moving Ahead*, Statement to Conference 1987).

However, attitudes in the Labour party, including those of its official Spokesman, have not changed. At the 1988 Labour Party Conference Mr Bryan Gould aired his views on the City in a Statement accompanying Labour's policy review:

‘Tory policy has always favoured the financiers, and the financiers are interested in only the short term – the quick return, the takeover deal, the privatisation scam’ (*Conference News*, 3 October 1988).

Left-wing Controls. The policy review had virtually nothing to say about the City, leaving *Making the City Safe* (March 1987) as Labour's key policy document in this area. Labour's proposals include:

- setting up a ‘British investment bank to provide a bridge between the investment capital of the city and the investment need of industry’ (p.5). Such a bank would be compelled to make investment decisions for political rather than economic reasons;
- a scheme of capital repatriation ‘by providing a fiscal advantage to domestic investment’ (ibid.). Such a scheme would make institutions investing abroad pay tax penalties, which would force them to repatriate capital, part of which would be deposited in the British Investment Bank. A Labour Government would then use this finance – pensioners' and investors' money – to prop up second-rate companies which could not attract private sector capital.
- ‘Launching British Enterprise as a new state holding company which would support companies in the development of high technology by taking equity capital and providing joint venture capital’ (p. 6). This represents another attempt to ‘second guess’ the market: a Labour government would buy strategic stakes in certain companies and interfere with their decision-making. ‘British Enterprise’

would be a repeat of the disastrous National Enterprise Board (NEB) which was an agent of backdoor nationalisation. (The NEB was set up by the Industry Act 1975 and given a budget of £1,000 million to administer the Government's shareholdings and extend state ownership into profitable manufacturing industry. By 1980 the nationalised industries were costing the taxpayer £50 million a week.)

Labour and City Regulation. Labour propose an 'independent statutory commission to provide public supervision of the city' (*Making the City Safe*, p. 7). Such a commission would be publicly funded and its membership altered 'to ensure that the majority are not current practitioners in the City' (ibid.). These proposals ignore the clear advantages of the regulatory system set up by the Financial Services Act 1986. Practitioner-based regulation means less bureaucracy and red tape; the regulators themselves are well placed to keep up with the fast pace of change in the financial sector and have a self-interest in ensuring a 'clean' City with a respectable public image. If the City is to be competitive and successful it must be free to evolve. A statutory commission on the lines Labour suggest would act as a straitjacket on future development.

Restricting Consumer Choice. Labour's 1988 policy review document included a section on consumers and the community which suggests:

'Developing and implementing proposals along the lines indicated in Labour's Charter for Consumers' (*Social Justice and Economic Efficiency*, p. 30).

The tone of the *Charter for Consumers* (1986) is established by the remark that the market approach 'means boosting profits rather than serving the consumer'. The Labour Party seems incapable of understanding that profits result from business success – and businesses succeed by providing goods and services that consumers want. The policy review also contains the statement:

'Our goal is thus to create a public enterprise culture' (ibid.).

The plan is that a Labour government would set up state-backed garages, estate agents and building companies to challenge private enterprise. This would extend nationalisation into parts of the economy previously untouched by public ownership. There is no explanation of why nationalisation should succeed in such new territory when it has failed so demonstrably elsewhere.

Labour's Trade Policy. At the last election Labour were committed to 'intervene in specific sectors to curb the growth of imports' (*A New Partnership: A New Britain*, p. 16). Mr Bryan Gould, Labour's present Trade and Industry Spokesman, has denied the existence of such a policy altogether:

'I do not believe that was ever our view, and it is certainly not our view now' (*The Guardian*, 17th February 1988).

However, Labour's 1988 policy review failed to put anything in its place. Mr Gould's commitment to free trade lacks any real credibility since he said in the same speech, referring to protectionism in the 1930s:

'It was those countries which pursued vigorous protectionist policies which were best able to mitigate the impact of the world recession' (*The Times*, 17th February 1988).

2. THE SLD

At the last election few 'Alliance' policies were as vague as their industrial strategy and their manifesto contained meaningless platitudes such as 'we will work in partnership with industry and put industry first' (*Britain United: The Time Has Come* 1987).

As far as can be discerned SLD industrial policy contains three main elements: a commitment to an expanded regional policy; a pledge to increase funds for R & D; and plans to tackle training shortages.

Regional Policy. The 'Alliance' manifesto in 1987 made a commitment to establishing 'regional development agencies' which has since been restated by the SLD:

'We would promote and support regional development agencies ... to stimulate and develop the energies and enterprise of people in industrially blighted areas' (*A Democracy of Conscience – Policy Declaration for Social and Liberal Democrats*, March 1988).

Such a policy has a number of important drawbacks. First, it is wrong to believe that for each region exactly the same prescription is needed everywhere *within* it. In fact, unemployment levels vary more from one area to another within each region than they do between regions. Second, if each of the eight English regions had their own development agency, they would simply end up spending most of their energy outbidding each other to offer inducements to get industries to set up in their territory. Third, the proposals would also impose an unnecessary additional layer of bureaucracy between Whitehall and the various existing Government agencies in the regions.

R & D Policy. By calling for the Government to increase spending on R & D, the SLD is once again missing the point. The real problem with R & D in this country is *not* that the Government does not spend enough on supporting innovation, rather that the level of investment by industry itself has traditionally been lower than that of our international competitors.

SLD and Privatisation. The confusion within the 'Alliance' over how to respond to the popularity of the Government's privatisation programme has been continued by the SLD. During the 1987 election campaign the 'Alliance' admitted that assets worth £15 billion would be sold over the lifetime of a Parliament if the Parties came to power. As 'Alliance' spokesmen ruled out the privatisation of electricity and water, such a

programme of asset sales would have to include British Steel and the remainder of British Telecom shares. *The Independent* pointed out, with respect to British Telecom:

‘For a party which opposed the original sale, it would seem a little odd to dispose of what is, after all, still a dominant state shareholding in BT’ (*The Independent*, 19th May 1987).

The newly merged Party has declared:

‘In considering further privatisation increases, particularly of the electricity industry, we will judge any proposals by reference to objective criteria related to competition and efficiency’ (ibid.).

The Party has failed to make clear what the ‘objective criteria’ might be. However, no member of the present SLD voted with the Government during the Second Reading of the paving bill for the privatisation of British Steel. The world-wide market for steel is immensely competitive and the British Steel Corporation is now one of the most efficient steel companies in the world.

Employee Share-Ownership. The ‘Alliance’ attempted to take the credit for the Government’s achievements in this area. Its 1987 manifesto claimed that:

‘We will extend incentives to employees’ share-ownership and profit sharing which were introduced at Liberal insistence in 1987’ (p. 8).

But it has been the Conservative Government which has developed and implemented the measures that have encouraged such a dramatic growth in employee share-ownership over the last ten years. The old ‘Alliance’ was critical of the privatisation of Cable and Wireless, Amersham International and British Gas; in each case, 99 per cent of employees bought shares in their companies.

Competition Policy: Creating Bottlenecks. The ‘Alliance’ policy, stated in the 1987 manifesto, that ‘companies seeking mergers will have to justify them’ has been restated by the SLD:

‘We would strengthen the office of Fair Trading and place the onus on companies seeking mergers to justify them’ (*A Democracy of Conscience*).

A policy of screening every proposed merger would be a bureaucratic nightmare and create major bottlenecks. The SLD has clearly failed to recognise that the threat of acquisition plays an important part in keeping management on its toes, and helps ensure that industrial assets are used in the most productive way to create wealth.

Trade Policy. At the last Election the ‘Alliance’ placed its faith in empty rhetoric rather than new concrete proposals. They merely proposed what the Government has done already:

‘We will give more backing to exports using the Export Credit Guarantee Department and the Aid and Trade provision ... we will press the European Community to take stern action against dumping. We will launch a more determined attack on unfair restrictions on trade, including those imposed by Japan ...’ (*Britain United – The Time Has Come*, p. 7).

The SLD has failed to develop policy beyond this hopelessly vague state.

3. THE SDP

Industrial Policy. The rump SDP, having very few firm policy commitments, has contented itself with general statements of aim. According to Dr Owen:

‘There is no prospect of government for an Opposition political party in Britain over the next decade that is not forthright in its support for the market economy’ (*Sticking With It*, by David Owen, Campaign for Social Democracy, October 1987).

Privatisation. The SDP has now come out broadly in favour of the Government's privatisation policy:

‘Splitting up public monopolies to ensure true competition and greater consumer choice should be the yardstick of denationalisation’ (*ibid.*, p. 11).

All three SDP MPs voted with the Government during the Second Reading of the British Steel Bill in February 1988. However, when they were part of the ‘Alliance’, they voted against the Second and Third Readings of the Bill to privatise British Telecom and British Gas.

4. EMPLOYMENT, TRAINING AND INDUSTRIAL RELATIONS

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(A) EMPLOYMENT

1. THE CHALLENGE

Labour's Failure. When the Conservative Party took office in 1979, it inherited an economy which was suffering from Labour's gross mismanagement. Britain's industries found themselves unable to compete in world markets. They failed to produce and deliver goods and services at a price and at a standard that customers required. As the influence of the trade unions – assisted by the Labour Government's legislation – continued to grow, overmanning, low productivity, high unit wage costs and union militancy all became the hallmarks of Britain's industry: the 'British disease', as it became known throughout the world.

Why Unemployment Rose under Labour. Under the last Labour Government unemployment more than doubled from 577,700 in March 1974 to 1,306,100 in May 1979. The problems of the labour market were exacerbated by the burdensome weight of 'employment protection' legislation and over-regulation which increased costs and encouraged employers to restrict the number of job opportunities, recruiting only when absolutely necessary. Wages Councils imposed rigid controls over levels of pay in many sectors of the economy, and set minimum wages for young people which failed to reflect their age and inexperience; employers could not afford them. This situation, together with a lack of vocational training, meant that youth unemployment in particular became a growing problem.

The Conservative Alternative. The Conservative Government was determined to confront these problems. It knew that jobs could only be created by businesses which produced goods and services that people wanted at prices they could afford. It understood that its role was to create a framework within which enterprise could flourish. As the **Prime Minister** told an audience of businessmen:

'It is Government's job to get the background right; yes, to get inflation down; yes, to have sound Government financing; yes, to have the right incentives in taxation; yes, to have the right framework of law to keep competition going; but when we have done all that, it is over to you to take advantage of the opportunities' (Speech to Press Association, London, 8th June 1988).

By pursuing prudent economic policies, by deregulating industry, by promoting competition, by curbing abuses of trade union power, by providing training on an unprecedented scale, and by encouraging realistic pay settlements, the Government has created the framework for success.

2. THE STRATEGY

The Three Key Elements. The Government has followed three complementary paths in pursuing its aim of a long-term reduction in unemployment. They were set out in the White Paper, *Employment: The Challenge for the Nation* (Cmnd. 9474), published in March 1985. *First*, it has consistently maintained sound economic policies designed to

provide a framework in which economic growth, rising living standards and job creation can take place. Inflation has been curbed, providing a firm basis upon which businesses can plan and invest. Public expenditure has been contained and Government borrowing has been eliminated, making more money available for investment in the private sector. Taxes, both on individuals and businesses, have been reduced to encourage enterprise and initiative. As the Chancellor of the Exchequer, Mr Nigel Lawson, said in his 1987 Budget speech:

‘Lower rates of taxes sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance. And it is only by improving our economic performance ... that we will be able to create jobs on the scale that we all want to see’ (*Hansard*, 17th March 1987, Col. 827).

The raising of tax thresholds has taken many people out of tax altogether which, together with the social security reforms, means that people now have a far greater incentive to take work rather than to rely solely on benefits.

Second, the Government has removed obstacles to job creation. Unnecessary ‘employment protection’ legislation and bureaucratic red tape, which in the past stifled enterprise, have been removed. The introduction of profit-related pay (see p. 00) and the reform of Wages Councils (see p. 00) has encouraged more flexible and realistic wage agreements.

Third, the Government, unlike its predecessor, has recognised the need to provide training that is relevant to the needs of employers. This will equip the unemployed with skills they can use to take advantage of the many job opportunities available, and upon which the future success of our economy depends. A co-ordinated package of training and employment programmes has been developed on an unprecedented scale under the ‘Action for Jobs’ campaign. The White Paper, *Training for Employment* (Cm. 316), published in February 1988, has now redefined the Government's training objectives, placing more emphasis than ever before on enterprise and training for real jobs. This is discussed in detail on p. 131 *et seq.*

European Endorsement. Britain has also taken the lead within the European Community. At the European Community Social Affairs Council held at Brussels in December 1986, Employment Ministers adopted unanimously an Action Programme launched by Mr Kenneth Clarke, then Paymaster General, during the British Presidency. The initiative called for action to promote better training; to encourage small firms and self-employment; to concentrate resources on helping the long-term unemployed, and to introduce more flexible working practices. All these steps have already been taken in Britain as part of the Government's successful ‘Action for Jobs’ campaign. It has recognised that the real ‘social dimension’ of the Single Market should be the provision of more opportunities for more people.

3. THE RESULTS

Dramatic and Sustained Progress. The recent improvement in Britain's unemployment position has been dramatic in scale and speed. The unemployment rate is coming down fast – indeed faster than in any other major industrialised country.

Unemployment has now been falling continuously since July 1986. The seasonally adjusted total has been cut by around one million to stand at 1.98 million (7.0 per cent) in January 1989. This is the longest, sustained fall in unemployment on record since the war. The number of people out of work is now at its lowest for eight years.

Every region in the country has benefited from this fall in unemployment. Moreover, the falls have been greatest where the problem has been worst. The unemployment rate has fallen most in the West Midlands (down over 6 percentage points), the North (down over 5.8 percentage points) and Wales (down 5.7 percentage points), but there have also been significant falls in Scotland and Northern Ireland.

Tackling the Worst Problems. Within the jobless total, the figures for both long-term and youth unemployment have also shown a marked improvement. Long-term unemployment fell below a million in July 1988 for the first time in five years, and is now some 280,000 fewer than a year ago – the largest twelve-month fall on record. The number of long-term unemployed has fallen by 28 per cent – faster than unemployment as a whole.

The number of young unemployed people (under 25) fell by 34 per cent in the year to December 1988, again faster than unemployment as a whole. The total for those under 18 has almost halved over the past five years. And with a guaranteed place on the Youth Training Scheme now available for all unemployed 16 and 17 year-old school-leavers, there is no reason for anyone under 18 to be unemployed.

Doing Better than Our Major Competitors. Internationally, the UK's position is also now greatly improved. Over the past year the UK unemployment rate has fallen faster than that of any other major industrialised country.

Our unemployment rate is now well *below* the EC average, and below major competitors such as Belgium, France, Italy and the Netherlands.

Unemployment: Standardised International Figures

	1986	1987	1988
	(average)	(average)	(December)
Belgium	11.8	11.6	10.3
France	10.4	10.6	10.4
Ireland	18.3	18.0	17.3
Italy	10.6	11.0	12.4
Netherlands	10.2	10.0	10.0
Spain	21.2	20.6	19.6

Unemployment: Standardised International Figures

	1986	1987	1988
	(average)	(average)	(December)
UK	11.5	10.6	7.6
EUR 12	10.8	10.6	10.0

(Source: *Eurostat*)

Youth Unemployment. One of the most pressing problems for the European Community in recent years has been that of youth unemployment. Once again, Britain's position has improved greatly: our youth unemployment rate is below the EC average and continuing to fall. A guaranteed place on YTS for those under 18, together with priority placing for those aged 18–25 and unemployed for six months on Employment Training, and a host of other measures provided by the Employment Service, should help to secure further reductions in youth unemployment.

4. THE PATTERN OF EMPLOYMENT

More in Work. The work-force in employment has been on a rising trend for the past five years, and has risen by over 2 million in total. In this period Britain has created more new jobs than any other EC country. The number of people in employment has increased in every one of the last twenty quarters since March 1983, and by more than 1.9 million in total.

The New Method of Calculating the Number in Work. The 'workforce in employment' is now the basic measure of the total number in employment; it was announced on 14th July 1988. It includes all the participants of Government employment and work-related training schemes unlike the previous measure, the employed labour force:

<i>Employed labour force</i>	<i>Workforce in employment</i>
Employees in employment	Employees in employment
Self employed	Self-employed
HM Forces	HM Forces
	Participants in work-related Government training programmes
	+ Unemployment
Working population	Workforce

The changes were prompted by two considerations: the advice of the International Conference of Labour Statisticians held in November 1987 under the auspices of the ILO, and the need for consistent treatment in the employment statistics of those people contributing in the same ways to economic activity. The old series remains available and can be calculated by adding together the first three components. Both series indicate a

very buoyant labour market; the increase in the employed labour force in the last five years has been the best for at least forty years.

Manufacturing Sector. Just as the number of people in work can – and does – vary, so the structure of employment can change. As one sector sheds jobs, another can create many more, as has been the case in Britain with the manufacturing and service sectors respectively. Falling employment in manufacturing industry is not, however, a recent phenomenon, or one that has been confined to Britain alone: British manufacturing employment peaked as far back as 1965, and the long-established trend of contraction has been experienced by all Western industrial nations. It is the inevitable result of structural change in a modern economy. In Britain after 1979, manufacturing industry had to shed its excess labour in order to restore its competitive position in both British and world markets. The British Steel Corporation, for example, therefore reduced its workforce by 72 per cent between 1978–9 and 1987–8; productivity soared by a massive 113 per cent over the same period. In 1987–8, BSC made record net profits of £410 million – more than double the previous year's level.

Fewer Job Losses and Rising Productivity. In the year to December 1988, manufacturing employment fell by an average of only 3,400 a month; in the 1960s and 1970s, the monthly figure reached 10,000. The CBI *Industrial Trends Survey* (July 1988) comments that ‘the trend in manufacturing productivity continues to be steadily upward’. At the same time it is important to distinguish between the contribution of manufacturing industry to UK employment and its underlying economic performance. Lower levels of employment in manufacturing industry are not, as Labour claims, a sign of decline. On the contrary, by reducing overmanning, companies have been able to become more efficient and have returned to profitability. Today, manufactured exports, output and productivity are all at record levels. As Mr Lawson, has explained:

‘During the 1980s the manufacturing sector has performed very much better. Output is now expanding fast, our share of world trade in manufactures has at long last ceased to fall, and productivity is rising rapidly – indeed, it has grown faster over the 1980s than in any of our major competitors’ (Bury, 16th July 1987).

Service Sector. Over the year to September 1988 (the latest period for which complete figures are available), a total of 45,000 jobs were lost in manufacturing, but an extra 366,000 jobs were created in the service sector. More people than ever before (14.9 million) now work in service industries, accounting for almost 68 per cent of all employees. Employment in financial services has risen by 31 per cent over the past five years, and in hotels and catering by more than a fifth.

Many of the jobs created in the service sector have been part-time; indeed the increases in the numbers of part-time and full-time jobs between December 1986 and December 1987 were similar. This provides increased flexibility to the benefit of both employees and employers; indeed the results of the 1987 Labour Force Survey show that two-thirds of those in part-time work did not want full-time jobs, reflecting the willingness of industry

to offer employment opportunities that suit, amongst many others, women with young children.

Growth of Self-Employment. Since 1979, the number of self-employed has grown by almost 1.2 million, or more than 65 per cent – six times more than in the previous thirty years. There are now more self-employed people – over 2.9 million – than at any time in the last sixty years. This contrasts sharply with a decrease of 100,000 under the last Labour Government.

Tourism. The Government's encouragement of Britain's tourist industry is reaping handsome dividends. New jobs are being created at the rate of almost 1,000 a week, and spending by overseas visitors exceeds £6 billion a year.

Government policy is designed to ensure that the economic and employment benefits of tourism are maximised and spread widely around the country, especially to those regions with higher than average unemployment and potential for development.

The Government's commitment to the creation of new jobs in this industry is underlined by the £49 million that it made available to the British Tourist Authority (BTA) and the English Tourist Board (ETB) in 1988–9 – a 9 per cent increase on the previous year.

5. IMPLICATIONS OF SLOWER RISE IN POPULATION OF WORKING AGE

Changing birth rates and social attitudes have had a strong impact on unemployment in the past decade and will continue to do so in the next. The UK economy has been creating increasing numbers of new jobs since March 1983, but this was not reflected in the unemployment figures until mid-1986 because the number of people looking for work rose at an even faster level. In the decade to 1986 the population of working age in Great Britain increased by almost two million; in 1984 alone it rose by over 500,000. This arose directly from the 'baby boom' of the 1960s, which meant that the number of young people leaving school and entering the jobs market rose sharply in the early 1980s, it also arose from the sharp increase in the number of women seeking employment as a result of changing social attitudes.

The situation between now and 1990 and beyond will be quite different. The 1988 White Paper, *Training for Employment* (Cm. 316), shows that the growth in the population of working age will slow down. Between 1986 and 1990 a rise of less than 500,000 is expected; in the 1990s the projection is that the total will stabilise at around 34 million. Most important, the number of 16–19 year-olds in the population is expected to fall substantially. From a peak of 3.7 million in 1983, the number of 16–19 year-olds fell to 3.5 million in 1986 and will fall further, to around 2.6 million, in 1994. Clearly, the precise implications for jobs and unemployment depend on how many of the 34 million people of working age actually seek employment, but it is likely that the number of

young people available for jobs will fall. The implications of this are discussed below (p. 132).

6. THE WAY AHEAD: PAY AND PRODUCTIVITY

Mr Lawson made the Government's position quite clear in his 1988 Budget speech:

‘The outlook both for exports and for jobs will depend initially on employers keeping their costs firmly under control. Unit labour costs in manufacturing scarcely rose at all in 1987. It is vital that employers do not let this slip, and keep a tight grip on all their costs, not least pay’ (*Hansard*, 15th March 1988, Col. 996).

Lower Pay Rises: More Jobs. The more expensive and less productive labour is, the less demand there will be for it. Conversely, a slower rise in average real pay would mean more jobs in the long run, *ceteris paribus*. In the year to September 1988, the underlying increase in average earnings was 9.25 per cent – substantially higher than the increase in prices. The disparity becomes even greater when income tax cuts are taken into account. The Tax and Price Index rose by just 2.7 per cent in the year to July 1988, meaning that the average tax-paying employee required a rise of only 2.7 per cent to maintain his level of real take-home pay. Moderating growth in real wages is a critical factor in reducing unemployment today.

Pay settlements should be for the employer and employee to decide, and should depend on what is needed to recruit, retain and motivate, and what can be afforded, not some ‘going rate’. Low inflation and reductions in income tax mean that lower settlements should be entirely consistent with improved living standards.

It is not the case that pay increases can always be justified on the basis of productivity rises. Industry needs above all to improve its international competitive position. Although UK productivity has grown comparatively rapidly in the 1980s, absolute levels of productivity still lag behind those of our main competitors.

The latest figures show that output per head in manufacturing increased by 7.7 per cent in the year to September 1988, so helping to keep the growth in unit wage and salary costs to 0.5 per cent. However, as Mr Norman Fowler, Secretary of State for Employment, has pointed out:

‘Manufacturing unit wage costs are falling in several major countries overseas, meaning that productivity increases have more than covered any growth in earnings. These are the countries with which we need to compete to maintain the current strong growth in jobs’ (London, 18th August 1988).

7. REMOVING OBSTACLES TO EMPLOYMENT

The Government has acted in several ways to encourage more sensible pay levels and to remove unnecessary restrictions and rigidities in the labour market which help cause unemployment.

Youth Wages and Wages Councils. For too long, young people had come to expect, and trade unions to negotiate for, rates of pay which failed to reflect their relative inexperience. Wages Councils also set minimum rates of pay for young people which employers were unable to afford. This resulted in many young people being priced out of the jobs market.

The Wages Act 1986 removed young people under 21 from the scope of Wages Councils. They are now free to take jobs at wages they are prepared to accept and which employers can afford. For everyone else covered by Wages Councils, only a single minimum hourly rate and a single over-time rate can be set. (The Act also removed restrictions on non-cash methods of payments for all employees.)

The Government's White Paper, *Employment for the 1990s* (Cm. 540), published in December 1988, announced a review of Wages Councils. The issues are whether they have been giving sufficient weight to the impact of their settlements on job prospects and, more broadly, whether a system first established in 1909 is relevant for the 1990s.

Regional Pay Bargaining. A move away from national to regional pay bargaining, reflecting conditions in the local labour market, could lead to the creation of more jobs and investment in areas of high unemployment. Greater regional pay differentiation would give companies an incentive to set up where costs are lower, creating jobs that might otherwise go unmade. As the White Paper, *Employment for the 1990s*, observed:

‘Pay structures have to change. National agreements which affect the pay of half the workforce all too often give scant regard to differences in individual circumstances or performance. It is notable that even in areas where the unemployment rate is particularly high, this is not reflected in the level of earnings’ (p. 24).

Profit-Related Pay (PRP). Some companies are now linking a percentage of their employees' wages to the profits made by the company. The Government published its ideas on this subject in a Green Paper (Cmnd. 9835) in July 1986. PRP can improve industrial relations and productivity by encouraging employees to identify with the success of their business. It also makes pay more flexible in the face of changing business conditions – essential for an efficient labour market: instead of laying off workers when business is slack, pay is temporarily lower.

(B) TRAINING

1. PREPARING FOR THE FUTURE

Skills Shortage. Although large numbers of new jobs are being created, in some areas employers are experiencing a labour shortage with even unskilled jobs being hard to fill. Yet at the same time, paradoxically, unemployment – though falling – is at levels that are high by historical standards. The main explanation of this apparent paradox is that, for many people, unemployment is a temporary and short break between one job and another; most people who become unemployed quickly get new jobs.

Understanding the Unemployment Figures. The monthly unemployment count measures those unemployed on a particular day, but there are very large movements into, and out of, unemployment each month. Almost 400,000 people join the unemployment count every month, but over half of those who become unemployed leave the count within three months and almost 70 per cent within six months. Others do not find jobs quickly, and the longer they remain unemployed the less likely they are to get a job. The new jobs that come through may not be in areas of high unemployment; the unemployed may not have the skills that particular employers want; they may be discouraged; or they may not have much incentive to go back to work. Employers' attitudes also create problems, as the second 1988 White Paper on training pointed out:

‘Some employers seem reluctant to recruit people who have been out of work for more than a few months, whatever their qualifications and previous experience. ... Some employers seem not so much prejudiced against unemployed people as simply unaware of their potential for meeting their recruitment needs’ (*Employment for the 1990s*, Cm. 540, p. 54).

Responding to the Challenge of Long-Term Unemployment. The challenge now is to motivate the long-term unemployed and equip them with the skills they need – and the economy requires – to take advantage of the increasing number of job opportunities available. In September 1988 the total number of long-term unemployed stood at just under a million, but there were also some 700,000 unfilled job vacancies in the economy as a whole. That is why the Government places so much emphasis on the provision of training for the jobs that are available rather than temporary make-work schemes for the unemployed. As the 1988 White Paper *Training for Employment* stated: ‘The Government's aim is to offer unemployed people a route back to work, by re-establishing and maintaining personal contact with each individual who is unemployed; by offering opportunities to acquire skills; and by giving improved access to information, advice and other practical assistance’ (p. 13).

It is not simply a matter of imparting the skills associated with the new ‘hi-tech’ industries; in many cases basic literacy and numeracy skills have to be taught. More than 50 per cent of those unemployed for over six months have no educational qualifications at all; for the total workforce the figure is 33 per cent. As many as a quarter of the long-term unemployed have problems of literacy or numeracy – this is the first barrier to employment or training. But, of course, for many of the longer-term unemployed, a lack of training for the job opportunities which are available is the principal handicap. The 1987 Labour Force Survey showed that around 40 per cent of longer-term unemployed

adults (who had had a job within the previous three years) had been in semi-skilled or unskilled manual occupations; for the total work-force the figure is just 22 per cent.

Creating an Effective Work-force for the Future. Retraining both the unemployed and the employed takes on an even greater significance when projections of future employment patterns are taken into account.

According to a report published in July 1988 by the National Economic Development Office and the Training Commission, the total labour force in Great Britain looks set to continue to grow, although at a much slower rate than recently. In the ten years to 1986, the population of working age in Great Britain grew by almost 2 million; between 1987 and 1995, it is projected to rise by less than 500,000 although an increase in the number of women working is expected to bring the overall rise in the labour force to 900,000 over this period.

A crucial factor in this is the number of 16–19 year-olds in the population. By 1995 there will be almost one million fewer in this age group than there are today. This reduction in the number of young people available for employment will have a considerable effect on the composition of the labour force. Four-fifths of the 900,000 net increase in the labour force will be accounted for by women, many of them returning to work after raising families. So employers will need to invest more in improving the effectiveness of those they already employ, and will have to increase their efforts to help unemployed people back to work by assisting them with skills training.

Employers who neglect the need for training are likely to be beset by recruitment and retention problems. The July 1988 report showed that only one in seven employers was well informed about these demographic trends. To combat this ignorance, the Government has launched a television and press advertising campaign.

2. THE YOUNG AND LONG-TERM UNEMPLOYED

The Government recognises that it has a special responsibility to help those people – such as school-leavers and the long-term unemployed – who may experience particular difficulties in entering or returning to the labour market. As Mr Fowler has said:

‘More than any other groups they run the risk of being excluded almost indefinitely from jobs if they cannot acquire the skills employers are looking for’ (*The Independent*, 12th July 1988).

Government and employers must work together to meet the new challenges of the labour market in the 1990s. In Mr Fowler's words:

‘Employers will have to review their whole approach to recruiting and training. No longer will they be able to rely on a steady stream of young recruits from Britain's schools and colleges. They will need to ensure that the jobs they offer are accessible and attractive to women. They will need to re-examine the contribution that can be made by

people who are currently unemployed – as well as retraining and developing their existing workforce’ (Sutton Coldfield, 19th June 1988).

It is against this background that the Government launched its new Employment Training programme in the autumn of 1988. It will equip long-term unemployed people with the skills that they need to take the jobs that are now available and will be available in the future.

Employment Training. In November 1987, Mr Fowler announced proposals for a new unified adult training programme directed towards the long-term unemployed. The Government asked the Training Agency – then the Manpower Services Commission – to design this programme; its scheme was endorsed unanimously by all its members, including the three trade union Commissioners. Full details of the programme were then published in the White Paper *Training for Employment* (Cm. 316) in February 1988.

Employment Training, which started in September 1988, replaces all existing adult training programmes, including both the old and new Job Training Scheme (JTS), as well as the Community Programme (for details of them, see *The Campaign Guide 1987*, p. 117). It will have annual funding of £1.4 billion from the Government, together with substantial resources from employers.

This is a massive investment and will be the largest training programme ever undertaken in the UK or anywhere else; it represents a major commitment to the unemployed. Each trainee will receive up to twelve months' full-time training on an individually designed programme. Anyone unemployed for over six months is eligible to participate, but priority is given to those aged 18–24 and unemployed for between six and twelve months, and those aged 18–50 and unemployed for over two years.

A potential trainee is sent for an interview with a Training Agent, either as a result of a Restart interview or of a direct application at a Jobcentre. The Training Agent assesses each person's individual needs and abilities and draws up a personal action plan designed to establish the best training programme for that person. The potential trainee then passes on to a Training Manager who is responsible for delivering each trainee's training programme. The type of training provided ranges from literacy skills to ‘hi-tech’ and entrepreneurial projects, depending on the individual's needs. Training is both practical (with employers, on the job) and supervised (at least 40 per cent off the job, either at college or with the employer).

Trainees receive a training allowance equivalent to their weekly benefit entitlement plus, in most cases, an additional £10 premium. As a result, everyone who is getting the full amount of Income Support personal allowance before joining the scheme will be better off in training.

- Anyone entitled to Income Support will still qualify for free prescriptions, free school meals for children, and entitlement to Housing Benefit.

- Travelling expenses in excess of £5 per week will be met, as will lodging costs if training takes place away from home.
- The allowance will not be liable to either National Insurance contributions or income tax deductions.
- Trainees will be covered by the same health and safety legislation that applies to employees and the same equal opportunities legislation as applies to YTS trainees.

These arrangements ensure that everyone who participates in the programme will be better off than if claiming benefit. The Community Programme, had become a programme for young people without dependants: the family man was discouraged from taking a place by the fact that participants were paid the going rate for the job, on average £67 per week – way below his equivalent benefit entitlement.

When the training has been completed, each trainee will get a record of his or her achievement on the programme; many will get a recognised vocational qualification. Training managers and employers will also be able to give tax-free bonuses to their trainees, from £50 after six months' training to £250 at the end of twelve months. The best outcome for participants will obviously be permanent employment; for those who do not get a job at once, there will be the options of going into a Jobclub, receiving additional training, or starting on the Enterprise Allowance Scheme.

Employment Training has faced a campaign of opposition led by some trade unions, including NALGO and the TGWU, and a number of Labour-controlled councils, such as Liverpool, Manchester and Salford. The Secretary of State took Liverpool City Council to the High Court, where its discrimination against organisations who wanted to participate in Employment Training was declared unlawful. Despite the Left's depressing display of hostility to the needs of the unemployed, Mr Fowler is determined that the programme will succeed. As he told the 1988 Conservative Party Conference:

'Let me make this clear – whatever obstacles our opponents put in our way the Employment Training Programme will go ahead. We in this Party will not turn our backs on the long-term unemployed' (Brighton, 12th October 1988).

By July 1988 the Training Commission had received bids for more than 700,000 places – more than twice its target of 300,000. In the West Midlands, there were 125,000 bids for 35,000 places and in the North West – where the campaign of opposition has been concentrated – there were over 76,000 bids for the 56,000 places available. Many leading British companies – including Laing, Sainsburys and Wimpey – are getting involved.

Youth Training Scheme. Vocational training up to the age of 18 has long been available in most industrial countries. Yet for decades Britain made inadequate provision. In the early 1980s with youth unemployment rising, the Government therefore took the initiative and introduced the Youth Training Scheme (YTS) to train young people in the skills a modern economy needs. For the first time, high quality vocational training, on a par with our competitors, became available to the young unemployed in Britain.

Since its introduction as a one-year programme in 1983, YTS has been refined and extended into a two-year scheme, and can now guarantee a high-quality training place to every unemployed 16 and 17 year-old school-leaver who wants one. No one under 18 need now be unemployed – and, therefore, no responsible Government could continue to pay Income Support to those young people who choose to remain unemployed rather than acquire a skill which will equip them for the jobs that are available. Income Support was withdrawn by the Employment Act 1988.

1.7 million young people have so far benefited from YTS, and there are currently some 420,000 in training, of whom 75 per cent will go on to a job or further education or training. Forecasts suggest a further 363,000 entrants for 1989–90 and 358,000 in 1990–1. Over 100,000 companies are now participating with YTS, which has become an integral and permanent feature of Britain's training programme.

3. OTHER TRAINING MEASURES

The Private Enterprise Programme – launched in June 1987 – offers full or part-time training for the small business owner or manager, and is open to suitable employed, self-employed or unemployed people. 30,000 people benefited in 1987–8 at a cost of £3.6 million.

Training Grants for Employers offer a wide range of practical and financial help to employers for retraining existing employees or training new personnel in scarce skills.

Career Development Loans, launched on a pilot basis in April 1986, in co-operation with three commercial banks, are now available nation-wide for training or vocational education courses. The scheme provides loans of £300 to £5,000 for people of initiative who want to take up job-related training and finance themselves. Applicants provide 20 per cent of the course fees and the Government pays interest on the loan for the duration of the course and for a further three months after its completion.

The Open College – which superseded the earlier Open Tech – launched its first vocational courses in September 1987. Via television and radio, it aims to reach one million students by 1992.

4. CREATING A PARTNERSHIP WITH EMPLOYERS

Employment for the 1990s. On 5th December 1988, the Government published a White Paper, *Employment for the 1990s* (Cm. 540) setting out its plans for a radical reform of the training system and for the removal of some of the remaining obstacles to job creation. It will establish a framework which will give training a higher priority than ever before.

Proposals on Training. The thinking behind the new proposals was outlined at the 1988 Conservative Party Conference by Mr Fowler:

‘Our proposals will represent a massive shift away from Whitehall. We need to move away from inflexible national arrangements to local arrangements which ensure that training meets local needs. Local employers are the people who provide jobs – they must be given a much bigger say in designing and running our programmes’ (Brighton, 12th October 1988).

The new training arrangements will be implemented through action at four levels:

- i. *A National Training Task Force* has been established to assist the Secretary of State in developing and co-ordinating the new training arrangements, particularly the new Training and Enterprise Councils (see below). It is also charged with promoting training by employers. The Task Force has twelve members, two-thirds of whom have been drawn from industry and commerce.
- ii. *Training and Enterprise Councils (TECs)*. These new employer-led bodies will contract to deliver Government training programmes in their local areas. They will be executive rather than advisory bodies and will have three main responsibilities:
 - analysis of the state of the local labour market and the adequacy of existing training arrangements;
 - the management of training programmes for young people, the unemployed, and for those adults who need to acquire new skills or update those that they already have;
 - the development and provision of appropriate training and other support for small businesses.
- iii. *Business Growth Through Training Programmes* will be launched early in 1989 to help companies develop training strategies that meet their business needs. These will unify the help available to companies and be of particular benefit to the self-employed. They will help provide relevant, flexible and accessible training for both owner-managers and their employees. They will also provide targeted help to industrial training organisations and local bodies – such as TECs – to tackle serious skill shortages in particular areas.

Review of Remaining Training Arrangements. The White Paper also considers the roles played by the existing Industrial Training Boards (ITBs), the Training Agency, and the Skills Training Agency (STA).

- i. *Industrial Training Boards*. The Government will consult about the remaining statutory ITBs with a view to developing an agreed programme for their transition to independent non-statutory status.
- ii. *Training Agency*. It will continue to be responsible for the provision of Government training programmes at the national level. It will also take on some of the small firms and enterprise functions of the Employment Department.

- iii. *Skills Training Agency (STA)*. A review of the STA's position is necessitated by the losses it is incurring at a time when the provision of training has never been bigger business. In the financial year 1988–9 the STA made a loss of around £20 million on a turnover of £55 million.

The Government believes that the STA would benefit from a move to the private sector, where it could adopt the best commercial practices. Professional advice is being taken on the feasibility of such a move.

(C) SPECIAL EMPLOYMENT AND ENTERPRISE MEASURES

1. THE CONSERVATIVE COMMITMENT

Giving the Unemployed Greater Assistance. Even when equipped with the skills they need to compete in today's labour market, many of the longer-term unemployed often still need help to seek out the job opportunities available. Evidence suggests that some of the long-term unemployed are simply unaware of the job, training and other opportunities available. Discouraged after an unsuccessful job search, they can grow accustomed to life on benefit and fear the responsibility of work. Unemployed people attended Unemployment Benefit Offices (UBOs) regularly but did not necessarily visit Jobcentres; if they did, it was for an occasional scrutiny of the self-service displays.

The Government therefore decided to merge Jobcentres with the UBOs in October 1987 to form a new Employment Service, providing a unified service to the unemployed to help them find work and training opportunities. The Service's priority is to provide positive help for the longer-term unemployed, through the development of Restart, the extension of Jobclubs, and through the Enterprise Allowance Scheme and other training programmes including Employment Training.

The Government's latest White Paper, *Employment for the 1990s*, outlined amendments to the law that will give further incentive to the unemployed to find a job by requiring unemployed benefit claimants not only to be available for work, but to be actively looking for it. The Social Security Bill, now before Parliament, will give effect to this change.

2. THE LONG-TERM UNEMPLOYED

Restart was introduced nation-wide on 1st July 1986 to offer direct help to the long-term unemployed. Everyone who has been unemployed for six months is invited to an interview at a Jobcentre where practical advice and information can be given to help that person back into employment. This counselling interview assesses the individual's needs,

outlines the job, training and other opportunities available, and plans a course of practical action.

Almost 3 million people have so far been interviewed. Some have gone directly into jobs, others on to training schemes or into Jobclubs. In 1986–7, nearly 1.3 million were interviewed; 89 per cent were made an offer of some sort, and 73 per cent agreed to follow it up.

The operation of Restart made clear the need for improvements to enhance the quality and value of the interview. Counsellors found that they had little information on their interviewees, and that some unemployed people refused help, or agreed to an offer and then failed to pursue it. The White Paper, *Training for Employment*, therefore announced three major improvements to this programme in February 1988:

- i. Everyone unemployed is now guaranteed a Restart counselling interview every six months for as long as the need persists.
- ii. All Restart interviewees are invited to complete a questionnaire before interview about their qualifications and experience, the type of job they have been looking for, and the help they are seeking in order to get a job. This will help the interviewer to decide which opportunities best suit each person and whether that person is actually available for work.
- iii. The Employment Service is to take its assistance to the areas in which the unemployed live, to counter apathy and demoralisation. Out-reach officers will work with other organisations to help people on housing estates, explaining the opportunities available to help them back to work. Britain's first mobile Jobcentre was launched in London's docklands in October 1988.

Jobclubs were expanded rapidly at the end of 1986 following very successful pilot projects; there are now over 1,000 throughout the country.

Jobclubs help those people who already possess a skill but do not know how to sell this skill in the jobs market. They are open to those unemployed for over six months. Participants are offered free use of telephones, stationery and postage as well as expert advice on job-hunting techniques, and are encouraged to help themselves into employment. Some 95,000 people passed through Jobclubs between April 1987 and February 1988, of whom 54 per cent got a job and a further 14 per cent decided to improve their job prospects by taking training or another job-related opportunity.

3. OTHER MEASURES

The Enterprise Allowance Scheme, designed to help those unemployed people wanting to start their own business and who would previously have lost all State support if they did so, was launched in August 1983. Open to all those unemployed for at least 8 weeks and with a minimum of £1,000 to invest in the business, the Scheme pays participants £40 per week for the first year of business in lieu of benefit. Over 300,000 people have so far taken advantage of the allowance and set up their own businesses; indeed, so popular

has the scheme been that it was expanded to allow for some 110,000 entrants per annum from April 1988. Surveys show that of those who receive the allowance for a full year, 65 per cent are still trading three years after they started. But not only are the unemployed helping themselves; these successful businesses are creating jobs for others – on average 114 additional jobs for each 100 businesses after three years. The proportion of women involved in the scheme increased from 11 per cent to 32 per cent between 1983 and 1988. A total of 29,000 women are now taking part.

Community Industry provides temporary employment and part-time study for up to a year for disadvantaged 17–19 year-olds, with the aim of helping them to obtain and keep jobs. Wages are paid by Community Industry Limited which is in turn funded by the Government: 7,000 places for young people plus 1,000 staff cost £24.8 million in 1988–9. Over 100,000 people have been helped by this programme, from which over 25 per cent have gone into a job.

The Jobstart Allowance discourages the long-term unemployed from turning jobs down because they consider the pay they offer to be too low. Those unemployed for over a year are eligible for payments of £20 a week for six months if they take jobs paying less than £90 a week.

Jobshare was launched in April 1987 to replace the Job Splitting Scheme which offered employers financial incentives to provide more job opportunities for unemployed people or for those leaving training schemes. £1,000 is now on offer to employers who are willing either to split an existing full-time job, combine regular overtime hours into a new part-time job, or provide two new part-time jobs as a way of offering more flexible working arrangements. It creates more job opportunities both directly and by helping businesses operate with more flexibility.

The Travel to Interview Scheme was introduced nationally in June 1986 to provide financial assistance to unemployed people who need to travel to a job interview which is beyond normal daily travelling distance. 34,000 people benefited from this scheme in 1987–8 at a cost of £946,000.

4. INCENTIVES TO WORK

The Problem. Many of the unemployed believe that they are better off on benefit than in employment – usually because they are unaware of the benefits to which many in work are entitled. The Employment Service interviewed 1,000 claimants in January 1988: about half of those interviewed did not know what benefits they could claim once employed. This has an effect on the level of pay that unemployed people look for in a job. They often demand unrealistically high wages without taking into account the available benefits.

The Solution. The Government has done much already to remove this ‘unemployment trap’. Income Tax allowances have been raised by 25 per cent on average in real terms and the basic rate of income tax has been cut from 33 per cent to 25 per cent; the 1985

Budget reduced rates of National Insurance Contributions for those in lower-paid work (see p. 56). The reforms to the social security system introduced in April 1988, including the introduction of Family Credit, should ensure that no one is worse off in a job than remaining unemployed (see p. 303). By assessing need on the basis of net income, the new system should prevent the situation arising where any increase in earnings is more than offset by a reduction in benefits.

The Government is supporting these moves with a programme of public education: an advertising campaign 'Better Off in Work' was launched in August 1988 and all unemployed claimants are being given a book detailing the benefits they could get if they took a job. In addition, the Government is increasing the number of claimant advisers so that individual assessments of benefit claimants' likely net income in employment can be made, taking account of the 'in-work' benefits available. A microcomputer system is being developed to aid the advisers in this exercise.

(D) OTHER EMPLOYMENT ISSUES

1. TACKLING FRAUD

The Government's Obligation to Prevent Abuse. Most people claiming benefit are genuinely unemployed and keen to work. The Government is therefore concentrating its efforts on helping those people who find it most difficult to get a job by introducing a range of measures aimed at their particular needs. Resources for this task are not infinite, and so steps must be taken to ensure that money is not diverted to those who are not entitled to benefit, or who are working but claiming benefit as if they were unemployed. All governments have an obligation to tackle abuse of the social security system.

This is not, as the Opposition would claim, a harsh and punitive policy introduced by this Government. The conditions to be met before benefit is payable are laid down in law, most recently in the Social Security Act 1975, and have been accepted by all governments since Beveridge's report on social security in 1942. The law requires that someone claiming benefit as an unemployed person should be both capable of, and available for, work every day of their claim. These principles were laid down by the post-war Labour Government in the Social Insurance Act 1946, and have been accepted by all subsequent administrations. In 1985, however, the Public Accounts Committee reviewed the system and identified a need to update the rules: it had found the availability for work test to be too weak a measurement of the right to benefit.

A 1988 Department of Employment survey. *The London Labour Market* revealed shortcomings in the working of the capital's employment market; many people were clearly making little or no effort to find work, or were already working in the black economy and continuing to claim benefit. The survey showed that:

- there were around 280,000 people unemployed in London, but about 150,000 unfilled job vacancies;

- most of the London unemployed were under the age of 40, rather than in middle age or nearing retirement;
- 71 per cent of the capital's unemployed had no dependent children to tie them to the home;
- many claiming benefit had qualifications – one in ten were graduates – and had jobs to take up.

The Government has made it clear that those claiming benefit should be actively looking for work, and is taking action accordingly (see p. 314). No one should have the right to claim benefit if they become, or remain unemployed, of their own choosing. As Mr Fowler told the 1988 Conservative Party Conference:

‘I give notice that we are not prepared to see taxpayers' money being used to finance the fraudulent. It is a totally unnecessary imposition on those in work paying taxes – and above all it is an insult to the genuinely unemployed in this country’ (Brighton, 12th October 1988).

Evidence of Fraud. The 1987 Labour Force Survey showed that a large number of claimants were not immediately available for work, or were not looking for it, or were already in some kind of job. Around 520,000 claimants said that they were available for work within two weeks; a further 240,000 said that they were available for work but had not looked for a job in the past four weeks; another 190,000 claimants said that they were working and claiming at the same time. Of course, this does not mean that all were claiming fraudulently: some could have been working part-time and claiming reduced benefit; others may have been about to start a job.

The Restart programme has also provided evidence of possible fraud. Since its introduction in July 1986, more than 10 per cent of claimants invited to an interview have stopped claiming benefit rather than attend. Of course, some will have found jobs, but this large-scale cancellation of benefit coinciding with the Restart interview would indicate that many of those claiming unemployment benefit were not entitled to do so – and knew it.

Investigators from both the Department of Employment and Department of Social Security have exposed substantial fraud. They have concentrated on areas of the country where jobs are plentiful and on occupations where fraud is known to be particularly rife. Between March and May 1986 there was a special exercise involving taxi-drivers in the Midlands: more than 300 of the 600 claimants investigated stopped claiming benefit as a result. In late 1986 some 270 despatch riders were investigated in London: 100 ceased claiming benefit. In the summer of 1987, fraud amongst seasonal workers on the South Coast was investigated. 4,400 cases of people found claiming unemployment benefit whilst working in nightclubs, hotels, holiday camps or selling ice-cream and so on, were investigated: 1,300 people stopped claiming as a result.

Action to Combat Fraud. The Employment Service is responsible for ensuring that claimants meet their legal requirements and are actively looking for jobs. Where

claimants are available for work, Claimant Advisers work with Restart counsellors to encourage them in their search for a job. 750 Claimant Advisers now work for the Employment Service, providing guidance to claimants on the financial benefits of returning to work, on the training opportunities available and on the conditions of entitlement to benefit. Between May 1987 and February 1988 they contacted over 400,000 unemployed people, of whom around 100,000 found a job, joined a Government training programme, or were found to be claiming the wrong benefit. A further 100 Claimant Advisers have now been appointed.

A new questionnaire is now being used for those claiming benefit for the first time which establishes eligibility for benefit more easily, and should ensure that claimants are actually looking for work and are not unnecessarily restricting their choice of jobs. In addition, since April 1988, a questionnaire has been sent out with all Restart invitation letters to establish that interviewees are still available for work and to help the counsellor decide the best opportunities for each person. Those who attend Restart interviews, accept help and then do nothing will also be contacted to ensure their availability for work: in the South-East 80 per cent of those who attend a Restart interview and say they will join a Jobclub never do so but continue to claim benefit.

In 1986–7 the work of the Department of Employment's 720 fraud investigators led some 60,000 people to stop claiming benefit; there were several thousand prosecutions, and a saving of £40 million was made. Resources devoted to this work are to be increased: an additional 65 investigators have already been recruited and a further 50 are now to be added, bringing the total to almost 850. The Government will consider recruiting even more staff if it needs to in order to ensure that there is a substantial reduction in abuse which defrauds the taxpayer and can deny legitimate work to the genuinely unemployed.

2. THE UNEMPLOYMENT COUNT

As unemployment has continued to fall over the past two years the Opposition has continued to attack the official labour market statistics. Their allegations that the figures have been 'fiddled' are totally unjustified, and claims that there have been 20 or more changes to the method of compilation are designed to mislead (see *The Campaign Guide 1987*, p. 120).

There have, in fact, been only two significant changes to the system. The first, implemented in October 1982, was necessitated by the introduction of voluntary registration at Unemployment Benefit Offices. Since that date, the unemployment total has reflected the number of people claiming benefit rather than the number registered as looking for work. The second change took place in March 1986, when the compilation of figures was delayed by two weeks in order to eliminate earlier over-recording; previously, claimants who had ceased to be unemployed were still being counted in the total figures due to late notification of their changed status. Details of these changes and those resulting from revised administrative procedures or entitlement rules are freely published in the *Employment Gazette*. In all cases, the Department of Employment

publishes figures calculated under previous arrangements in order to maintain a consistent series.

Allegations that the figures have been massaged enable Opposition Members to claim that the true level of unemployment is much higher than the official level. Totals of three or four million are cited. There is no evidence to bear out these claims. The unemployment rate, although calculated differently, is very close to that obtained by basing it on the standardised definition used by the OECD. The latest comparable figures (for November 1988) show 7·5 per cent on the UK definition and 7·8 per cent OECD definition. The 1987 Labour Force Survey (LFS) showed that on an internationally-accepted (i.e. ILO/OECD) definition of unemployed (those available for work and seeking work in the previous four weeks), there were 2·88 million unemployed in spring 1987 – over 70,000 *lower* than the official British count of 2·95 million. Though 800,000 were looking for work but not claiming benefits (e.g. married women), they were outweighed by 950,000 who were claiming benefits and either working (e.g. those on low part-time incomes or working in the black economy) or not looking for work (e.g. the prematurely retired or those looking after their families).

(E) TRADE UNION REFORM

1. THE CASE FOR REFORM

In the infamous ‘Winter of Discontent’ of 1978–9, the unacceptable face of trade union power – strengthened so irresponsibly by the last Labour Government – was revealed in the starkest possible fashion. From September 1978 to February 1979, disputes, whipped up by a militant minority, strangled, in turn, the motor industry, the bakeries, the railways, the hospitals, the ports and the schools. Cancer patients were sent home from hospital; nearly half of all schools in England and Wales were closed; food depots were blocked; and even the dead lay unburied in Liverpool. As the **Prime Minister** said subsequently:

‘You want division, you want conflict, you want hatred, there it was. It was that which Thatcherism ... tried to stop’ (BBC TV, *Panorama*, 8th June 1987).

The Conservative Party recognised that if the British economy was to revive, if British industry was to become competitive and employment increase, then this abuse of power had to be tackled. Trade union bosses had to be made accountable to their members; a fairer balance between employers and trade unions had to be restored; and trade union immunity – which knew almost no bounds – had to be curtailed.

2. THE FIRST THREE REFORMS

The Government did not impose an entirely new framework of employment law immediately, but adopted a gradual approach. As Mr Fowler has explained:

‘The essence of this step-by-step process of change and reform is a determination to ensure that the framework of law is appropriate to match the needs of the day and to respond to any omissions that have become apparent’ (*Hansard*, 3rd November 1987, Col. 817).

This step-by-step process has been accomplished by four key legislative measures: the Employment Acts 1980 and 1982, the Trade Union Act 1984 and the Employment Act 1988.

The Employment Act 1980 removed the legal immunity of trade unions when taking certain unacceptable forms of industrial action, such as ‘sympathy strikes’ or ‘blacking’ and secondary picketing. It also introduced increased protection for individuals threatened by closed shops; it provided that all new closed shops should be approved by 80 per cent of those affected; and it made public funds available to encourage trade unions to hold postal ballots.

The Employment Act 1982 enabled the Government to pay compensation to those dismissed ‘fairly’ from closed shops under Labour’s legislation between 1974 and 1979. It made it unfair to dismiss an employee for not being a trade union member in a closed shop where the closed shop agreement had not been approved in the previous five years by an overwhelming majority of employees voting in a secret ballot. It outlawed ‘union labour only’ contracts, and made trade unions, rather than individual officials, liable for damages if they were responsible for unlawful industrial action. Finally, it restricted lawful disputes to those between workers and their own employers about pay, conditions of work, jobs, and so on.

The Trade Union Act 1984, as its title implies, shifted the emphasis for reform on to the trade unions themselves. It laid down that every voting member of a union executive has to be elected directly by a secret ballot of its members at least once every five years, and that an accurate register of members’ names and addresses must be maintained by the union. It enabled any member to complain either to the courts or to the Certification Officer if his union failed to comply with the election requirements or to keep a register of its members. It also laid down that members had to be consulted in a secret ballot before a call for strike action and to endorse that action if a union wished to retain its immunity from civil action for damages. Secret ballots have to be held every ten years by unions which maintain a political fund.

3. THE EMPLOYMENT ACT 1988

Proposals for further reform of the trade unions were first outlined in the Green Paper, *Trade Unions and their Members* (Cm. 95), published in February 1987. They were designed to tackle a number of remaining issues, notably the continuing abuse of the closed shop. As Lord Young, then Secretary of State for Employment, said:

‘In general, progress has been marked and encouraging. However some unions have declined the opportunity to put their house in order, and union members have not always

felt able to take a stand and ensure that abuses are corrected. It is therefore clear that we need now to take another step both to strengthen the rights of individuals within a union and to reinforce their ability to exercise those rights' (*Hansard*, 24th February 1987, Cols. 94–5).

These proposals, which were included in the 1987 Conservative Manifesto, have now been embodied in law through the Employment Act 1988.

The Main Features of the Act. The new rights which the Act confers – and the other principal reforms – are as follows:

- i. A member of a trade union who claims that the union has, without the support of a ballot, authorised or endorsed any industrial action in which members of the union (including that member) are likely to be, or have been, induced by the union to take part or to continue to take part, may apply to the court for an order requiring the union to withdraw its unlawful authorisation or endorsement. This is a natural extension of the rights already available to employers, customers and suppliers to seek injunctions. The very existence of this right could act as a restraining influence on a union in the early stages of a dispute.

Background. During the News International dispute at Wapping in early 1986, SOGAT members employed by wholesale distributors were ordered not to handle certain newspapers without a ballot being held. If this section of the Bill had been in force at the time, any SOGAT wholesale worker could have sought an order restraining his union from calling for this action without seeking democratic endorsement. As it was, News International had to take action to seek compensation and sequestration of the union's assets.

- ii. Unions intending to organise industrial action will be required, under certain circumstances, to conduct separate ballots in each place where members, who are entitled to vote, work.
- iii. An individual who is, or has at any time been, a member of a trade union, has the right not to be unjustifiably disciplined by that union ('unjustifiable' discipline includes taking action against individuals for failing to participate in, or support, any strike or other industrial action).

Background. During the Wapping dispute, the NUJ initially imposed £1,000 fines on 95 journalists who crossed a picket line to honour their contracts of employment. In 1982, the National Union of Railwaymen disciplined about 12,000 members who refused to obey a strike call, removing, amongst other things, their rights to hold office and to participate in certain elections.

So a clear principle underlies this change. It should be for the individual to decide whether to take industrial action, break his contract of employment and run the risk of dismissal – not the union. Those who criticise the measure have argued that membership of a trade union entails an obligation to abide by its decisions.

But as Mr Patrick Nicholls, Parliamentary Under-Secretary of State for Employment, pointed out: 'It really isn't that easy. A person may feel other obligations at the same time. He may feel an obligation to his employer ... to his wife and children ... to those who are directly in his care.... Who are trade union officials to dictate to a person which of these conflicting obligations should ultimately prevail?' (Blackpool, 7th October 1987).

- iv. A trade union will be required to keep its accounts available for inspection by its members and to provide access to their accountant.

Background. On many occasions – for example, during the miners' strike – union members have not been aware of the way in which their union's funds have been handled. The NUM adopted a rule in 1985 specifically excluding the right to professional advice when examining the accounts – thereby in effect denying members proper access to the books.

- v. When anyone has certified to his employer that he has terminated, or will terminate, his union membership, the employer shall ensure that no further deduction for union subscriptions is made from that person's wages.
- vi. Union funds cannot lawfully be used to indemnify any individual who has been fined for an offence under the Act or for contempt of court.
- vii. Immunity has been removed from industrial action taken to establish or maintain any sort of closed shop practices. The remaining legal protection for the closed shop has been abolished; all dismissals for non-union membership are now unfair.

Background. Individuals should be free to choose whether or not they wish to belong to a union; an employer should not be forced to dismiss an employee who refuses to join a union. Abuse still exists: in 1984, for example, three long-serving Bristol tugboatmen who refused to join the TGWU were dismissed by their employers in order to prevent the union taking action which would have brought the port to a standstill.

- viii. Statutory election requirements have been extended to include the election of *all* trade union principal executive committee members, presidents and general secretaries. Previously, those members of trade union principal executive committees who did not have a vote were not required to submit themselves for election in a secret ballot. This loophole was exploited by certain individuals – for example, Mr Arthur Scargill, President of the National Union of Mineworkers, who waived his right to vote in an attempt to secure a position for life.
- ix. Each candidate for election is entitled to submit an election address of at least 100 words for distribution with the ballot papers. (There is little point in having a democratic election if the electorate is unable to make an informed choice. By allowing election addresses, members will be able to make up their own minds, rather than have suggestions made to them by their branch.)
- x. Elections and the compulsory ballots on political funds have to be conducted by the fully postal method with independent scrutiny.

Background. Concern aroused by recent non-postal ballots – notably that held in 1984 for the election of the TGWU General Secretary, and those in 1986 and 1987 for the posts of Treasurer, General Secretary and Deputy General Secretary of the Civil and Public Servants' Association – would indicate that workplace ballots are not always sufficiently secure or free from abuse. In the case of the TGWU election, an investigation carried out by the Industrial Society found that at one branch, which returned 800 votes, 799 had been completed by the same person in favour of one candidate while the remaining vote was spoilt.

A higher turn-out may be possible in a workplace ballot, but confidence in the validity of the election must be the paramount consideration. Under the Act, ballot papers will be sent to a member's home; he will then complete and return the forms to a central collecting point where independent scrutineers will count the votes. The Trade Union Act 1984 required trade unions to draw up lists of members' names and addresses, so they should now be ready to introduce postal balloting.

- xi. A new post of Commissioner for the Rights of Trade Union Members has been created to provide assistance to trade unionists by paying for legal advice and arranging representation to help them enforce certain statutory rights and duties owed to them by their unions.

Background. Trade union members should not be dissuaded from taking legal action against their union through lack of finance or legal advice, or through fear. The Commissioner will take action in respect of complaints referred to her; she will not proceed on her own initiative. There is no reason to believe that the introduction of this new official will encourage union members to engage in pointless litigation. The existing Certification Officer is not overwhelmed by frivolous complaints, and the unions have shown themselves willing to co-operate with his enquiries.

Opposition Failure. Predictably, both the Labour Party and the TUC have attacked this legislation – calling it a ‘blacklegs’ charter’, ‘industrial slavery’, and an ‘anarchists’ charter’. The 1987 TUC Congress unanimously approved a motion condemning the discipline proposals as an ‘unjustifiable’ intervention in the internal affairs of trade unions and calling for a vigorous campaign against the legislation. A MORI opinion poll in *The Sunday Times* (6th September 1987), however, showed how out of touch the activists were: 70 per cent of trade unionists – and 64 per cent of Labour-voting union members – backed the right of individual members to stop their union calling them out on strike without first holding a secret ballot. 47 per cent – and almost 40 per cent of Labour-voting union members – supported the proposals to prevent the disciplining of members who refuse to strike.

4. ENDING THE CLOSED SHOP

The Employment Act 1988 abolished all remaining special legal protection for the closed shop and removed immunity from industrial action taken to establish or maintain any sort of closed shop practice. In future, it will be unfair to dismiss anyone for non-union membership; an individual will be free to make his own decision about joining a union. No new major closed shops have been introduced since 1980, and the number of people working in them has fallen from a peak of 5.2 million in 1978 to about 3.5 million today, although no more than 40,000 were estimated to be in what were previously 'approved' closed shops (approved by ballots under the 1982 Act).

The 1988 Employment White Paper commits the Government to a review of the adequacy of existing legislation on the pre-entry closed shop and other remaining restrictive practices:

'The Government have made it clear that they intend to examine the operation of the pre-entry closed shop over the coming months and that they will review the steps employers take to use the freedom the law has now given them to get rid of closed shop arrangements. The Government will take any further legislative steps that are needed on this or any other aspects of industrial relations which constitute a barrier to employment' (*Employment for the 1990s* (Cm. 540), p. 20).

(F) THE CHANGING FACE OF TRADE UNIONISM

1. THE RESULTS OF REFORM

Increasingly, union members have shown their willingness to take advantage of Conservative legislation. They have now come to expect a ballot before strike action as a right, not a privilege. In many cases, they have voted against strike action, in defiance of the leadership of their union. Members of the NUR, for example, voted against the industrial action called for by their General Secretary three times between August 1985 and July 1986. As Mr Fowler has said:

'Criticisms that we were legislating in a way which would undermine good industrial relations, provoke confrontations, or produce unworkable and ineffective laws, have proved consistently unfounded' (Speech to Institute of Economic Affairs, 1st October 1987).

Numbers of Strike Ballots and Legal Actions. Nearly 400 ballots have now been held in compliance with the Trade Union Act 1984, with turn-outs of 75–85 per cent; and in over 110 cases employers have felt it necessary to bring legal action against trade unions under the 1980 and 1982 Employment Acts and the Trade Union Act 1984.

In the best-known recent case the National Union of Seamen's assets were sequestered by the High Court and large fines imposed, following the union's contempt of court

during the P&O dispute. In February 1988 Sealink, using Conservative trade union legislation, obtained an injunction which prevented its NUS employees from striking in support of their union colleagues then in dispute with the Isle of Man Steam Packet Company – a clear attempt at secondary action. When the dispute moved to P&O and to Dover, and when pickets prevented Sealink ferries from leaving port, Sealink – with whom the NUS was not in dispute – was able to use its earlier injunction to take the NUS to court where its assets, valued at £2.8 million, were sequestered.

Fall in Strikes and Working Days Lost. As the number of strike ballots has risen, so the number of strikes has fallen dramatically – to its lowest level for nearly fifty years: in 1985 the figure was 903; in 1986, 1,074; in 1987, 1,016; and in 1988 just 725, compared with an annual average for the seventies of over 2,600.

The number of working days lost in 1986 was just 1.9 million, the lowest figure for nearly 25 years, in sharp contrast to the ten-year average for 1977–86 of 11 million per annum.

Stoppages in Work 1940–88

Year	Stoppages	United Kingdom
		Working Days Lost (thousands)
1940–49 (average)	1,686	2,025
1950–59 (average)	2,116	3,252
1960–69 (average)	2,448	2,555
1970–79 (average)	2,601	12,870
1974	2,946	14,750
1975	2,332	6,012
1976	2,034	3,284
1977	2,737	10,142
1978	2,498	9,142
1979	2,125	29,474
1980	1,348	11,964
1981	1,344	4,266
1982	1,538	5,313
1983	1,364	3,754
1984	1,221	27,135
1985	903	6,402
1986	1,074	1,900
1987	1,016	3,546
1988 (provisional)	725	3,752

N.B. Some stoppages are not recorded in more than one year and so the ten-year averages

Stoppages in Work 1940–88

Year	Stoppages	United Kingdom Working Days Lost (thousands)
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do not provide a completely accurate indication of the yearly figures.

(Source: *Employment Gazette*)

As Mr Nicholls has said:

‘The contribution [our reform] has made to the transformation of our economic fortunes can hardly be over-stated, and the vision of Britain as a country heading inexorably for the economic junkyard has been replaced instead by that of a nation whose prospects for prosperity make us the envy of Europe and the Western world’ (Blackpool, 7th October 1987).

2. TRADE UNION MEMBERSHIP

Causes of Decline. Since 1979 trade union membership has fallen by about three million (or 25 per cent), from 12.1 million to around 9 million. An important factor contributing to this decline has been the changing pattern of employment in the United Kingdom over the past twenty years; the contraction of manufacturing employment in particular (reflecting in part the end of overmanning) and the drive for higher productivity have eroded the unions' power base. Employment in the new service industries has grown sharply – almost 68 per cent of all employees now work in this sector – but the trade unions have so far made little impact on it.

At the same time, people generally feel less inclined to join a trade union, perhaps for the reasons Mr Bill Jordan, President of the Amalgamated Engineering Union, has pointed out:

‘This Government ... is not the trade unions' biggest problem. Central to the future of trade unionism in Britain is the relevance of its policies and tactics to members and would-be members. Many present policies are negative or unrealistic’ (*The Times*, 13th July 1987).

Or, as Mr Eric Hammond, General Secretary of the EETPU, put it more bluntly:

‘None of us will survive if we continue to ignore the views of the average, the normal, the regular members’ (Bournemouth, 5th September 1988).

The Unions' Lack of Realism. A report commissioned by the Transport and General Workers Union in 1987, entitled ‘Change at Work’, found that the union had lost members at twice the rate of the decline in the number of jobs in the industries in which it operates. For example, in the chemical industry the TGWU lost 38 per cent of its

members while employment fell by only 16 per cent; and in the construction industry employment dropped by 17 per cent, but union membership fell by 39 per cent. The rapid decline in union membership cannot therefore be explained simply in terms of the contraction of employment in manufacturing – other factors, such as the apathy, incompetence and extremism of some union leaders have clearly played their part. Reform of the closed shop has given many more people the opportunity to decide for themselves whether to join a union; large numbers have chosen not to do so. Frequently unions seem uninterested in attracting new members. According to a survey conducted by USDAW, the distributive workers' trade union, the most common reason for the growing number of part-time workers not joining a union is that they simply have not been asked (*Financial Times*, 6th December 1988).

Further evidence of unions actively losing themselves members comes from a survey by Professor David Metcalf of the London School of Economics (*Unions and Productivity*, LSE, June 1988). Professor Metcalf has confirmed that, in raising their members' pay, unions frequently reduce labour productivity and cause low corporate profitability. The results are predictable: in the private sector in 1984, just 25 per cent of companies with a closed shop reported above average financial performance; for non-union companies the figure was 60 per cent. Profitability in turn affects jobs. In the years 1980–4, one third of unionised workplaces suffered job losses of a fifth or more; a similar proportion of non-unionised companies experienced the opposite and recruited a similar number of extra staff over the same period. As Professor Metcalf points out:

‘The plain fact is that in the 1980s non-union companies have a better record on maintaining and creating jobs than do unionised companies. ... If they [union leaders] persist in their ... pursuit of higher pay, generous manning levels and lower profits, they may have to come to terms with job and membership losses’.

2. THE NEW REALISM?

Single-Union and ‘No-Strike’ Agreements. With falling membership, the loss of a captive market in the closed shop and unrepresentative and unrealistic policies (only 40 per cent of union members voted Labour in the 1987 General Election), one or two of the more forward-looking unions have been offering more flexible working practices and in some cases compulsory and binding (or ‘pendulum’) arbitration as the final stage of the disputes procedure. In return they ask employers for better pay and conditions for their members. Common status for manual and non-manual workers (enabling both groups to use the same facilities) is often a feature of such agreements.

Secure jobs are more likely in a profitable, competitive company than in one bedevilled by strikes and overmanning. As Mr Fowler has said:

‘If they are to make their most positive contribution, trade unions – or at least some trade unions – have to move away from their old traditions of confrontation and conflict. They have to recognise – as so many of their members have already done – that the interests of

employees and employers can only be secured by co-operation' (Speech to IEA, 1st October 1987).

Very often a company is only prepared to deal with one union – hence 'single-union' agreements. The majority of these so far have been signed between Japanese companies such as Hitachi, Sanyo and Nissan on the one hand, and the EETPU and the AEU on the other. These agreements are good news for job seekers. At Sanyo's Lowestoft plant, a single-union 'no-strike' deal was signed with only 50 employees in June 1982. Today, the plant employs more than 600 and has plans for a large increase in the output of all its products.

Inter-union Rivalry. Not surprisingly, at a time of falling union membership, single-union 'no-strike' deals have provoked membership battles between unions. From some unions have come allegations that their membership has been 'poached'; other unions reject the very concept of 'no-strike' agreements as 'the prostitution of the principles of this movement' in the words of Mr Scargill (Blackpool, 7th September 1987).

Confusion has arisen because certain unions claim not to have entered into firm 'no-strike' deals when in fact they have done so. There is also argument over what constitutes a 'no-strike' deal. Mr David Warburton, Principal National Industrial Officer of the GMB, explained his union's position:

'We reject totally and completely the action of those who – in desperation – jettison fundamental trade union rights, sign 'no-strike' deals, inflict compulsory pendulum arbitration and deals linked to giving equality to non-unionists on negotiating bodies' (*Financial Times*, 24th June 1987).

However, MATSA, the white-collar section of the GMB, has done just that. It has signed a 'no-strike' deal with Pirelli for a factory being built in South Wales. Mr David Plant, National Industrial Officer for MATSA, has said:

'It does constitute a no-strike deal. The final stage of the disputes procedure ... is final binding arbitration' (*Financial Times*, 20th June 1987).

The Left is adamant that a 'no-strike' deal takes away an employee's fundamental rights; in fact the real point is that it can stop the unions calling their members out on strike. As Mr Hammond has pointed out, no 'no-strike' agreement has been signed by his union without the approval, expressed in a ballot, of the workers concerned. Even then, such collective agreements are not legally binding; in the last resort, the right to withdraw labour stands. As Mr Jordan has stressed:

'So-called no-strike clauses can never stop a British trade unionist downing tools' (Blackpool, 7th September 1987).

TUC Fudge. Conscious of the need to resolve the squabbling, but unwilling to commit itself to rules likely to alienate one side in what had become a 'left-right' battle, the TUC

General Council persuaded the 1987 Congress to agree to a year-long major review of union organisation – including single-union deals. But before the 1988 Congress could vote on the review, the EETPU was expelled from the TUC for signing two single-union deals.

The Expulsion of the EETPU. The electricians' union, the EETPU, which pioneered the single-union no-strike deal at Toshiba in Plymouth in 1981, signed single-union agreements at two depots of Christian Salvesen, and at Orion Electric, in 1987. During February and March 1988, the TUC Disputes Committee instructed the union to withdraw from these deals after complaints from both the GMB and the TGWU that they had lost members – the views of the employees of the companies, who had joined the EETPU, were not considered.

In May 1988 the EETPU executive decided not to accept the Disputes Committee's awards, and in July the union was suspended from the TUC. On 5th September it was expelled. Immediately before expulsion, Mr Hammond argued that the workers at Christian Salvesen and Orion had wanted EETPU single-union no-strike deals. He hoped that the delegates would:

‘question with growing force your denial of our members' freedom, our citizens' freedom, to join a union of their choice and freely make agreements with their employers’
(Bournemouth, 5th September 1988).

The situation is complicated still further by the fact that the leadership of the EETPU and the AEU have agreed on a merger. Subject to endorsement by the membership of both unions in a ballot, the new union will operate from March 1989. Yet the AEU, while sharing the EETPU's distaste for TUC regulation of single-union deals, still maintain their intention of staying in the TUC.

Ford and Dundee. In March 1988, inter-union wrangling over single-union agreements led Ford to abandon plans to build a £40 million electronics plant at Dundee which would have created up to 1,000 jobs.

The announcement that a single-union deal had been signed between Ford and the AEU in October 1987 produced the standard self-interested reaction from the eleven other unions with negotiating rights at Ford. Led by the TGWU, they reported the AEU to the TUC for breaking rules about ‘inter-union consultation’ and smugly announced that all components from the plant would be blacked. The continued intransigence of the TGWU led Ford to scrap the project.

The power of one union lost 1,000 jobs in Dundee and in addition deprived Scotland of thousands of other jobs in commercial and service industries which would have followed. Mr Ron Todd, General Secretary of the TGWU, claimed that the agreement at Dundee would jeopardise existing agreements at Ford plants in the UK, and therefore had to be opposed. Just how far his personal view diverged from his members' opinions was revealed by Mr Bill Speirs, Deputy General Secretary of the Scottish TUC:

‘The T&G position has been best summed up not by the public statements of the General Secretary but by the position adopted by the Dagenham shop stewards that they would not black parts coming from Dundee’ (*The Independent*, 26th March 1988).

Once again the unions turned their backs on the unemployed. The AEU President, Mr Jordan, said he was ‘sickened’ by the TGWU’s sabotage of the deal declaring that ‘this shows the unacceptable face of trade unionism’ (*The Sun*, 19th March 1988). Mr Gavin Laird, General Secretary of the AEU, added that ‘the trade union movement has failed the people of Dundee’ (*The Independent*, 18th March 1988).

The anger felt at Dundee was best expressed by Mr Joseph Turnball, an unemployed man in his early twenties:

‘I had hoped to get a job as a labourer in the plant; but now Ford are not coming and the unions have to take the blame’ (*The Sunday Times*, 20th March 1988).

The TGWU’s most famous sponsored MP, Mr Kinnock, remained completely silent during the dispute, and refused to intervene with his own union to create new jobs for Scottish workers.

TUC Policy on Single-Union Agreements. The 1988 TUC Congress unanimously agreed that there should be a six-month trial period during which unions would refrain from concluding strike-free agreements, in exchange for recognition with a company, without first consulting the TUC. Unions will also have to inform the TUC of their intention of signing a single-union agreement at an early stage of negotiations.

This code of practice on single-union agreements is supposed to help make unions more attractive to potential recruits. But, as Mr Jordan has said:

‘One million jobs have been created in the last few years, and in each of those years trade union membership has fallen. It is time we asked ourselves some challenging questions about our policies, about our organisation, and about our time-honoured way of doing things. Single-union deals are proving a key in building up union membership in what were previously no-go areas of new companies’ (Bournemouth, 5th September 1988).

‘Business Unionism’. Forward-looking unions, such as the EETPU and the AEU, are increasingly pursuing a policy that is coming to be known as ‘business unionism’ in a bid to attract new members. This approach has won expressions of support even from Mr Norman Willis, TUC General Secretary:

‘If members want additional pensions, or insurance tailored to their needs, it is folly to tell them they can only get these through traditional financial institutions. If members can get a bit shaved off their mortgages through a trade union scheme, is that some sort of betrayal? After all, why should the devil have all the best plastic cards?’ (*The Independent*, 5th October 1987).

The AEU and EETPU have pioneered the provision of such services for their members; indeed the EETPU employs a full-time benefits officer to work with building societies, insurance companies and finance houses. It offers discounts for members on holidays, cars and insurance; advice is available from stock and insurance brokers. A subsidiary of the union arranges pensions, life insurance and mortgages.

Other unions have followed suit. SOGAT and NUPE both now offer financial services packages and the GMB has launched its own Visa credit card for its members as well as cheaper personal loans, mortgages and insurance. Later this year, even the TUC should have put together a comprehensive package of services through the Unity Trust Bank, which aims to offer a pensions service, personal insurance, mortgages and cut-price legal advice on a range of issues including divorce (*The Independent*, 25th July 1988).

(G) OPPOSITION POLICIES

1. LABOUR PARTY

Labour Confusion. Confusion and contradiction are the hallmarks of Labour's attitude towards employment and training issues. Labour politicians are united only in their resentment at the Government's success in reducing unemployment dramatically. While trying to portray Labour as the 'defender of the unemployed', they have been anxiously (and vainly) hoping that their own dire predictions of vast job losses would come true. In 1983, Mr Kinnock confidently predicted that the re-election of the Conservative Government would mean that 'mass unemployment of six million people is inevitable' (*Daily Mirror*, 11th May 1983); Mr Scargill put the figure at eight million (*Observer*, 12th June 1983).

Labour's more recent predictions have been equally wide of the mark. In September 1987, for example, Mr Michael Meacher, Labour's Employment Spokesman, predicted that unemployment would increase within the next year (*Morning Star*, 30th September 1987); it fell in each of the following twelve months by a total of more than half a million, and has continued falling ever since.

Labour have responded by claiming that unemployment has only been falling because the figures have been 'fiddled'. Not only is this manifestly untrue (see p. 141), but Labour leaders have made it clear that, if elected, they would not change the way the calculations are made. This has led to much confusion about what Labour considers the most accurate total to be. Within barely a fortnight in the winter of 1987-8, Mr Meacher changed his version of the figure by almost one million – putting it at either '2½ million' (23rd December 1987) or 'around 3·4 million' (8th January 1988) as the mood took him.

Jobs: Labour's Empty Promises. Labour have also failed to maintain any semblance of consistency in their repeated promises to reduce unemployment. Before the 1987 election, Labour spokesmen regularly committed the Party to two conflicting goals. On the one hand, they promised that an incoming Labour government would create one

million new jobs; on the other that it would reduce unemployment by one million. Mr Kinnock, for example, promised the former:

‘When we form the next Government, our first priority will be jobs. We are going to generate one million in the first two years’ (*Municipal Journal*, 7th February 1986).

The Manifesto, however, promised the latter:

‘We will reduce unemployment by one million in two years as the first instalment in beating mass unemployment’ (*Britain Will Win*, May 1987, p. 4).

As a result of its recent policy review, Labour has made even wilder claims, saying that its policies would be geared to:

‘full employment and to the measures necessary to secure it’ (*Social Justice and Economic Efficiency*, p. 4).

The document does not specify how or when this would be achieved, and it does not repudiate the jobs destruction package put forward at the last General Election. Labour's 1987 Manifesto contained specific proposals that would themselves have destroyed jobs on a massive scale:

	<i>Jobs lost</i>
National minimum wage	600,000
Nuclear power	150,000
Sanctions against South Africa	120,000
Polaris/Trident and US bases	60,000
Private education/health	50,000
Loss of business confidence	?
Repeal of trade union reforms	?
Training levy	?

Labour's latest promises have a familiar ring, but the fact remains that, while *every* incoming Labour government has promised to reduce unemployment, each has presided over an increase in the number of people without work (see *The Campaign Guide 1987*, p. 127).

Truth will Out. Some Labour politicians have already admitted that their policies lack credibility. Mr John Prescott, Labour's Transport Spokesman, has said:

‘It is not credible for Labour to suggest that our policies for full employment ... can be financed on a programme of low taxation. It can't, and the electorate know it can't’ (*Tribune*, 5th June 1988).

Labour's commitment to massive increases in State spending mean that tax rates would have to rise dramatically (see p. 73). But it is clear that higher taxation destroys rather than creates jobs. As the Chancellor of the Exchequer, Mr Nigel Lawson, has pointed out:

‘At the last General Election the Labour party said that if it was re-elected it would reduce unemployment by 1 million over a period of two years. ... [It] said that it would do that by an extra £6 billion a year of public expenditure. ... Let me tell Opposition Members this. In the [last] year and a quarter ... unemployment has fallen by more than 650,000. That rate is equivalent to a shade over a million in two years.

How has that been achieved? It has not been achieved by spending an extra £6 billion, for a start. That did no good when the Labour party was in power and it would not do any good now’ (*Hansard*, 25th October 1988, Col. 187).

Indeed, the Government's record of success has been achieved not by spending an additional £6 billion per year, but by cutting taxes by about the same amount and keeping firm control over spending.

Training: Destroying Job Opportunities. Hypocrisy is the hallmark of Labour's approach to training. They say that they are committed to the extension of training opportunities, but their actions show that commitment to be worthless. While the Labour-controlled Association of Metropolitan Authorities urged co-operation with the new Employment Training scheme, several Labour councils practised outright non-co-operation until their actions were declared unlawful. At the 1988 Labour Party Conference, delegates voted down a resolution that gave qualified approval to the ET programme and supported one that expressed total opposition to the scheme. Both votes went against the advice of the Labour leadership. The former vote revealed the Party's division: the motion was defeated by only 216,000 votes out of nearly 6 million. The latter exposed the dubious ethics which guide its conference management. Mr Denis Skinner, acting chairman, declared this more extreme motion carried on a show of hands, dismissing calls for a card vote as having come too late.

There were also divisions within the Labour leadership itself. Mr Kinnock had urged the TUC Conference to participate in Employment Training:

‘I want you to stay in ... That is the way forward. Outside you make protests. Inside you make the case’ (*The Times*, 7th September 1988).

Yet his own Employment Spokesman, Mr Meacher, implacably opposed the scheme, maintaining that it ‘isn't at present even minimally acceptable’ (*The Guardian*, 17th September 1988).

The decisions of both the TUC and the Labour Party Conferences to oppose Employment Training did not, however, go unchallenged. Severe internal criticisms soon became apparent. Indeed, on the morning of the TUC's decision, Mr Bill Jordan, President of the AEU, issued the following warning:

‘If today congress votes to boycott Employment Training we will be doing a gross disservice to our members at work and those unemployed. We will be saying to the ... unemployed that the protection of our reputation is more important than their quiet desperation’ (*The Times*, 5th September 1988).

Such criticism eventually forced both Labour and the TUC to reverse their opposition to Employment Training. Within three months, members of the TUC General Council voted 22–16 to overturn the decision of their own Conference block votes.

As if its decision on ET was not enough, the 1988 Labour Party Conference passed other resolutions that, if implemented, would also deny opportunities to the unemployed. Delegates voted in favour of introducing a national minimum wage to be set at two-thirds of the present weekly average – or around £135 a week at today's rates. The Conference rejected the argument of Miss Diana Jeuda, speaking for the NEC, that:

‘If we were to bring this in straight away, without any kind of phasing programme, the result would be jobs lost and prices going up because that would be the only way we could pay for it’ (*The Independent*, 5th October 1988).

Earlier in the week the Shadow Chancellor, Mr John Smith, had reaffirmed the Labour leadership's commitment to a national minimum wage though, characteristically, he refused to be drawn on the level at which it should be set (*The Daily Telegraph*, 5th October 1988). Any such artificial inflation of labour costs would clearly destroy rather than create jobs.

A Confused Conference. Labour's actions on employment issues show its professions of concern to be entirely hollow. The 1988 Conference, having opposed Employment Training, went on to approve the policy review document *Social Justice and Economic Efficiency*, which describes training as ‘the key to the attack on unemployment’ (p.10).

For its part the Government has long recognised the importance of training and is spending twice as much on employment and training measures as did the last Labour Government even after allowing for inflation. The Labour Party and the trade unions have opposed many of the Government's initiatives, including Restart interviews, Jobclubs, and the Youth Training Scheme. No one has put the case against Labour better than the Labour leader of the ILEA, Mr Neil Fletcher:

‘It is impossible to ignore any longer the pitiful way the Labour Party's ... policies on training have limped impotently into irrelevance during the last ten years. Their toothlessness is a little short of a political disgrace. Sadly, training ... looks all too much like a vote-loser for Neil Kinnock. Embarrassing scenes during the TUC at Bournemouth showed just how far once-great trade unions and their posturing leaders have drifted from reality. But the ill-judged sermon preached at them by Neil Kinnock over Employment Training even more depressingly revealed how bankrupt the Labour Party's own policy-making resources have become in relation to the critically important issues of training and the unemployed’ (*The Guardian*, 11th October 1988).

Industrial Relations: Turning Back the Clock. The Labour Party still sees nothing wrong with heaping power and privileges on the trade union leaders: the union paymasters continue to call the Labour tune. The much vaunted policy review failed to bring Labour's industrial relations policies into the 1980s. Despite all the evidence to the contrary (p. 50), it obstinately maintains that

‘Tory anti-union legislation ... has harmed not helped industrial relations’ (*Social Justice and Economic Efficiency*, p. 11).

In short, Labour wants to return Britain to the era of industrial unrest – complete with unrestrained secondary picketing – which its irresponsible legislation in the 1970s did so much to create.

Both its 1987 Manifesto *Britain Will Win* (p. 13) and its policy review document *Social Justice and Economic Efficiency* (p. 14) make it clear that a Labour government would relax the rules on sympathetic industrial action. Labour's 1988 Conference passed resolutions calling for the restoration of ‘basic trade union immunities’ and the repeal of all ‘anti-trade union law [passed] since 1979’. Mr Kinnock supports this policy of repealing all Conservative industrial relations reforms: he has said that Labour's ‘commitment is to clear it’ (*Weekend World*, 10th April 1988) from the Statute Book. But Mr Todd, General Secretary of the Transport and General Workers' Union, which sponsors Mr Kinnock in Parliament, has made it clear that he would regard the restoration of the unions' former powers as only the start:

‘We see no alternative whatever to a return to the basic legal immunities on which trade union strength has been built. They need to be extended rather than simply restored’ (*The Independent*, 10th September 1988).

Worker Participation. According to Labour's policy review document, *Social Justice and Economic Efficiency*, an incoming Labour government would seek to create a compulsory and ‘formal structure of employee representation in worker/management decision making’ (p. 13).

Such a policy is hardly original, having been proposed by the Bullock Committee more than eleven years ago. It is also one that takes no account of the changes that have taken place over the past decade. If implemented, Labour's proposals would create damaging rigidities and bureaucracy in a labour market that has prospered as a direct result of its new-found flexibility. In addition, their concentration on larger companies would, in the words of Lord McCarthy, Labour's Employment Spokesman in the House of Lords:

‘condemn Labour's vision of industrial democracy to a steadily-shrinking and atypical fraction of the working population, leaving aside the growth sectors [of the economy] ...’ (*The Guardian*, 25th April 1988).

The Unions and the Economy. Labour also intends to return to the trade unions the major role in economic policy-making that they used to such disastrous effect in

successive 'social contracts'. According to Mr Bryan Gould, Labour's Spokesman on Trade and Industry,

'The next Labour Government will naturally wish to bring the trade union movement back into the mechanisms of decision-making on economic policy' (*The Daily Telegraph*, 20th February 1988).

Yet his colleague, Mr Meacher, has said of the trade unions that 'their power was always basically negative and reactive' (*A Future for Democratic Socialism*, 3rd December 1985).

Labour's policy review document backs the view of Mr Gould. An incoming Labour government would not only be committed to extending the responsibilities of trade unions, but would subsidise their shop stewards out of taxpayers' money:

'Trade unions already provide training and research for their shop stewards and members. There is a clear public-interest case in ensuring resources are adequate for this function by providing state funding to the trade unions for these purposes' (*Social Justice and Economic Efficiency*, p. 14).

Living in the Past. Labour remains rooted in the past, having failed to learn its lessons. At no stage has Labour tried to distance itself from the TUC's obstinate and short-sighted refusal to consider the benefits of new industrial relations practices, such as single-union and no-strike agreements. Labour's dependence on trade union funding means that it blindly follows the TUC line, however outdated it may be. As Mr Hammond, General Secretary of the electricians' union, has said:

'The trouble with Labour is that if the TUC says jump, the party jumps' (*The Observer*, 12th June 1988).

Nowhere was the futility of this approach more apparent than over Ford's plans to build a £40 million electronic components plant at Dundee (see p. 150). The TGWU's negative attitudes and the silence of the Labour Party – and particularly its leader, who is himself sponsored by the TGWU – conspired to cause such arguments and delays that Ford was forced to take its investment elsewhere. Scotland's loss was Spain's gain.

2. THE SLD

Job Creation: Playing the Numbers Game. The SLD has remained remarkably quiet on employment matters since the 1987 General Election. It has done nothing to remove the old-fashioned, left-wing bias that characterised the numerous and contradictory proposals of the old 'Alliance'. The two parties remained committed to the outmoded idea that a certain number of jobs could be created by a set amount of public spending – although they could not agree on what the figures would be (see *The Campaign Guide 1987*, p. 132).

The 'Alliance's' 1987 manifesto, *Britain United*, was studiously vague. It stated simply:

'We will expand the economy by targeting resources to increase output and exports rather than consumption and imports' (p. 6).

However, the specific proposals made by the 'Alliance' would have involved extra public spending of up to £19 billion per annum by the fifth year. This would have led to higher, not lower, unemployment by increasing inflation, taxation and borrowing.

Back to the 1970s. The predominant partner in the new SLD – the Liberals – would seem not to have learned anything from its successive election defeats if the official document *The Liberal Approach: A Statement of Liberal Policy* (September 1987) is anything to go by. It harked back to the old days when Labour Governments sought to regulate prices and incomes, promising to create:

'a Prices and Incomes Authority responsible by statute to Parliament for monitoring pay settlements related to agreed annual pay increases. Where the voluntary approach failed, the Government would have the power to introduce fiscal sanctions on both employers and employees ...' (p. 8).

Yet for many members of the new SLD, the threat of introducing sanctions on firms in breach of government pay norms represents a significant policy reversal. In December 1978, when the then Labour Government sought to boycott firms breaking its 5 per cent pay policy, all but two Liberal MPs voted against its proposals. Of current SLD MPs, only Mr MacLennan then voted for this particular left-wing brand of government interference in matters best decided between employers and their employees.

Mr Ashdown's Confusion. The SLD leader, **Mr Paddy Ashdown**, has changed his attitude towards employment, as he has on so many other issues. He fought the last General Election on the basis of the 'Alliance' Manifesto's statement that 'unemployment is neither acceptable nor inevitable' (*The Time Has Come*, March 1987). During the recent contest for the SLD leadership, however, Mr Ashdown stated that unemployment is:

'endemic and structural in our nation for as long as practical politicians are wise to think of' (*The Independent*, 24th June 1988).

This is a curious view for him to hold – given the fact that unemployment has been reduced by over 1 million since June 1986. Long-term unemployment has fallen faster than unemployment as a whole.

Training: Bureaucracy and Contradiction. The SLD's policy on training can be deduced from its 'Federal Green Paper' entitled *The Learning Society*, published in August 1988. It rightly links the twin issues of education and training, but fails to give credit to the Government for its various initiatives to improve the effectiveness of both. The main distinguishing characteristics of the SLD's own proposals are complexity and

expense, from which only bureaucrats would profit. They call for different NIC levels for employers, different tax arrangements, annual training audits for each and every company, 'learning contracts' with trade unions, and tripartite area 'Training Forums'.

The document goes on to state that policy, 'should be based on the assumption that all young people up to the age of 18, should be in some form of education or training, full or part-time' (p. 17); unemployment is not seen as an option for 16 to 18 year-olds. Yet when the Government has taken action on exactly this question, Liberals have accused it of 'creeping compulsion', from which they dissociate themselves:

'Compulsion is a fundamentally illiberal principle, denying young people the choice of opportunity of deciding what they wish to do with their lives' (*Liberal Life Chance Campaign Pack*, November 1987, p. 17).

Industrial Relations: Trade Union Reform. The old 'Alliance's' industrial relations policy consisted in large measure of promising to do what this Government has already done. Its 1987 Manifesto stated that:

'Our central aim is to make unions democratic and accountable' (*Britain United*, p. 8).

The Liberal element within the SLD is, however, now apparently backtracking. Its September 1987 publication, *The Liberal Approach*, contained the following example of equivocation:

'We are concerned about the effects of recent Conservative legislation aimed at limiting Trades Union immunity and will review its impact on Trades Unions' (p. 10).

This is not the only example of an instinctive desire to turn back the clock on industrial relations matters. The same policy paper also seeks to reverse growing and increasingly successful moves towards union derecognition, single-union deals and performance-related pay for individual employees. It states:

'Any union which orders its affairs within the requirements of the law would be entitled to recognition by an employer for collective bargaining' (emphasis added, p. 10).

The implementation of such a proposal would have the effect of creating the very multiplicity of unions criticised by Mr David Steel as having such a damaging effect on the British motor industry. In March 1988, he described such arrangements as contributing to 'chaotic' and 'shambolic' industrial relations at two separate car plants (SLD Press Release, 26th March 1988).

Employee Participation. The 'Alliance's' 1987 Manifesto contained this vague commitment to industrial democracy:

‘We will legislate for employee participation but believe that flexibility must be allowed in working out the detail for employee councils [which] ... should have the information ... to enable them to contribute to strategic decisions’ (p. 8).

This would increase further the bureaucratic burden on business, and carries no guarantee of improving industrial relations. Its effects would be to rob managers of their rights to manage and to hinder and delay company decision-making.

In September 1987, the Liberals went even further, advocating positive discrimination in favour of organisations that satisfied its very narrow-minded criteria of good industrial relations practices:

‘Liberals would discriminate in favour of community enterprises, producer and service co-operatives, and other forms of co-ownership as good examples of industrial democracy in practice’ (*The Liberal Approach*, p. 10).

Liberal policy also reserves a large role for the trade unions in the development of employee participation:

‘The Trade Union movement has a key role in the development of workplace democracy ... shop stewards and Trade Union officials must be fully trained and equipped to help develop the form of industrial democracy suited to each enterprise. There should be reasonable time off and adequate facilities for union representatives to perform their duties’ (ibid.).

Yet it was the shop stewards and the trade union officials who were so vehemently opposed to the Government's introduction of democracy and accountability in their own organisations.

3. THE SDP

Plagiarism and Past Performance. Since their acrimonious split with the Liberals, Dr David Owen and his rump SDP have adopted an employment policy that attempts to capitalise upon the success of Conservative reforms. It backs single-union agreements, ‘pendulum arbitration’, negotiated contractual obligations and strike free agreements, seeing them as ‘the right path for the new trade unionism’ (*Sticking With It*, September 1988, p. 11), as indeed they can be. It calls for performance-related pay and wants the SDP to become:

‘the champions of decentralising the wage bargaining structure’ (ibid. p. 10).

The same document is also right in acknowledging the importance of education and housing in relation to employment policies. On housing, it states:

‘The rigidities and injustices in the housing market are a disgrace. They are a positive disincentive to people moving to find employment or take promotion’ (p. 12).

Yet at no stage did Dr Owen or either of his colleagues vote in favour of the Government's proposals to revitalise education or extend job mobility through reform of the housing market.

Similarly, Dr Owen's fine words about 'the new trade unionism' are not supported by his past record. He did not even criticise any of the last Labour Government's four major employment bills. He voted against the 1980 Employment Bill, saw his party split three ways over the 1982 Employment Bill, and then voted for the 1984 Trade Union Bill despite his Party's description of the 1983 Democracy Green Paper, upon which it was based, as:

'a one-sided and partisan document in an area where balanced, creative reform is badly needed' (*The Guardian*, 8th April 1983).

The SDP's basic opposition to trade union reform was demonstrated again in November 1987 when its MPs voted against the Second Reading of the Government's Employment Bill.

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(A) GOVERNMENT ACTION

1. INTRODUCTION

The regeneration of economically depressed and socially deprived inner city areas is one of the Government's major objectives for its third term.

In March 1988, **Mrs Thatcher** launched the Government's 'Action for Cities' programme and set out the way ahead:

'The Government is determined to build on a strong economy a new vitality in our inner cities. In partnership with the people and the private sector, we intend to step up the pace of renewal and regeneration to make our inner cities much better places in which to live, work and invest We are embarked on a great enterprise which will leave its mark on

Britain for decades and carry our towns and cities into the 21st century in much better shape' (London 7th March 1988).

Mr Tony Newton, Chancellor of the Duchy of Lancaster, who is now responsible for co-ordinating the Government's inner city policies, has summed up the nature of the problems which have to be tackled:

'In a sense, "inner cities" is a form of shorthand. There is no single simple inner city problem and certainly no single simple remedy. There is a complex of problems of varying combinations: the decline of old industries, coupled with a failure to face up to that decline and to create the conditions in which new ones can grow; planning and housing policies – most clearly symbolised by those dreadful tower blocks of council housing of the fifties and sixties – which have fashioned an environment in which few would willingly choose to live; poor schools and poor training – all contributing to an air of dereliction, decline and despair which generates vandalism and crime, and sets up a vicious circle in which every problem becomes even harder to tackle' (Brighton, 11th October 1988).

The Government already has a clear record of achievement in the inner cities in the nine years it has been in power. As Mr Kenneth Clarke said during the time that he was co-ordinating the Government's inner city programme:

'No one can say that somehow we've just discovered the problem of the inner cities ... this Government has so far spent literally billions of pounds of taxpayers' money in helping to tackle the varied problems of our cities' (Blackpool, 6th October 1987).

A recent opinion poll revealed that the term 'inner cities' conjures up images of poverty, crime, unemployment and poor housing to the general public. The same poll also showed that a clear majority consider the Conservative Party is the party most able to tackle these problems in the inner cities. (*The Daily Telegraph*, 25th January 1988).

Mr David Trippier, the inner cities minister in the Department of the Environment, has nonetheless stressed the need for Conservatives to:

'stop being shy about advertising the work that Government is doing in the inner cities. It may be that few people realise just how much work the Government has done in these areas and is committed to doing in the future. The onus is then on us to more widely publicise our commitment and actions as hard as we can There is a saying that actions speak louder than words' (London, 19th November 1987).

2. ACTION FOR CITIES

The Government's strategy – developed and improved over the last nine years – was laid out in detail in its 'Action for Cities' programme launched in March 1988. In the **Prime Minister's** words, it 'adds up to a £3,000 million major attack on the host of problems covered up by the "inner cities" label' (7th March 1988).

Partnership. The dominating theme is partnership, as the **Prime Minister** has said:

‘The Government is determined to build on a strong economy a new vitality in our inner cities. In partnership with the people and the private sector, we intend to step up the pace of renewal and regeneration to make our inner cities much better places in which to live, work and invest. The new initiatives being taken by the Government and announced by the private sector show that we are releasing the talent, enterprise and energy that is at the service of our inner cities. We are embarked on a great enterprise which will leave its mark on Britain for decades and carry our towns and cities into the 21st century in much better shape’ (ibid.).

The Government has not only committed substantial resources – in excess of £3 billion in 1988–9 – but has used them to bring a whole range of new ideas and approaches to bear on the problem. And it has created an array of fresh opportunities for businessmen and the residents of the inner cities themselves. Acting together, the Government, private enterprise, the voluntary sector and responsible local authorities can replace urban decline with prosperity.

The Government welcomes participation by local authorities in the process of inner city renewal. But the record of many Labour-controlled councils has often been poor. As Mr Newton has said, their policies ‘might have been calculated to drive away every positive force for regeneration and renewal’ (Brighton, 11th October 1988).

However, the Government's case for an assault on inner city decay, based on partnership between private and public sectors is so overwhelming, that there are now refreshing signs that some Labour authorities are beginning to drop their stubborn resistance to the Government's initiatives. And, as Mr Newton has said:

‘Whatever political differences there may be, let me say quite clearly that where [local authorities] are prepared to work pragmatically with us, as more and more of them happily are, we will work pragmatically with them’ (ibid.).

The challenge is considerable; only the Conservative Party has the strategy to deal with it. And the results are beginning to come through, as the **Prime Minister** said:

‘Dying industries, soulless planning, municipal socialism – these deprived the people of the most precious things in life: hope, confidence and belief in themselves. And that sapping of the spirit is at the very heart of urban decay. To give back heart to our cities we must give back hope to the people. And it's beginning to happen’ (Blackpool, 9th October 1987).

3. ENTERPRISE IN THE INNER CITIES

The Government's prime responsibility in its partnership with the private sector is to create the right conditions for enterprise to flourish by controlling inflation and sharpening incentives. The Government has stimulated the development of enterprise by:

- cutting the rates of both income tax and business taxation, so giving an incentive to personal enterprise and helping to ensure that companies retain more of their profits for investment in further wealth and job-creating activity;
- removing from industry's shoulders the burden of excessive bureaucracy, by pursuing a consistent policy of deregulation;
- supporting business with the Enterprise Initiative (see p. 84) designed to help companies achieve greater success in a number of crucial management areas;
- developing a range of training initiatives, including the new Employment Training programme, to help equip the workforce for the growing number of jobs in the modern economy.
- improving standards of education and making school work more relevant to the demands of today's job market.

All these policies are of, course, designed to help secure the prosperity of the country as a whole, but they have a particular significance in relation to the inner cities where they provide the basic framework for economic regeneration.

An inner city will only become more prosperous if new enterprise is attracted and its local businesses succeed. There is ample proof of this: those inner city areas which are well on the way to making the transition from dereliction to prosperity – London's Docklands for example – are those where the private sector, supported by Government initiatives, has taken a commanding role. The prospects for the inner cities are being transformed by such national achievements as:

- *Job Creation.* The dynamic UK economy has created more jobs than the rest of the EC put together since 1983, and produced two and a half years of steadily falling unemployment. The fall in the last year has been fastest in the West Midlands, the North-West and Wales.
- *Encouragement to Small Businesses.* Since 1987, new businesses have started up in Britain at the rate of 500 every week, and there has been a net increase of almost 1,000 a week over the past year.
- *Wider Choice in Education.* Inner city children will benefit not just from the new City Technology Colleges, but also from the establishment of the national curriculum, national testing and greater parental choice and influence – measures which will raise standards everywhere.
- *Greater Freedom for Tenants.* Inner city residents, for so long deprived of choice and quality in housing, have much to gain from the measures under the Housing Act 1988, to free the private rented sector, encourage housing associations, to establish Housing Action Trusts to improve the worst council estates and to give council tenants the right to choose their own landlord.
- *Reform of Local Government Finance.* The introduction of compulsory competitive tendering and the Community Charge offer inner city residents an escape from the extremism, incompetence and indifference of many Labour inner city councils. Value for money and incentives for prudence will be encouraged in all local councils – but it is those in the inner cities which need these incentives the most.

The domestic rating system encourages the cycle of dependence and decline in the inner cities, since in some of these areas barely one-quarter of the local electorate pays rates. As Mr Nicholas Ridley, Secretary of State for the Environment, has said of the rating system:

‘It gives a large number of voters – the majority in our cities – a stake in maximising local authority spending on services and welfare benefits, and maximising rate levels. It gives left-wing councils a means of promoting political dominance by maximum dependence on the state ... The real reason for Labour's hostility to the Community Charge is the threat which Socialists perceive to their power base in the inner cities. Since that is part of the problem, the Community Charge is part of the solution!’ (Newcastle, 6th November 1987).

The **Prime Minister** has summed up the objectives of all these policies, emphasizing that their purpose, especially the inner cities, is ‘to enlarge opportunity, to make certain that any one who has talent, who wants to build something for himself, wants to take responsibility, wants to get out of the socialist approach, shall be able to do so’ (*The Independent*, 14th September 1987).

4. PREPARING THE GROUND FOR GROWTH

Reviving the inner cities is not just a matter of pointing out to business the opportunities that exist in these areas. Inner cities have to become places where people want to live and work. It is most unfortunate then that, as Mr Trippier has pointed out:

‘Many of our cities have become places which are hostile to enterprise. Traditional industry has declined. The new and growing businesses which have been establishing themselves across the country have avoided these areas of high rates, drab public sector housing, poor schools and – in far too many cases – incompetent or downright loony local government’ (London, 30th June 1987).

Overcoming anti-enterprise attitudes is the first step on the road to recovery for the inner cities. In this, local authorities must play as full a role as central government. Where local authorities are prepared to co-operate in this effort, there can be a real partnership; but where they are not, the task of reviving the inner city will be harder and may require, as Mr Trippier has said, ‘a direct partnership between Government and the private sector in order to solve the most intractable problems and get things moving quickly and efficiently’ (ibid.).

Urban Development Corporations (UDCs). In many areas, the Government has established Urban Development Corporations (UDCs) to provide the kind of direct partnership between public and private sector that inner city regeneration demands. UDCs are particularly vital in areas where the local authority is being obstructive, but even in areas where local authority support is forthcoming, they still have an important role to play in quickening the pace of revival. They have powers to acquire, reclaim and improve land, and to bring land and buildings back into effective use. Their aims include

the promotion of new development and housing and the support of community facilities. They are given planning powers over the areas for which they are responsible – powers which had previously been unused or abused by local authorities.

The first two UDCs – the London Docklands Development Corporation (LDDC) and the Merseyside Docklands Development Corporation – were set up in 1981, and have proved enormously successful in attracting new investment and jobs into previously derelict areas.

London. The LDDC has received £430 million of taxpayers' money. It is estimated to have secured over £4 billion of private sector investment commitments – a ratio of ten to one. Its successes since 1981 include:

- the creation of some 20,000 jobs and the attraction of 1,200 companies to the area. In the four years prior to 1981, 10,000 jobs were lost. There are now 36,000 jobs in the Docklands, and there has been a 15 per cent fall in local unemployment in the last year;
- spending of £30 million on community support projects;
- the reclamation of 925 acres;
- the construction of some 15,000 homes (a quarter of purchasers of new homes on LDDC sites are former local council tenants);
- the Docklands Light Railway, opened by the Queen in July 1987. Its first 7.5 mile stretch was financed by the LDDC and London Regional Transport. Olympia and York, a private company which is developing Canary Wharf into a 'Wall Street on the Water', is to invest £68 million to extend the railway to Bank.

The Government itself is making further investment. In 1988 it announced a £60 million improvement scheme for the A13 between Limehouse and Dagenham which will link into the LDDC's new distributor road.

As the Labour peer and former MP for the area, Lord Mellish, has noted, the LDDC 'inherited eight and a half square miles of complete and utter devastation' (*House of Lords Hansard*, 7th March 1988). The Corporation's record since 1981 in resurrecting London's Docklands from that state is, in the **Prime Minister's** words 'an outstanding achievement in every way for private enterprise, the imagination of the Government and the way in which the whole scheme has been administered' (*Hansard*, 12th May 1988, Col. 466).

Merseyside. Great success has also been achieved by the Merseyside Development Corporation. In 1981 it was charged with the regeneration of 865 acres of derelict and disused docklands. Since then, 600 acres of river frontage have been reclaimed and 1.5 million square feet of buildings have been refurbished, including the Albert Dock – the largest collection of grade one listed buildings in the country. £168 million of taxpayers' money has been invested. Over 1,600 jobs have been created, 1,100 safeguarded and another 1,000 jobs provided on construction and related projects. 240 residential flats are being provided by refurbishment and conversion schemes in partnership with the private

sector. £47 million of private investment has been secured with another £67 million in the pipeline.

As Mr Trippier has said: 'Progress has been spectacular ... in seven years MDC has transformed its area' (*Hansard*, 16th March 1988, WA, Col. 606).

Now, as part of the new 'Action for Cities' initiative, the area covered by the Merseyside UDC is being doubled to cover a further 800 acres. Expenditure in this new area could be between £50 million and £100 million over seven years.

Further UDCs. More Urban Development Corporations have been set up in the last two years. In October 1986, Mr Ridley announced the establishment of four new UDCs in Trafford Park in Greater Manchester, on Teesside, in the Black Country, and in Tyne and Wear. Each of these UDCs is expected to spend between £100 and £160 million over six or seven years.

In December 1987, three further UDCs were announced in Bristol, Leeds and Central Manchester – along with an extension of the Black Country DC. These UDCs cover relatively small areas, and will spend about £15 million over a period of five years with additional City Grant according to their needs. In Mr Ridley's words, 'they will be able to pursue single-mindedly the attraction of new investments, new jobs and new development of all sorts, leading to the regeneration of their areas' (Leeds, 30th October, 1987).

In March 1988, the 'Action for Cities' initiative included the announcement of another new UDC in the Lower Don Valley to the North-East of Sheffield, as well as the extension of the Merseyside DC.

The Corporations now cover over 40,000 acres. They will be supported by over £250 million of taxpayers' money in each of the next three years encouraging private investment worth many times more. As Mr Ridley has stressed, they 'are already clearly demonstrating the rapid progress which can be achieved with a single-minded approach to urban regeneration' (*Hansard*, 7th December 1987, WA, Col. 20).

Urban Grants. Some inner city sites stand idle simply because it is not worth anyone's money to develop them. Once developed, they can become centres of enterprise, and progress, but the inertia that has to be overcome in order to get things moving is often too great.

The Government has for some years run a number of successful grant schemes designed to overcome this obstacle: Urban Development Grant, Urban Regeneration Grant and Derelict Land Grant. As part of the 'Action for Cities' programme these grants have now been combined and improved. The new City Grant, which includes Urban Development Grant, Urban Regeneration Grant and some Derelict Land Grant (although the bulk of DLG will continue to be paid separately) goes directly to developers and enables decisions to be taken more quickly, bypassing unnecessary bureaucracy.

These grants have been extremely effective in encouraging investment by the private sector. By the end of 1988, £200 million of public funds paid out under these grant schemes had attracted £793 million of private investment, providing over 36,000 jobs, 9,000 homes and enabling almost 1,500 acres of derelict land to be reclaimed.

Improving Transport Links. Like all centres of economic enterprise, the inner cities need good road and rail links. Businesses will not be able to prosper in the inner cities, and will not be attracted there in the first place, if such areas are regarded as inaccessible because they are cut off from the existing transport network.

National road schemes worth £2,000 million are under construction or are planned in the inner cities, including:

- the £166 million link between Denton and Middleton in East Manchester;
- the £170 million West Midlands Western Orbital Route;
- the £106 million Hackney Wick to M11 Link in East London.

Two new road improvements, costing over £100 million and directly benefiting East London and the Black Country, were announced as part of the 'Action for Cities' programme in 1988.

Railways. The London Docklands Light Railway (LDLR) has shown how an innovative transport scheme can help attract private sector development in the inner city. The advanced transport link produced by the LDLR has encouraged the major development of Canary Wharf. The developers of Canary Wharf are jointly funding the railway's extension to Bank Station. Another £170 million extension eastwards to Beckton will be paid for entirely from increases in land values generated by the development of London's Docklands and the new railway.

Other cities are now preparing to follow the example set by the Docklands. The most advanced proposal is for a new 19-mile rail system to be built in Manchester.

5. URBAN PROGRAMMES

The Urban Programme was the first major public spending programme targeted solely on the inner cities. It provides specific grants through local authorities to some 10,000 inner city projects a year. In 1987–8 the programme supported:

- 560 new firms in managed workshops;
- the improvement of nearly 5,000 acres of unsightly land;
- management improvements for over 89,000 council homes;
- nearly 90,000 inner city jobs or training places.

Three-quarters of the funds provided under the Urban Programme came from the Department of the Environment and one-quarter from local authorities.

The Urban Programme is now being concentrated on the 57 areas of greatest need. Local authorities in those 57 areas are entitled to submit programmes for Government support through the Urban Programme. Expenditure on the programme in 1988–9 will be over £300 million supporting about 10,000 projects including hundreds of small firms in managed workshops.

Inner City Partnerships. In addition, inner city partnerships are in operation in seven areas of England: Liverpool, Manchester/Salford, Birmingham, Newcastle/Gateshead, Lambeth, Hackney and Islington. In these areas, representatives of central and local government work together under the chairmanship of a minister to tackle the most severe urban problems. Each partnership has a three-year action programme based on the needs of the area and its particular priorities. Partnership areas receive allocations for Urban Programme resources ranging from £10 million to £25 million a year.

6. ENTERPRISE ZONES

Between 1980 and 1984 the Government created 25 Enterprise Zones in the United Kingdom, each to last for ten years. Most of the Zones are in inner city areas. The aim is to restore vigorous private sector activity to areas damaged by the decline of traditional manufacturing industry through the removal of tax burdens and deregulation. The main benefits available in Enterprise Zones include exemption from rates for non-domestic property, 100 per cent capital allowances for industrial and commercial properties and relaxed planning controls.

The Enterprise Zone experiment has been a great success. Jobs have been created – 9,800 in 1987 alone – as new businesses have taken advantage of favourable conditions to set up and develop. The number of firms in areas covered by the 23 Zones in Great Britain has increased by 125 per cent since they were set up. As Mr Trippier has said:

‘The Enterprise Zone experiment has provided the impulse for many firms and jobs throughout the country. It has proved that the private sector can be encouraged into the inner city to provide fresh incentives for reversing the stagnation of industry. The development of land in the zones and the increase of economic activity there is a boost to the surrounding localities’ (Press Release, 23rd November 1987).

7. CO-ORDINATING THE EFFORT

No one policy can deal adequately with the problems of the inner city. A range of initiatives, emanating from a number of Government departments, is necessary to tackle a wide variety of problems. Furthermore, each inner city area has its own problems, and each needs its own tailor-made initiatives. Proper co-ordination is therefore essential.

At ministerial level, the Government has recognised the need for proper co-ordination by appointing one minister – at present Mr Newton – to co-ordinate the inner city programme.

Making it Happen. In order to make the most of the £3 billion being provided annually under the 'Action for Cities' initiative, efforts need to be co-ordinated effectively, and brought to bear in the same place and at the same time. And the private sector needs a clear lead so that it knows where, and how, it can best make its contribution.

The work of the City Action Teams and the 16 inner city Task Forces has already shown how proper co-ordination can quicken the pace of progress. Apart from improving the effectiveness of Government programmes, the teams have a major role in encouraging companies to become involved in urban regeneration.

City Action Teams (CATs). The five CATs, set up in April 1985, bring together the work of the departments – such as DTI, the DOE, and the Departments of Employment and Transport – most concerned with fostering enterprise and developing our cities. As part of the 'Action for Cities' initiative, the Government set up two further CATs, in Nottingham and Leeds.

Announcing the decision to form the new teams, Mr Clarke said:

'Experience has shown how vital it is to get the maximum impact from Government programmes by zeroing them all in on the areas of greatest need. City Action Teams have already proved their worth in other cities by focusing our efforts more closely. They have also encouraged private sector companies to chip in and do their bit. This is the nuts-and-bolts end of inner city policy, but it is nonetheless crucial for that' (7th March 1988).

The departments concerned will be spending over £1 billion in the areas covered by the City Action Teams in 1988–9.

Task Forces were established in eight pilot areas in 1986: North Kensington and North Peckham in London, the Chapeltown area of Leeds, North Central Middlesbrough, the Highfields area of Leicester, Hulme and Moss Side in Manchester, St. Paul's in Bristol and Handsworth in Birmingham. In April 1987 a further eight were set up in deprived areas of Coventry, Preston, Doncaster, Hartlepool, Nottingham, Rochdale, Wolverhampton and Spitalfields.

The task forces operate directly under the aegis of the inner cities' minister, but in addition the work of each one is overseen by a minister from one of the departments involved in the inner cities. They work at a very local level in shop front offices based right in the heart of inner city districts. Working as brokers between the public and private sectors, they seek to foster new types of training, promote more opportunities for employment and self-employment, and give special attention to the problems of disadvantaged young people from ethnic minorities.

The task forces act as short-term catalysts for urban regeneration. Already the Birmingham Handsworth task force has been wound up and replaced by a new task force in East Birmingham. Altogether the task forces had funded some 1,100 employment and

enterprise projects by the end of 1988, creating or safeguarding up to 4,000 jobs and helping over 2,600 companies.

(B) WORKING WITH THE PRIVATE SECTOR

The key to revival in the inner cities is the partnership between Government and the private sector. As Mr Newton has said, working with the private sector is 'inescapably the foundation of everything else'. The Government's objective is to 'make our inner cities better places in which people can do business; to set up enterprise, to expand it, to work for yourself and to provide jobs for others' (Brighton, 11th October 1988).

In order to work successfully with the private sector in inner city areas, the Government cannot force it into actions unsustainable by market conditions. The Government's proper role is to support business and to encourage the development of indigenous enterprise. The Government has a wide range of programmes to meet the needs of the private sector and to help businesses succeed.

The Enterprise Initiative (described fully in Chapter 3, pp. 84–5) helps developing businesses by supporting consultancy projects designed to improve their performance. Firms in inner city areas receive a grant to cover two-thirds of the cost of such projects. It is already clear that there has been a higher than average level of response from firms in inner city areas to the Enterprise Initiative.

The Enterprise Allowance Scheme. Since 1979, 500 new businesses have started up in Britain on average every week: clearly there is no shortage of people in this country willing to go into business for themselves. Unemployed people are no exception to this trend. Even in the most deprived inner city areas there are many people, left redundant by changing industrial patterns, who are enterprising enough to want to start up their own company.

The Enterprise Allowance Scheme helps previously unemployed people to set up in business by paying them £40 a week during the first year they are running their own firm. The scheme is intended to help people who have a business venture in mind, but who may be put off working for themselves because they would lose state benefits during the difficult period when a new business is just getting off the ground.

The Enterprise Allowance Scheme has been a great success in the inner cities. There were more than 30,000 inner city entrants to the scheme in 1987–8.

Private sector companies will be involved either by investing directly in the projects or by providing land, buildings or experience.

Managed Workshops. Through the Managed Workshop programme, the Government is assisting businesses in inner city areas to find premises from which to operate and gain access to the advice and guidance they need. New firms can operate from these small premises sharing services such as typing and a canteen. The Managed Workshop scheme is a joint initiative with the private sector, which will back it by providing workshops with finance, land, building or experienced managers to give business support on site.

Small Firms Service. This service provides information and counselling to promote small businesses. In 1986–7, the small firms service gave over 11,000 counselling sessions in the inner cities. £6.3 million has been set aside to fund the small firms service across England in 1988–9.

Local Enterprise Agencies. There are now almost 400 enterprise agencies in the United Kingdom, many of them in deprived urban areas. They are private companies, limited by guarantee and managed by a board drawn from their sponsors. The private sector can back these agencies with funds, advice, and personnel. The principal activity common to all local enterprise agencies is the provision of free advice and counselling to support the establishment and development of viable small businesses.

The agencies have been shown to be of great benefit to the firms that consult them. A survey for ‘Business in the Community’ last year showed that small firms using local enterprise agencies are twice as likely to survive until their third year than firms which do not use such agencies. Last year the Department of Employment provided financial support for nearly 80 Local Enterprise Agencies active in inner city areas.

The Loan Guarantee Scheme provides guarantees to banks for loans to companies which would not otherwise be able to borrow money due to lack of security or track record. Since it started in 1981, the scheme has provided cover for nearly 19,000 loans nation-wide. As part of the ‘Action for Cities’ initiative, the level of loan guarantee available to companies operating in the 16 inner city Task Force areas was raised from 70 per cent to 85 per cent. This move will encourage the flow of finance to inner city business.

Private Sector Initiatives. As well as co-operating with the Government in its enterprise and inner city initiatives, the private sector has developed a number of projects of its own designed to bring about urban regeneration. Coinciding with the announcement of the Government's ‘Action for Cities’ programme, the private sector launched a number of new inner city initiatives of its own:

- ‘Business in the Community’ announced that it intended to establish eight teams, each led by a businessman, in a campaign to promote business involvement in urban rejuvenation. The teams are to focus on the key areas of education, training, small firms and investment.
- The venture capital group ‘Investors in Industry’ has launched a new inner city investment programme to expand its existing venture fund which has already put more than £2 million into schemes in several major cities.

- 'British Urban Development', a consortium of the eleven largest civil engineering and construction companies in the country, will seek out inner city development sites. The companies have pledged £55 million for a development programme.
- A number of schemes are being operated under the aegis of the CBI and others, such as the Newcastle Initiative where a group of businessmen are working together to develop a private sector strategy for reviving the city. The CBI's document *Initiatives Beyond Charity* forms the framework for its participation in inner city regeneration projects.
- A number of large construction companies are working together on a joint project of inner city regeneration under the title Phoenix.

These programmes, independent from Government-sponsored initiatives but directed towards exactly the same ends, demonstrate the enormous contribution the private sector is now making towards tackling the problems of urban decay. They underline the point that a successful strategy for urban renewal need not involve Government forcing business into the inner cities against their will. That private sector interests are prepared to invest in the inner cities independent of any Government support, shows clearly that there are true commercial opportunities in deprived areas which business can develop.

(C) TOWARDS TOMORROW'S WORKFORCE

1. RAISING STANDARDS IN EDUCATION

Raising Expectations. The Government's Education Reform Act 1988 introduces reforms which will be of particular benefit to those children who have suffered as a result of the low expectations parents and teachers have held for them. Too many children in inner city schools have been let down by LEAs more interested in propagating advice on racial and sexual equality than in ensuring an effective curriculum orientated to the world of work. The starkest example is the ILEA, which, even when rate-capped, spent 75 per cent more than the Government's assessment of its needs in 1987–8, much of it on administration, and still sent one-fifth of its pupils out of its schools with no graded results at 16 plus – that is twice the national average. ILEA has failed the children of inner London and for that reason is to be abolished.

Opting Out. The reforms offer new hope to the parents of children in inner cities. Those who are dissatisfied with what is going on in their children's school will be able to vote it out of local authority control altogether. And parents will have more choice. The new national curriculum will ensure that all children study a broad, balanced range of subjects.

Equipping Pupils for their Careers. The new national curriculum will build on the work already done by the Government to make children's school work more relevant to the needs of employers. The very successful Technical and Vocational Education

Initiative (TVEI) – which broadens the curriculum for 14- to 18-year olds and which some Labour LEAs have sought to obstruct – was extended nation-wide in 1987 at a cost of £90 million a year for 10 years.

Involving Employers in Schools. Schooling cannot be regarded as successful if children leave ill-prepared for, and ill-informed about, the world of work.

Young people in the inner cities particularly need to be made ready for the world of work. They need to be introduced to the new skills relevant to the modern industrial development so vital to the future of deprived areas. This Government has sought wherever possible to strengthen the links between schools and industry. Such links help the younger inner city residents understand the qualities and qualifications they will need to find work.

- Representatives of local business will be co-opted on to school governing bodies, following the Education Act 1986.
- The Engineering Industry Training Board has launched a scheme to give trainee maths teachers ‘hands on’ experience in engineering.
- A new teacher training project – ‘Industrial and Commercial Perspective’ – will help student teachers make their lessons more relevant to the world of work.

Furthermore, Britain is among the world leaders in the use of computers in the classroom. The average secondary school has no fewer than eighteen micros; and there are two in each primary school.

City Technology Colleges. The prospects for children in urban areas will be improved still further as a result of the establishment of a network of 20 City Technology Colleges (CTCs), which are described fully in Chapter 12. CTCs will concentrate on offering children education in the specialised technical areas most relevant to modern work. The first CTC, in Birmingham, has already opened; a second is planned for Nottingham in September 1989.

Significance of CTCs. By providing education specifically designed for children with a technological or scientific aptitude, CTCs will encourage further business involvement in education, help to meet Britain's needs for qualified manpower in the next century, and enhance further the preparation of pupils for the world of work. Together with the other measures in the Education Reform Act they will raise the standards of schooling available in the inner cities.

Employer-School Compacts. Under the ‘Action for Cities’ programme, links between education and the world of work are being tightened still further by the introduction of 12 schools/industry compacts. A compact is a partnership between schools and local business: forms vary, but, for example, in London 40 companies are offering firm job prospects, work experience or other help to 1,000 pupils in six schools. Pupils must attain certain agreed standards of educational achievement, attendance and punctuality. Compacts will receive support from the Training Agency.

2. TRAINING

Like all the Government's enterprise policies, its training initiatives are relevant to the whole country, but have a special relevance to inner city areas where there is a particular demand for the self-confidence, training and motivation that inner city residents need to enable them to compete on equal terms in the job market. Inner city unemployment fell by over 200,000 in 1988, thanks in large part to the effectiveness of the Government's training programmes.

Action for Jobs. Employment initiatives are targeted towards those who need them most:

- all 16- and 17-year old school leavers who do not go straight into jobs are guaranteed a place on the Youth Training Scheme;
- all those aged between 18 and 24, and unemployed for six months are guaranteed training, a place in a Jobclub or support under the Enterprise Allowance Scheme;
- all those unemployed for more than six months are guaranteed a Restart interview

These programmes involve nearly half a million people in the inner cities a year. In addition, there are also special initiatives to support those inner city residents who are looking for suitable employment opportunities with information and advice, those who need training in basic skills or those who want to start up their own business.

As part of its new drive against unemployment in inner city areas, the Government is acting to improve access to, and provide incentives for, people wishing to join employment programmes. Inner city residents will be able to find out more easily about jobs and training from new information points in public offices and libraries. More specialist staff are working in local communities, giving further information and advice about the Government's training programmes, and so helping the jobless to regain confidence, pick up new and valuable skills and so return to work. This improved service will build on the help already provided by the Employment Service through its 500 Jobcentres and Unemployment Benefit Offices.

Training for Employment. All the existing training programmes to help unemployed people over the age of 18 have been brought together into a single unified training for employment programme. Announcing this new unified training programme, Mr Norman Fowler, Secretary of State for Employment, said:

‘The emphasis will be on practical learning to help people get back into employment. Accordingly, the training will range from basic working skills including numeracy and literacy, to training at craft and technician level’ (18th November 1987).

Training in literacy, numeracy and English as a second language will be included in the training for employment programme. New centres will be established in inner city areas where adults can tackle their basic learning difficulties using modern computer aids. In addition, special Restart assessment courses will be set up for people lacking these basic skills (for further details of the programme, see p. 137).

How Business Helps. Equipping the inner city jobless with new skills for employment requires the active co-operation of local business to provide opportunities for on-the-job training and work experience. Employers and providers of training will be encouraged to provide relevant training in skills needed for the new jobs which are becoming available. Already private sector companies are showing the way with imaginative initiatives that link training directly to job opportunities. Tarmac, for example, are working with the local Task Force, the Department of the Environment and Birmingham City Council, in providing employment and training opportunities for local people in renovating homes in Handsworth.

(D) A BETTER QUALITY OF LIFE

1. BETTER HOUSING

Revitalising Council Estates. Run-down council estates are at the centre of many inner city problems. They are the scenes of many crimes, and they are inhabited by many of the most deprived inner city residents. The Government has launched major initiatives to improve these estates.

Housing Action Trusts – the Government's new initiative – will be established under the Housing Act 1988 to take over some of the most dilapidated council estates, and will employ both public and private resources to improve them. Management will improve, because tenants will be fully involved. Once these estates have been revived, they will be passed to new owners such as housing associations, tenant co-operatives or private landlords.

HATs will also help to provide job opportunities for local people, bringing back hope to the most depressed inner city areas. HATs will have £192 million of taxpayers' money to spend over the next three years. The first estates for which HATs have been proposed are in Lambeth, Southwark, Tower Hamlets, Leeds, Sandwell and Sunderland.

Estate Action was set up within the Department of the Environment in June 1985 to advise local authorities on ways to promote a greater degree of private investment, wider variety of tenure and more effective management of council estates.

The unit has held discussions with more than 200 local authorities. Nearly 350 schemes to improve estates have been approved, and in the last two years £15 million of funding has been provided by the Government.

In 1986 Estate Action launched a homelessness initiative to help bring empty council properties in the inner cities back into use for homeless families.

In 1989–90 funding for Estate Action will amount to £190 million – double 1987's figure. Estate Action projects will directly benefit some 300,000 residents and improve almost 110,000 homes.

Wider Choice. Inner city residents, who have hitherto suffered from the worst examples of municipal socialist landlords, will be given the chance to choose to transfer to a tenant's co-operative, a housing association or a private landlord. If they vote to remain with their council they will be able to do so, but even those who do will benefit from the spur of competition which local authorities will face.

The Clear Contrast. The **Prime Minister** has summed up the difference between the Labour and Conservative visions of the future for inner city housing:

‘[Labour] would rather keep people in badly maintained property in great big blocks, dependent on them for jobs, for the amount of rent and rates they pay, than see them up and flourishing, with jobs in the private sector coming in, with being able to opt out as tenant co-operatives, with being able to have a say in how their houses shall be built’ (*The Independent*, 14th September 1987).

2. SAFER CITIES

Inner cities will only prosper if they are safe places in which to live and work. The Government's commitment to beating crime – now being implemented by a range of initiatives – is a vital element of the solution to the problems of deprived areas. These measures are described fully in Chapter 14.

Safer Cities. Under this programme, launched on 7th April 1988, the Home Office is funding co-ordinators in 20 city areas, responsible for building up a team drawn from the police and probation service, the local authorities, voluntary groups and the business community. Together they will identify crime problems, establish ways of solving them, see their solutions put into action, and assess the outcome.

In the first year of the programme, the Home Office will fund nine co-ordinators at a cost of £3 million. The first two will be in Wolverhampton and Bradford; invitations have also been extended to Birmingham, Coventry, Hartlepool, Lewisham, Nottingham, Rochdale and Tower Hamlets.

Launching the scheme, Mr John Patten, Minister of State at the Home Office, said:

‘The “Safer Cities” programme ... will improve the quality of life for inner city residents and play an important part in making our inner cities the kind of place where local enterprise can flourish’ (Wolverhampton, 7th April 1988).

3. GREENING THE CITIES

The provision of parks and open spaces and other environmental improvements such as landscaping and the cleaning of waterways can greatly improve the environment. Through such improvements, formerly derelict areas can become places where it is pleasant to live and work. Under the Urban Programme the Government spends around

£5 million each year on such improvements. Some 5,000 acres are improved and some 2,000 run-down buildings and shops cleaned or restored each year.

4. ART, SPORTS AND LEISURE

Art in the Cities. In addition to helping to provide a climate of confidence crucial to economic growth, the arts and related enterprises create substantial direct and indirect employment opportunities. The arts are a key element in tourism and the jobs and revenue which it brings. A recent study by the Policy Studies Institute, on the economic importance of the arts in Glasgow, Liverpool and Ipswich drew attention to their role as a catalyst for urban renewal. The Government, through the Arts Council, has given support to a number of artistic enterprises in inner city areas.

Sport and Leisure. The provision of sport and leisure facilities helps to improve the quality of life in the inner cities. In March 1988 the Minister for Sport, Mr Colin Moynihan, launched a review of sports provision in the inner cities with the aim of achieving more effective use of existing inner city resources and more private sector support for the right kind of schemes.

In 1987–8, sport, general recreation and play projects received about £35 million in Urban Programme grants. Sport and recreational projects can also qualify for support under the City Grant.

(E) OPPOSITION POLICIES

1. LABOUR PARTY

Obstruction from Labour. Labour councils and Labour governments have been responsible for much of the neglect, dereliction and decay of the inner cities by creating an atmosphere hostile to the creation of wealth and jobs.

Two months before the end of the last Labour Government the Town and Country Planning Association's Director, Mr David Hall, attacked its record, pointing out that 'in every area of Government activity in inner cities there are major deficiencies in flexibility, commitment and approach, and an obvious lack of concrete action on the ground' (*The Guardian*, 15th March 1979).

Labour local authorities have been equally unhelpful in securing a better future for the inner cities. As Mr Kenneth Clarke, the former inner cities minister, put it:

'It is in fact the very policies of such local authorities – the ones that have built awful housing estates and tower blocks, bought and held on to huge areas of underdeveloped derelict land and buildings, driven up rates and particularly business rates for small businesses – that have made the problems of many inner cities so much worse over the

past twenty years' (*A Free Market and the Inner Cities*, Conservative Political Centre, October 1987).

Margaret Hodge, Labour leader of Islington Council in inner London, has admitted that 'we are seen as bureaucratic, inefficient, unresponsive and paternalistic by many of those people who are most dependent on what we provide' (*New Statesman*, 18th September 1987). And even Miss Linda Bellos, former Leader of Lambeth Council, has admitted that working class communities in areas such as Lambeth have been 'failed by the education system, failed by the anachronistic rating system and, yes, failed by municipal housing' (Speech at Brunel University, 22nd October 1987).

Yet Labour's policy is to take power away from successful Urban Development Corporations and give it to the very Labour local authorities which have so signally failed to deal with inner city problems. Before the last General Election, Labour's Consultative Paper, *Local Government Reform in England and Wales*, proposed packing the boards of the UDCs with people from local Labour Councils in place of 'Tory appointees' and, in the longer term, called for the abolition of UDCs entirely (p. 13). This is hardly surprising since Labour voted against the establishment of the first UDCs (*Hansard*, 15th July 1980, Cols. 1452-4).

Labour has remained equally negative since the Election. Summing up Labour's reaction to the regeneration of London's Docklands by the LDDC, Mr Allan Roberts, Opposition Spokesman on environment protection and development, has said, 'I would rather the Docklands were still derelict than witness what has happened' (*Chartered Surveyor Weekly*, 21st April 1988).

Mr Bryan Gould, Labour's Shadow Trade and Industry Spokesman, has said UDCs 'are being imposed to stop local government successes' (Waltham Forest, 4th May 1988). He said this at an exhibition organised by the Labour-controlled Waltham Forest Council, which in 1987-8 increased rates by 62.2 per cent.

At the local level, Labour politicians have been equally obtuse in their reactions to Government initiatives. Helen Jackson, 'chair' of Sheffield's Employment Programme Committee, originally dismissed the announcement of a new UDC in the Lower Don Valley with a £50 million budget as 'an insult to local democracy' (*Local Government Chronicle*, 11th March 1988). The local Labour MP, Mr Richard Caborn, attacked it as an 'imposition' (*Sheffield Weekly Gazette*, 10th March 1988).

Labour councillor Mr Peter Hammond, Chairman of Bristol Council's Public Works Committee, attacked the Government's announcement of a UDC in Bristol as 'quite horrifying' and 'nothing short of theft of public land and public property for speculative gain' (*Bristol Evening Post*, 27th November 1987).

Bristol City Council has announced its intention to petition Parliament against the establishment of the UDC, which makes it the only city in Britain which is resisting the creation of a UDC. Mr Trippier, the junior Environment Minister, has made it clear that

the petition will not succeed, and that the only result will be a bill for the city's ratepayers of £140,000 and a nine month delay in bringing new jobs to the city (*Western Daily Press*, 20th May 1988).

Labour's policy on local government finance combines irresponsibility with lack of concern for the inner cities. Indeed, its alternative to the Community Charge – a combination of local income tax and capital value rating – would have a disastrous effect on the inner cities (see p. 406).

Labour policy would be even more harmful to businesses in the inner cities, since the party wishes to abolish all constraints upon spending levels by councils. The Party also wants business rates to continue to be set locally, enabling profligate Labour councils in the inner cities to destroy local businesses through higher rates.

2. THE SLD AND SDP

Centrist Chaos. The record of the members of the former 'Alliance' in the inner cities is no more impressive than that of the Labour Party.

The SLD-run council in Tower Hamlets in inner London, one of the most deprived boroughs in the country, set up a firm registered in the Cayman Islands so that it could engage in lease-back deals (*Municipal Journal*, 27th March 1987), and wasted more than £15 million on a scheme to split the borough into seven neighbourhoods (*London Daily News*, 15th April 1987).

In Bristol, Liberal Councillor Mr John Kieley joined Labour's knee-jerk opposition to the Government's proposed UDC and insisted: 'Members of this authority should boycott the corporation' (*Bristol Evening Post*, 27th November 1987).

The policy on local government finance shared by the SLD and SDP would be very damaging for the inner cities. A Local Income Tax, which both parties want, would mean, as Mr Ridley has pointed out, that 'those people who are vital to creating a balanced society in inner cities – the job providers, businessman, professionals, teachers, lawyers, doctors, social workers and so on – will have huge incentive to move out' to avoid the high LIT rates set by high spending inner city councils (*Hansard*, 16th December 1987, Col. 1123). For more detailed comment on Local Income Tax, see pp. 404–5.

6. ENERGY

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(A) THE STRATEGY

Ensuring Energy Supplies from a Variety of Sources. The overriding aim of the Government's energy policy has been to avoid an over-reliance on any one type of fuel, by ensuring that all viable energy sources are exploited and potential ones explored. A reliable supply of electricity is vital to the smooth running and economy of the country. If electricity is generated predominantly from only one fuel source, it may be subject to interruptions and vulnerable to world fuel price shocks from time to time.

The dangers of allowing any one fuel to dominate the nation's energy supply were underlined by the miners' strike of 1984–5, which virtually cut off the country's coal production for over a year. Yet, thanks largely to the Conservatives' balanced energy policy, the NUM's objective of bringing the country to its knees was frustrated: there was not a single power cut resulting from the strike.

The Government is therefore committed both to the exploitation of Britain's plentiful fossil fuel reserves, and to the safe development of nuclear power. The development of alternative sources of energy also has a contribution to make to the diversity of supply, and the Government has given support to research projects designed to make it possible to exploit such renewable sources of energy. It will, however, be for the private sector to develop renewable energy in Britain if it can be proved to be commercially viable.

The Role of Private Enterprise. The development of private enterprise in the energy sector has been a striking success. Private companies in the North Sea have demonstrated great resourcefulness and skill in recovering from the oil price slump of 1986, and the industry is now firmly on the road to recovery. The privatisation of British Gas has created a more profitable industry serving more customers.

The Government now intends to build on the private sector's well-established record in the energy industry by returning the electricity supply industry to private ownership. This bold move will extend the role of private enterprise in the British energy industry to unprecedented levels: once electricity privatisation is complete, 87 per cent of energy production in Britain will be in the hands of the private sector.

(B) THE PRODUCTION OF OIL AND GAS

1. RECOVERY FROM THE OIL PRICE SLUMP

The dramatic fall in oil prices which took place in 1986 dealt a severe blow to the North Sea oil industry: levels of exploration and output fell. The Government's revenue from North Sea oil was more than halved. But, throughout 1987 and 1988 the industry made an impressive recovery, as Mr Peter Morrison, Minister of State at the Department of Energy with responsibility for oil and gas, has said:

‘The North Sea industry's reaction to the oil price collapse of 1986 continues to impress me. Challenges are met head on, with further developments in cost-cutting technology. That is why I can paint a positive and encouraging picture of the UKCS [United Kingdom Continental Shelf] forging ahead. Last year development drilling was up 50 per cent compared to 1986. Drilling activity overall was the third highest total ever. In 1987 there were 19 offshore and 4 onshore discoveries, and altogether we approved 13 new projects. In 1988 that upward trend continues unabated. In the North Sea, almost 50 rigs were at work – twice as many as last year. And 44 development wells were started, compared to 27 in 1987. The strength of our UK base is confirmed by the figures. Of the £1.9 billion North Sea orders in 1987, UK industry won a record 87 per cent against very fierce competition’ (Houston, Texas, 2nd May 1988).

During 1987, 132 offshore exploration and appraisal wells were started together with 38 onshore wells. This has taken the total of significant oil discoveries to 256 since oil was first discovered in the North Sea in 1966.

Production Levels. At the end of 1987 there were 35 offshore oil fields in production, and 8 onshore fields. In addition, there were 17 offshore gas fields (and one onshore) in production. Total oil production in 1987 was 123.3 million tonnes and total gas production was nearly 48 million cubic metres.

2. THEIR CONTRIBUTION TO THE ECONOMY

Rising output from the North Sea has contributed about ¼ per cent a year to the steady 3 per cent average growth of the economy since 1981. In 1987, North Sea oil and gas production contributed about 2¼ per cent to the UK's GDP. Proceeds from the sale of oil produced from the United Kingdom Continental Shelf (UKCS) were £9.9 billion in 1987, compared with £9.3 billion in 1986. Government income from taxes and royalties amounted to about £4.7 billion in 1987–8. By comparison, the estimated yield from VAT and income tax were £24.1 billion and £41.5 billion respectively. Gross capital investment in the oil and gas exploration and production industry as a whole was

estimated to be £2.1 billion in 1987, representing about one-eighth of total UK industrial investment.

3. PRIVATE ENTERPRISE IN THE NORTH SEA

The North Sea is an excellent example of how well markets operate when they are allowed to do so without active interference and when decisions are taken by businessmen and not by politicians. It is greatly to the credit of the oil companies operating in the North Sea that they have developed our UKCS resources so successfully. Mr Morrison has outlined the Government's approach to the exploration industry:

‘It is based principally on the market place. We wish to encourage activity and to see development of the oil and gas reserves that are (or have been) discovered. Complementary to that we wish to see the tax rate by the Chancellor maximised whilst still enabling the oil industry to flourish’ (*Petroleum Review*, October 1987).

The benefits of a deregulated private North Sea oil and gas industry have been seen in the strength and nature of the recovery witnessed throughout 1987 and 1988 and by the confidence with which the industry is facing the future.

4. THE FISCAL REGIME

Government Help to Encourage Expansion. The North Sea fiscal regime is generally regarded as being one of the fairest in the world. It is structured so as to ensure that the right balance is struck between giving a fair return to the oil companies and a fair return to the Exchequer. The Government is always willing to consider changes in the fiscal regime when market conditions make them necessary. During 1986–7 a review took place in light of the substantial fall in oil prices. This resulted in the Advanced Petroleum Revenue Tax Act 1986 which allowed for the early repayment to the oil companies of some £300 million of outstanding Advanced Petroleum Revenue Tax.

Two more tax reliefs for the oil industry were introduced in the 1987 Budget, and in 1988 further changes to the fiscal regime, applicable in the Southern Basin of the North Sea and onshore, were announced. In the 1988 Budget the oil allowance for Petroleum Revenue Tax in the southern basin and onshore was reduced from 250,000 tonnes to 125,000 tonnes per chargeable period. And under the new Petroleum Royalties (Relief) and Continental Shelf Bill, the payment of royalty will be abolished for fields in the Southern Basin of the North Sea and onshore if they were approved for development on or after 1st April 1982. The two measures combined will encourage development in the North Sea and leave total tax revenue broadly unchanged.

A Fairer System. These various changes will relate the taxation of North Sea more closely to expected profits, thereby helping marginal fields. As Mr Morrison has said:

‘The new regime will be much more responsive to the economics of individual fields. Although many recent Southern Basin fields are highly profitable there are a number of gas projects with marginal economics. The industry will only bring these new fields forward for development if the fiscal climate is right. I believe that the industry will recognise that the Government has acted positively (*The Times*, 16th March 1988).

Or, as one City analyst put it:

‘The Chancellor is playing fair with the oil companies. He has removed what some see as a punitive tax and this should lead to several marginal projects coming to fruition. It will be welcomed by the smaller companies in particular. He has removed a tax on wells and replaced it with a tax which will be levied on profits, which is much fairer’ (ibid.).

5. RESERVES

On current estimates, the United Kingdom is likely to remain self-sufficient in oil until well into the 1990s. Estimates of remaining resources are constantly being increased: since 1979, estimates of initially recoverable reserves have risen by over 13 per cent. This reflects the high level of appraisal and development activity in the UKCS. After taking account of *cumulative* oil production to the end of 1987, the remaining recoverable oil reserves in present discoveries are now estimated to lie in the range 690–1,930 million tonnes. Recoverable reserves from future discoveries are estimated to be in the range 330 to 2,460 million tonnes.

6. LICENSING

75 applications were received in the Tenth Offshore Licensing Round (launched 15th July 1986), and 51 awards were made. Despite uncertainties about the oil price, the industry responded well and applications were received from all the major oil companies and for most of the areas on offer. In the eleventh offshore round (launched 18th July 1988), 212 blocks or part-blocks will be available.

Through the licensing round the Government promotes its main objective for the North Sea: to encourage exploration over as wide an area as possible to ensure that the maximum number of new discoveries can be made and exploited. The licensing system does not discriminate on grounds of nationality: thus it is possible to draw on the expertise of both foreign and UK oil companies.

Competition. Competition for oil and gas licences raises standards and helps to ensure that the UKCS is developed as effectively as possible. The Government therefore encourages as much competition as possible for licences and is keen to see participation from both major and independent oil companies, UK and foreign alike.

The Government does not interfere in the market process unless there are overriding issues of national interest. It is not therefore Government policy to treat particular

companies as a protected species by giving them preferential rights to petroleum licences. But the Government welcomes the opportunity to help independent oil companies to establish themselves. It was pleased therefore when small independent companies did well, on merit, in the second round of onshore oil awards. As Mr Morrison has pointed out:

‘This round was notable for the presence of more smaller companies, some of whom are new to the UK onshore scene. Onshore exploration can offer significant opportunities to the smaller company to gain experience in the petroleum business, as well as contributing to the general development of the industry’ (Press Release, 3rd March 1988).

7. OFFSHORE SUPPLIES INDUSTRY

Britain's oil service and supply industries have adapted remarkably well to the constraints imposed by both lower oil prices and the smaller size of future developments projects to the North Sea. By improving efficiency and reducing costs, these industries have continued to make a massive contribution to the offshore oil industry. In 1987, the UK share of oil and gas development work on the UKCS was 87 per cent, worth £1.63 billion. The Government gives support and encouragement to the industry through the activities of the Department of Energy's Offshore Supplies Office.

8. SALE OF BRITISH PETROLEUM

On 18th March 1987 the Government announced its intention to sell its remaining 31.7 per cent stake in BP, the world's third largest oil company. This sale of stock, worth over £7 billion, represented the biggest share issue the world has ever known. Over six million people registered their interest in the sale. However, circumstances beyond the Government's control overtook the issue. As equity markets tumbled world-wide in the October crash, the price of BP shares already quoted on the Stock Market fell below the 330p offer price.

Nevertheless, the sale was able to go ahead. Throughout the privatisation programme, the Government has had its share sales fully underwritten. From the moment such an underwriting agreement is made, the taxpayer is entitled to the proceeds of the offer at the issue price. The Chancellor, after considering the representations made by the BP underwriters carefully, concluded that they should be made to fulfil their obligations.

Promoting Stability in the Market. However, Mr Lawson was also concerned to minimise any adverse effects on market conditions that this decision might have had. For this reason, in a highly acclaimed move, he agreed with the Bank of England that it would offer to buy back partly-paid BP shares at 70p each. The **Chancellor** made clear his objectives in making this arrangement:

‘First, and most important, to allow taxpayers to secure the full proceeds of the BP sale to which they are entitled; second, to ensure that there are orderly after-markets in BP

shares; thirdly, to make quite sure that the sale does not add to the present difficulties in world markets' (*Hansard*, 29th October 1987, Col. 540).

The buy-back scheme was not intended to bail out the underwriters, nor did it do so. They bore losses of over £1 billion. The main beneficiary of the arrangement has been the taxpayer since the alternative would have been to abandon the sale altogether.

Kuwait and BP. As a result of the buy-back scheme the Kuwaiti Investment Office (KIO) took the opportunity to increase its stake in BP and built up a share in the company of around 21.9 per cent. In May 1988, the Government ordered a full inquiry by the Monopolies and Mergers Commission into KIO's BP holding. The unanimous conclusion of the Monopolies and Mergers Commission was that the acquisition by the Government of Kuwait of such a substantial stake in BP would operate against the public interest. The Commission recommended that the Government of Kuwait should be required to reduce the share-holding to 9.9 per cent of BP's issued capital over a period of some twelve months.

The Kuwait Investment Office is part of the Government of Kuwait, which is a member of OPEC. OPEC is a cartel, whose interests are likely to conflict with BP's and the UK's. The MMC did not doubt the good faith of the Kuwait Government. Assurances given by Kuwait were all taken into account during the MMC investigation but it was considered that the level was still too high. Circumstances can change and sovereign states have very wide interests and considerations to take into account. As the MMC report stated:

'Taking all these factors into account we believe that there is a high degree of probability that sooner or later situations will arise in which Kuwait's national and international interests will come sharply into conflict with BP's and HMG's interests. Such conflicts of interests would be even more likely to occur if a future government in Kuwait was less well-disposed to the West and the United Kingdom' (*The Government of Kuwait and The British Petroleum Company PLC*, Cm. 477).

Plans for the reduction of the KIO stake were made quickly and effectively. A buy-back scheme was agreed in January 1989, requiring BP to purchase 790 million shares at 247p each in order to reduce the KIO's holding in BP to below 10 per cent. The agreement ended a short period of uncertainty. As Mr Fouad Jaffar, the Deputy Chairman of KIO, said:

'We are very pleased with the offer and to remain a shareholder. In our judgment it is good for the company also' (*The Independent*, 4th January 1989).

BP and Britoil. BP continues to flourish. Profits for the half-year to June 1988 amounted to £731 million, an increase of £147 million over the corresponding period last year. In December 1987, BP began to acquire a substantial share in Britoil, the company formed by the Oil and Gas Enterprise Act 1982 to take on the exploration and production interests of the British National Oil Corporation when it was privatised. By June 1988, this acquisition was virtually complete and Britoil is currently being integrated into the

BP group. As a result of acquiring Britoil, BP now produces one in four barrels of the UK's offshore oil and 10 per cent of its natural gas. The combined North Sea business of Britoil and BP is to be managed from Britoil's Glasgow headquarters, while Aberdeen will remain the operations centre for North Sea activities.

9. THE PIPER ALPHA DISASTER

On the night of 5/6th July 1988, a massive explosion and fire destroyed the Piper Alpha oil rig, which was operated by Occidental Petroleum. 167 men lost their lives in the disaster. The Government took immediate action to establish the causes of the tragedy – setting up both a full public inquiry and a speedy, thorough technical investigation to determine the precise cause of the accident which began immediately. The Government also acted to ensure that any lessons arising from the technical inquiry would be made known to the industry immediately – instead of waiting for the outcome of the public inquiry – so that action can be taken at once. This process has already begun.

The full public inquiry began in January 1989 in Aberdeen, chaired by Lord Cullen, a senior Scottish judge. All documents in the possession of the Department of Energy relevant to the disaster, including a report into an earlier explosion on the platform in 1984, and the interim report by the technical investigation team will be made available to the inquiry, which is intended to be as full and as far-reaching as possible.

Economic Cost. As a result of the Piper Alpha disaster, six oilfields in the North Sea were immediately shut down and remained closed pending the full inquiry. This represents a production loss of 290,000 barrels a day, 12 per cent of total UK production. Loss of this output will amount to approximately £150–200 million in Government revenues and up to £300 million in exports to the end of 1988. Although these are huge losses, the Government is not prepared to compromise on safety in the North Sea; the protection of lives is the paramount consideration.

(C) BRITISH GAS

1. PROGRESS

Success of Privatisation. British Gas was privatised in December 1986. The £5.6 billion flotation attracted 4½ million investors, including 99.2 per cent of the company's 130,000 employees. The sale was of particular benefit to the small investor, and as a result 65 per cent of the company became owned by individual shareholders.

In its first full year in the private sector, British Gas performed extremely well, making a profit of £1.08 billion – and acquiring a further 250,000 customers. The continuing expansion of the company was boosted further during 1988 when it acquired Bow Valley Industries, a Canadian oil and gas exploration and production company. This investment

has strengthened the company's interests in exploration and production. As Sir Denis Rooke, Chairman of British Gas, has noted:

‘The commercial freedom to develop and expand the company has been one of the key changes resulting from privatisation, but by no means the only one. We have yet to adjust fully to our new status and business environment, but I am encouraged by the way in which all the company's employees have responded to the challenges of last year, whilst continuing to operate our main activities efficiently and profitably. The Board has recognised this by deciding to provide further shares to eligible employees under the employee profit-sharing scheme’ (Chairman's Statement, Annual Report and Accounts 1988).

Progress made by the company since privatisation is also reflected in the better service it has been able to provide for its customers. The Gas Consumers Council has reported that the number of complaints it received against British Gas in its first year of privatisation dropped to 26,608 from 29,000 in the previous year.

Gas Prices. The prices charged by British Gas are strictly regulated according to a formula which ensures that any savings made by the company as a result of lower costs or increased efficiency are passed on to the consumer. Gas tariffs for domestic consumers were increased by 6 per cent in April 1988, following a reduction in tariffs by 4.5 per cent in July 1987. Thus, prices have increased by only 1 per cent since privatisation (well within the limits imposed by the price control formula) and, allowing for inflation, have decreased by over four per cent. The price rise in 1988 was needed to help meet the increased cost of gas supplies from the North Sea.

2. OFGAS

On privatisation, the Office of Gas Supply was established to regulate British Gas' activities, including its pricing policies, and to ensure that the consumer is not exploited by British Gas' monopoly position. In particular OFGAS ensures that any price rises conform to the strictly drawn price control formula. OFGAS have concluded that the April 1988 price rises did so, as its director, Mr James McKinnon, explained:

‘Last year British Gas was able to reduce tariffs by an average of 4.5 per cent. This reflected the fall in the cost of gas to British Gas resulting from the marked decline in oil prices in contracts which, once signed, are outside British Gas' control. It is for similar reasons that there is to be an increase in tariff prices this year – an increase in the cost of gas to British Gas reflecting changes in the pattern of production, as well as in oil prices, inflation and exchange rates. The tariff formula allows British Gas to pass on such increases in full. It must be remembered, however, that neither the company nor its shareholders benefit from such fluctuations’ (Press Release, 17th April 1988).

Reporting on the general progress of British Gas towards providing a better service, the OFGAS Annual Report 1987 states:

‘It is indisputable that British Gas, as well as OFGAS, regards the protection of consumers' interests to be of paramount importance. We are able to confirm from our observations and experience that British Gas is continuing to work hard to preserve the high degree of safety afforded, to improve its response time regarding complaints and is seeking to improve the level of service it gives to its customers.

‘We have detected no diminution in effort in these areas – in fact we have observed an enhancement in that direction. It is to the company's credit and a reward for its efforts that well over 90 per cent of its customers appear to be satisfied’ (Section 2, paras. 1–2).

The Director-General of OFGAS has concluded – as his first annual report made clear – that the regulatory framework set up to monitor British Gas has shown itself to be effective. He did not call for the body to be given any further regulatory powers.

Prices: Lower in Real Terms. Taking last April's increase into account the bill for the average domestic consumer will have gone up by 11 per cent over the last five years – well below the 25 per cent increase in the retail price index over the same period. Gas prices are therefore approximately 11 per cent lower in real terms than they were five years ago.

Labour's Record. The record of the nationalised gas industry under the last Labour Government was one of politically motivated meddling. While industrial gas prices went up by 112 per cent after inflation, domestic gas prices were allowed to fall in real terms as the Government forced the industry to sell at a loss in order to buy popularity for itself.

Competition in the Gas Industries. OFGAS also has the responsibility to see that as much competition as possible is allowed to develop in the gas industry. The Oil and Gas (Enterprise) Act 1982 entitled other suppliers to use British Gas' pipeline system for the conveyance of gas. Such rights were extended by the Gas Act 1986. However, although these rights exist, they have not been exercised to date.

The absence of competition to date is hardly surprising given that there are limited supplies of uncommitted gas available at present. However, over the next few years, new uncommitted sources of supply are expected to be commercially developed, opening up the possibility of competing operators supplying gas to certain customers, using the British Gas pipeline network. The statutory framework to allow this to happen is in place and OFGAS is ready to ensure that it operates freely and fairly. In particular, the regulatory authority has the power to decide terms between British Gas and any other supplier, if the parties cannot agree terms themselves. As Mr McKinnon has said:

‘The environment created by the Gas Act 1986 within which competition can develop among large suppliers of natural gas is very helpful to potential customers. It is not possible to regulate a situation to force competition; to do so would be a contradiction in terms. Competitors in gas supply will emerge if the prospect of eventual sustained long-term profit can be attained’ (Press Release, 2nd March 1988).

Mr McKinnon has pointed out that the privatisation of electricity could be significant in helping to create conditions for the introduction of more competition into the gas industry (see Section C).

British Gas and the Monopolies and Mergers Commission (MMC). British Gas was referred to the MMC by the Director General of Fair Trading on 25th November 1987 under sections 47(1), 49(1) and 50(1) of the Fair Trading Act 1973. The MMC was asked to investigate and report on whether there was a monopoly situation in relation to the supply in Great Britain of gas to contract customers. Under the Gas Act 1986, British Gas has a statutory monopoly in supplying gas to customers who take less than 25,000 therms a year. (Where it has a statutory monopoly, British Gas must charge according to a published tariff.) However, there is no legal basis for the monopoly over contract customers – hence the MMC investigation.

The MMC report (Cm. 500), published on 19th October 1988, concluded that British Gas had practised extensive discrimination in the pricing and supply of gas to contract customers which was against the public interest. The Commission made four main recommendations which it felt would encourage competition in the supply of gas, and restrain British Gas' discriminatory policy on the pricing and supply of gas. It proposed that British Gas should:

- publish a price schedule at which it is prepared to supply 'firm' and 'interruptible' gas to contract customers, and not to discriminate in pricing or supply;
- not refuse to supply 'interruptible' gas on the basis of the use made of the gas, or the alternative fuel available;
- publish further information on common carriage terms;
- contract initially for no more than 90 per cent of any new gas fields.

Lord Young has asked the Director General of Gas Supply to seek agreement with British Gas to meet the first three of these recommendations. On the fourth, he has asked the Director General of Fair Trading to consult interested parties with a view to proposing by 31st January 1989 a scheme which will make it easier for others to buy gas from developers of gas fields.

The Government welcomed the report, whose clear objective was to accelerate the development of competition in the industrial market for gas. When British Gas was privatised it was made subject to competition law in the same way as every other company. Thus the report is a vindication of the privatisation itself.

(D) ELECTRICITY PRIVATISATION

1. THE GOVERNMENT'S PROPOSALS

The Biggest Privatisation Ever. The return of the electricity supply industry to the private sector will be the most ambitious privatisation the world has ever known. In terms

of pure size alone, the denationalisation of electricity will be the biggest yet. The industry has net assets of almost £40 billion, well over twice those of British Gas. It supplies electricity to some 22 million customers and employs around 130,000 people – about a fifth the number of people employed in all the other privatised industries put together.

But it is not just in terms of size that the privatisation of the electricity industry will be such an ambitious undertaking. The Government's plans provide for an extensive restructuring of the industry. The primary aim of this complex and extensive reform will be to introduce substantial competition into electricity generation, so leading to a more efficient industry driven by the needs of its customers.

Six Key Principles. The Government's plans for electricity privatisation in England and Wales were outlined in a White Paper, *Privatising Electricity* (Cm. 322), published on 25th February 1988. Proposals for Scotland were the subject of a separate White Paper, *Privatisation of the Scottish Electricity Industry* (Cm. 327), published on 2nd March 1988. The plans are based on six key principles which Mr Cecil Parkinson, Secretary of State for Energy, outlined to Parliament when he introduced his White Paper:

- ‘Decisions about the supply of electricity should be driven by the needs of customers.
- Competition is the best guarantee of the customers' interests.
- Regulation should be designed to promote competition, oversee prices and protect customers' interests in areas where a natural monopoly will remain.
- Security and safety of supply must be maintained.
- Customers should be given new rights, not just safeguards.
- All who work in the industry should be offered a direct stake in their futures, new career opportunities and the freedom to manage their commercial affairs without interference from Government’ (*Hansard*, 25th February 1988, Col. 454).

2. COMPETITION IN ELECTRICITY

The central benefit of the Government's proposals will be to introduce competition into the electricity industry. Although the distribution side of the industry constitutes a natural monopoly, there is considerable scope for subjecting electricity generation to competition. That will be a significant and effective reform because electricity generation accounts for 75 per cent of all electricity costs. As Mr Parkinson has said:

‘Competition in generation will provide the best protection for the consumer because it will put pressure on three-quarters of the cost of electricity’ (*Hansard*, 7th March 1988, Col. 53).

The National Grid. The key to creating competition in the electricity industry in England and Wales is access to the National Grid. The Grid is in effect electricity's market place. Power stations, at present owned almost exclusively by the Central Electricity Generating Board (CEGB), feed in electricity at one end; at the other, each of

twelve statutory area electricity boards receive electricity from the grid and are responsible for distributing it to consumers within their own region.

At present, the CEGB owns and operates the Grid: it also provides some 95 per cent of all the country's electricity, the remainder coming from Scotland, the cross-Channel cable link with France, and from a few generators which provide electricity as a by-product of their main business, such as the Atomic Energy Authority and British Nuclear Fuels.

The 'Merit-Order' System. The CEGB runs the Grid on the basis of the 'merit-order' system, constantly matching electricity supply with demand and using the cheapest generating sources first, switching to progressively more expensive sources as and when they are needed. Operating the Grid is a highly complex and skilled job: the Government is satisfied that there is a strong case for retaining the integrated National Grid in order to maintain the benefits of this system of operation. It is envisaged that, after privatisation, the National Grid will retain its central role in scheduling and directing the use of power stations. The same people who run the Grid now will be running it then.

Weakness of the Present System. The main shortcoming of the grid system as it is presently operated is that the CEGB, which controls the Grid, is also virtually its monopoly supplier. The market place for electricity is controlled by one dominant producer. There is thus very little scope for other generators to break into the market. The extent of this problem is reflected in the failure of the Energy Act 1983 to attract other private generators into the market. Although this Act gives other generators the right to compete with the CEGB, after five years none regularly do so. The market has not been free enough for this to happen.

A Better System. To correct this unacceptable market distortion, control of the National Grid is to be removed from the CEGB and vested with a separate company – the National Grid Company. It will be owned jointly by the twelve area boards in their privatised forms.

The logic of this change is easy to see. As long as electricity's market place is controlled by a company with a strong, let alone the strongest, generating interest, then it is inevitable that free and fair competition will be hampered. But, after privatisation, the twelve distribution companies will be the Grid's major customers: they will have a strong interest in ensuring that as much competition in generation as possible is allowed to develop.

The National Grid Company will operate in a slightly different fashion to the CEGB's National Grid Control and Transmission Division. It will direct power stations to meet demand at the lowest possible cost: bids will be made by generators and electricity will be despatched from power stations in sequence, beginning with the cheapest.

Other Generating Arrangements. Under the new system, direct arrangements between distributors and even large individual power users and generators could develop. While some or all of the distribution companies may choose to start by contracting with

generating companies through the grid company, there will be no statutory provision to prevent them from contracting direct with generators. The grid company will need to be involved, however, to ensure that the interests of the power supply system as a whole are protected.

National Power and PowerGen. Separating transmission from generation is the first stage of introducing genuine competition into the industry. However, competition would still be likely to be restricted if a single generator – the CEGB – is allowed to dominate the market. Therefore, the Government proposes to split up the CEGB into two competing generating companies. To do this, 30 per cent of the CEGB's existing capacity will be transferred to a new company – PowerGen – so creating a major second force in generating. The assets transferred will ensure that PowerGen benefits from a diverse range of generating sources. The remaining 70 per cent of generating capacity, including all the nuclear power stations will be retained in a successor company to the CEGB – National Power. Both generating companies will be sold to the public.

The Government has agreed with the CEGB and the Chairman and Chief Executive designates of National Power, PowerGen and the National Grid Company on how the CEGB's assets are to be split up. The proposed split of power stations in England and Wales would give National Power almost 30,900 megawatts of conventional capacity with an additional 9,000 megawatts of nuclear capacity. Under the plans PowerGen will have almost 18,800 megawatts of power. The CEGB's two pumped storage power stations at Dinorwig and Ffestiniog will be transferred to the National Grid Company.

New Generators. As well as competition between National Power and PowerGen, the proposed system is designed to encourage new private generators into the market. This will enable a much greater variety of generators to compete for customers. Combined heat and power schemes, for example, will find it much easier to compete for the custom of a local distribution company. If alternative power schemes – such as the Severn Barrage or the Camborne hot rocks project – become viable, then the private sector interests which have developed these sources will find it much easier to introduce electricity from them into the market under the new system.

Equally important, the distribution companies themselves will be allowed to become generators, though regulation will ensure that they are not allowed to become local monopolies in both generation and distribution.

A Positive Response. There has already been an encouraging response from potential private sector generators to the Government's plans to open up this market. The Department of Energy is already aware of nearly 20 private generating projects. Taylor Woodrow and BICC, both construction groups, have set up a joint company – 'Thames Power' – to build, own and operate power stations. Thames Power have already disclosed plans to build a £500 million, 1,000 megawatt power station beside the Thames at Barking. Costain, another large civil engineering group, has formulated similar proposals and Trafalgar House has demonstrated an interest in refurbishing and operating an existing station at Poole in Dorset.

Significantly, the projects being looked at by these companies envisage the operation of smaller-scale plants, powered by gas. This demonstrates a growing interest in diversifying into gas power. Other possibilities that these companies are exploring include the obtaining of gas directly from oil companies with North Sea gas fields, so introducing extra competition into the gas industry as well as the electricity industry.

Increasing Diversity of Supply. The development of strong independent private sector interests in generation will add to a number of existing potential sources of competition in generation creating an increasingly diverse range of power sources in future. There are already other generators such as BNFL (which has signed a contract with the North West area electricity board to supply electricity direct from BNFL's Chapelcross plant to Norweb) and there is the cross-channel link with France. In addition plans are being considered to strengthen the link between the National Grid and the South of Scotland Electricity Board (SSEB) so that England and Wales might benefit from the SSEB's excess capacity.

Not all the links between generator and customers will have to take place through the National Grid. The Government's plans allow for the development of direct links between area boards (or area electricity companies as they will become) and even individual large consumers (large factories for example) and private generators such as the BNFL/Norweb arrangement described above. As Mr Parkinson has said:

‘Our structure is essentially a beginning, and we expect quite diverse sources of generation to develop from it’ (Evidence to Energy Select Committee, 9th March 1988, para. 376).

Competition from such a diverse range of sources will also help to deter any potential collusion between National Power and PowerGen, as Mr Parkinson has made clear:

‘So we actually see the competition growing steadily and we feel that it would be short-sighted of those two big companies to attempt to abuse their position ... that would really give the [area] boards a major incentive to go for developing alternative sources of supply’ (ibid., Para. 401).

3. THE DISTRIBUTION COMPANIES

The twelve area electricity boards in England and Wales will each be privatised as separate area electricity companies: they are likely to be sold to the public in the summer of 1990. These twelve area-based companies will be the key to change in the industry. As Mr Parkinson has pointed out, each will be a considerable commercial force in its own region:

‘With a turnover of between £500 million and £1,500 million each last year they will be among the largest private sector companies in their region. They will have a strong local identity and a real incentive to strike the best deal for their customers. Our proposals will give them the freedom to use that initiative. They will become real independent

companies looking after local interests, not just the distributors of the CEGB's electricity' (*Hansard*, 7th March 1988, Cols. 50–1).

Obligation to Supply. The Government's plans for electricity will shift the emphasis in the industry away from the generating side, currently dominated by the CEGB, towards the distribution companies. A crucial change will be that the distribution companies will have placed on them the obligation to supply which is currently shouldered by the CEGB. They will meet this obligation by contracting for sufficient capacity or by generating themselves. This will give the distribution companies a much greater role in deciding how many, and what type of, power stations should be built. Since it is the distribution companies which deal directly with the 22 million electricity users in England and Wales, it is only right that they should be given much more say in the industry's investment decisions.

4. REGULATION

The Government has always accepted that the distribution side of the industry constitutes a natural monopoly: it is impractical to have wires from competing electricity companies going into every home. The Government will, however, introduce strong regulation to ensure that the privilege that accompanies monopoly status is not abused.

The regulatory system, details of which are contained in the Electricity Bill, published on 1st December 1988, has been designed to provide each company in the industry with incentives to operate more efficiently, and to ensure that the benefits of privatisation and competition are shared with customers. Because such a system will be in place, electricity customers will find that the cost benefits that result from having free and fair competition in generation are reflected in their electricity bills.

The terms of access to the transmission and distribution systems will also be carefully regulated. It will be particularly important to ensure that the distribution companies do not hamper the efforts of private generators to supply large industrial customers directly. So the terms for common carriage of this kind will be closely regulated. The Government is determined to remove all barriers to full and effective competition.

5. GUARANTEED STANDARDS FOR CONSUMERS

The regulatory system will not only protect customers against unfair price increases: it will also lay down minimum standards of customer service. This is a major step forward in the privatisation programme. Customers who receive a service that falls short of standards agreed by the regulator and the industry will automatically receive compensation in the form of rebates or vouchers. As Mr Parkinson has said:

‘Guaranteed levels of service will be set by the regulator in consultation with the industry. For example, the distribution companies could be required to meet all agreed appointments, to provide new supplies within a reasonable period, to replace meters by

an agreed deadline, and so on. When they fail to meet these levels of service, the customer will receive compensation. ... We are determined to ensure that the customer benefits from privatisation not just in price, but in quality of service. (ibid., Col. 54).

It is a measure of the powerful appeal of this innovative move that another privatised company, British Telecom, has since announced its own system of compensating subscribers if the service BT delivers falls below standards it has agreed with OFTEL.

Wider Share Ownership. As well as giving those working in the industry the chance to become shareholders, privatisation will also give them new opportunities in terms of career progression and job fulfilment at all levels. The new structure of the industry will provide diverse career opportunities, and, with more companies entering the market, there will also be considerable scope for job creation.

6. PROPOSALS FOR SCOTLAND

North of the border the structure of the electricity industry is different, and the Government's plans for privatisation recognise the special characteristics of the Scottish industry. At present, two electricity boards – the South of Scotland Electricity Board and the North of Scotland Hydro-Electric Board – are responsible for generating, transmitting and distributing power to the consumers in their respective areas. After privatisation this structure will be basically preserved with both boards being privatised as separate companies. This method of privatisation will build on the existing structure of the industry in Scotland and ensure that it maintains its distinctive nature.

Competition by Comparison. At present there is considerable over-capacity in generation in Scotland which rather limits the scope for direct competition between generators. But, the Secretary of State for Scotland, Mr Malcolm Rifkind, has outlined the scope for competition that this method of privatisation will allow:

‘The two-company structure will provide competitive pressures within the industry in Scotland. In the short term, there will be potential for competition by comparison by which means customers will have a basis for comparing and assessing the prices and service they receive. By helping to ensure effective regulation of prices, this will be an important gain for consumers. The shareholder will similarly be able to compare the performance of the two companies. A two-company structure will also increase the scope for direct competition for large industrial loads and for marginal exchanges of energy within Scotland’ (*Hansard*, 2nd March 1988, Cols. 975–6).

In the long-term the structure will provide scope for substantial direct competition in generation. The regulatory framework that is to be established will be designed to encourage independent generators to enter the market on a profitable basis.

Restructuring. Although the two electricity companies formed in Scotland after privatisation will be based on the present boards, there will be a need for some modest redistribution of assets between them. Details of this redistribution will be worked out in

consultation between the Government and the boards themselves. The objective will be to create two companies which, although of different size, will be satisfactorily balanced in terms of generating plant, the amount of spare capacity and forecast levels of profitability. The Government will ensure that neither company has an undue competitive advantage in areas where there is scope for competition between them.

Nuclear Power in Scotland. After privatisation, Scotland's nuclear power stations will be owned jointly by the two electricity companies. Both companies and their respective consumers will receive the benefits of nuclear power and both will share in its costs. Mr Rifkind has outlined the reasoning behind this move:

‘One of the central principles underlying the restructuring will be a sharing of the benefits and costs associated with nuclear assets between the two companies. All of Scotland's electricity consumers have contributed to the creation of these assets, and it's therefore right that they should benefit from that investment in terms of economic base load of electricity’ (ibid., Col. 976).

Benefits to the Consumer. The principles behind electricity privatisation in Scotland are exactly the same as those on which the Government's plans for England and Wales are based. Employees and customers will be given opportunities to buy shares and there will be new career opportunities for those working in the industry.

A common system of regulation will be established, with just one regulatory body for the whole of Great Britain. One of the most important duties of the regulatory body – to ensure that customers are given a right of redress if service falls below agreed standards – will apply in Scotland, as in England and Wales.

7. RESPONSE TO THE GOVERNMENT'S PLANS

The Government's plans for a private electricity industry have been greeted with approval by many people associated with the industry. The Electricity Council, the industry's co-ordinating body, and all the area boards have welcomed the proposals. Together these organisations represent nearly two-thirds of the industry's employees. The CEGB, not surprisingly, was less enthusiastic, since it would have preferred to have retained its dominance over generation and transmission, but has accepted the Government's ideas and set about implementing them.

Significantly, both the National Consumers' Council and the Electricity Consumers' Council have expressed satisfaction with the Government's proposals reflecting the extent to which consumers stand to benefit from them. Mr John Hatch, Chairman of the Electricity Consumers' Council, called the White Paper ‘imaginative’ and said it ‘could have far-reaching consequences for customers’ (Press Release, February 1988). And Mrs Sally Oppenheim-Barnes, Chairman of the National Consumer Council, commented:

‘I am glad to see that the Government has followed some of our suggestions for the structure of the industry, including separation of the distribution grid from the generating

companies. We are particularly pleased that the Government has proposed that distribution companies who do not deliver satisfactory levels of service will have to compensate their customers' (Press Release, 25th February 1988).

The plans were also backed by the Institute of Electrical Engineers. Even the report of the Energy Select Committee, which was described in the press as being hostile to the Government's ideas, firmly backed the principle and aims of electricity privatisation, though it expressed some doubt about the Government's timetable for the sale.

(E) ELECTRICITY PRICES

Towards the end of 1987, the Government set new financial targets for the electricity supply industry in England and Wales. As a result the industry has set revised targets for the rate of return it needs: 3.75 per cent in 1988–9 and 4.75 per cent in 1989–90. These targets necessitated a price rise of an average 8 per cent in April 1988 and a further rise is envisaged in April 1989.

Paying for New Investment. The reason why the industry has to achieve a higher rate of return – and hence the reason for the price rises – is that it is moving from a period of surplus capacity to one where massive capital investment will have to take place to ensure that Britain's security of electricity supply is maintained. Magnox nuclear reactors will have to be replaced in the years ahead and over 20 coal-fired power stations are approaching the end of their lives. This – as well as growing electricity demand resulting from economic growth – will mean that ten large new power stations will be needed by the year 2000; more will have to be built immediately afterwards.

The industry expects that around £15 billion will have to be spent paying for the first phase of new power stations, with a further £10 billion needed for those stations which are required shortly afterwards. A further £5 billion is needed for investment in the transmission system, in technology to minimise the industry's contribution to acid rain, and for other projects. Thus a total investment of up to £30 billion at today's prices, up to £45 billion at likely out-turn prices, is needed. The money to pay for this investment has to be raised through increased tariffs.

The Conservative Record. In the three years to April 1988, electricity prices did not rise at all. Over the years 1983–8, they fell by 15 per cent in real terms, and even after the 1988 price rise, electricity prices were still lower in real terms than they were in 1983. Prices to industrial consumers fell even further after allowing for inflation. By contrast, under Labour domestic electricity prices rose, on average, 2 per cent every six weeks.

The electricity price rises have absolutely nothing to do with privatisation. New investment in electricity is vital, and would have to take place even if the industry was not going to be privatised. On the contrary, privatisation will introduce competition into generation and this will provide downward pressure on prices by making the industry more efficient and conscious of its costs.

European Comparisons. The average householder in England and Wales pays 6·81 pence per kilowatt hour. This is less than in any of the other European Community countries except the Netherlands and Greece. Italian householders on average pay 9·49 pence per kilowatt hour. Typical industrial tariffs, at 4·2 pence per kilowatt hour are comfortably in the mid-range of European Community countries and compare with 6·23 pence per kilowatt hour in West Germany. In Japan the cost is 7·21 pence per kilowatt hour.

(F) NUCLEAR POWER

1. ITS IMPORTANCE

The 1987 Conservative Manifesto reaffirmed the Government's commitment to the development of safe supplies of nuclear power. It has a vital part to play in ensuring that the nation has the diversity of power sources which it needs. At present, there is no other viable long-term alternative to coal as a basic source of electricity.

As well as providing basic long-term security, nuclear power also provides independence from the uncertainties of future prices of fossil fuels. Mr Parkinson has explained the long-term economic case for nuclear power:

‘I believe that nuclear offers a good secure long-term economic source of electricity. I do not think we should measure it against the fluctuating value of costs of fossil fuels which have moved alarmingly over recent years. ... What is clear is that once you have the [nuclear] station operating, costs are relatively predictable and much less liable to fluctuation. So I do not believe we should come to the conclusion that because the main argument is not economic now, that means they are hopelessly uneconomic. That is not the case at all’ (Evidence to Select Committee on Energy, 9th March 1988, Col. 87).

Nuclear power has a powerful stabilising effect on energy prices: its continued availability will help guard against massive price rises in fossil fuels in the shorter term which would otherwise take place as those sources began to run out. The Department of Energy has estimated that oil could double in price if Europe were to abandon nuclear energy altogether.

2. THE NUCLEAR PROGRAMME

Many of Britain's existing nuclear power stations – the Magnox reactors – are nearing the end of their useful lives and will need to be replaced. The CEGB has already announced the first closure of a Magnox station, at Berkeley near Gloucester. A number of coal-fired stations will also have to be closed – at a time when demand for electricity is increasing because of our expanding economy. These facts underline the need for considerable investment in new generating plants, and although some of this will be coal-fired, the

CEGB has planned the development of Pressurized Water Reactor (PWR) nuclear power stations.

Sizewell B, currently under construction, is the first of these. The Government gave the go-ahead for this project after the exhaustive Layfield Inquiry and Report found that its development was in the national interest. Sizewell B should be fully operational, producing 1,175 megawatts of power, by mid-1994.

The CEGB propose to build a second PWR at Hinkley Point in Somerset (where there are already two nuclear power stations). Their application is, of course, subject to a full public inquiry which is considering the CEGB's case for Hinkley C, safety considerations, the on-site management of radioactive waste from the plant and the effect of the proposed development on the local economy and the local environment. The inquiry opened on 4th October 1988. The CEGB's case for Hinkley C, which has been reviewed in the light of the Government's proposals for electricity privatisation, is based on the need to meet anticipated increases in electricity demand particularly in the South West, and the need to ensure that a sufficient amount of nuclear power is available to accord with the Government's requirements under its electricity privatisation plans (see below).

The CEGB has confirmed its intention to apply for consent to build a further PWR at Wylfa in North Wales. In addition, it is carrying out site investigations with a view towards a possible second PWR at Sizewell.

3. NUCLEAR POWER AND PRIVATISATION

The Government's commitment to nuclear power is demonstrated in its electricity privatisation plans. The privatisation proposals will ensure that a diversity of fuel supply is maintained by the private sector electricity industry, by obliging the distribution companies to contract for a minimum proportion of non-fossil fuel generated capacity. This does not mean that the area companies will have to contract for nuclear power – renewable energy will also be an option – but it is envisaged that nuclear power will be the dominant non-fossil element. The Government has stated that the level of the non-fossil fuel requirement for the year 2000 will not be below the present level of existing and committed nuclear and renewable generating capacity.

The commitment to nuclear power is also reflected in the 70:30 split of the CEGB's generating capacity. By creating National Power with 70 per cent of the CEGB's existing capacity, including all the nuclear power stations, the Government has ensured that the continuity of the nuclear power programme will be preserved. National Power will be large enough to take on the responsibility of operating nuclear power stations and will retain the expertise that is required to operate them.

The Non-Fossil Fuel Levy: Sharing the Cost. The Government believes that the costs associated with maintaining a diversity of supply must be borne by all customers. To simplify administration and enforcement, the non-fossil fuel obligation will only be

placed on the 12 electricity supply companies. Special arrangements will therefore be needed to share the costs amongst all customers rather than only those who are customers of the twelve supply companies.

The Secretary of State will have the power to make regulations to impose on all supply licensees – including generators who supply electricity customers direct under contract – a levy to share out any additional costs. The levy will be based on the difference between the aggregate costs of power from nuclear and coal-fired power stations. An ‘agent’ of the Director-General of electricity supply will act as middleman to check the arithmetic and ensure that it balances out.

The levy will ensure that the costs of generating electricity from different fuel sources can be seen clearly. For the first time customers will be able to see how much extra (if anything) they pay for diversity.

The Importance of Nuclear Power. The Government is making a strategic commitment to nuclear power not because it believes nuclear power cannot pay its way in the market, but because of the need to provide for a diversity of fuel supply for the long term. If nuclear power is to be available for long-term future use, a commitment has to be made to it now.

Comparing the Costs of Energy Sources. Opponents of nuclear power point to the extra costs of nuclear energy – which arise from decommissioning nuclear plants and managing nuclear waste. However, every source of fuel has extra costs – including environmental and even human costs.

Oil. The removal of oil platforms from the North Sea is estimated to cost in the region of £6 billion. The recovery of oil from the North Sea, although covered by strict safety regulations, is a dangerous endeavour as the Piper Alpha tragedy showed only too clearly.

Coal. Additional costs arise from the production of coal because of the subsidence damage caused by deep mining. And open-cast sites have to be restored and colliery waste disposed of. Furthermore, the CEGB's coal fired power stations contribute substantially to both the greenhouse effect and acid rain. Complying with the EC directive on cutting sulphur emissions by 60 per cent by 2003 will cost over £1 billion.

4. NUCLEAR SAFETY

Privatisation will do nothing to jeopardise the extremely good safety record enjoyed by the British civil nuclear industry. As Mr Michael Spicer, Parliamentary Under-Secretary of State for Energy, has said:

‘We have one of the finest safety records of anywhere in the world and we mean to keep it that way. When we privatise the industry we shall ensure that the independent Nuclear

Installations Inspectorate ... will continue to be responsible for monitoring safety of nuclear installations' (Bedminster Down, 27th July 1988).

Safety is not related to ownership and there is certainly nothing to suggest that a private industry is less safety-conscious than a nationalised one. It is hard to imagine a more state-dominated industrial culture than that of the Soviet Union, yet that is where the world's worst nuclear accident took place.

Safety has always been a paramount consideration in deciding the future of nuclear power in this country. Before giving the go-ahead to the Sizewell B project, the then Secretary of State for Energy, Mr Peter Walker, took full account both of the safety evidence presented in the Layfield Report and the implications of the Chernobyl disaster. In addition the Nuclear Installations Inspectorate (NII) also completed an independent assessment of the safety issues for the Sizewell B design before granting the project a site licence.

The Nuclear Installations Inspectorate. All nuclear power installations are subject to scrutiny by the NII which has the power to demand that nuclear operations cease if they do not conform to strict safety regulations. The Government is absolutely committed to ensuring that the NII is fully staffed and resourced so that it can do its essential work with complete success.

Sellafield. British Nuclear Fuel's reprocessing plant at Sellafield in Cumbria has been the focus of some nuclear safety concerns, although a number of stories about the plant have turned out to be considerably exaggerated. In December 1986 the NII, while recognising the progress that BNFL had made in tightening up safety, made a number of recommendations for further improvements. BNFL has met the major objectives set by the NII in its safety audit. Some £8.5 million has been spent on work directly related to the audit and a further £42 million has been committed to work referred to in the audit.

As a result there has been a significant decrease in the number of radiological incidents at the plant. Mr John Rimington, Director-General of the Health and Safety Executive, the NII's parent body, has acknowledged BNFL's improvements in safety:

'BNFL have done what we requested a year ago. They have put their backs into getting immediate deficiencies right, and they have given us the plant safety cases we demanded and which we are now going to assess. Don't ask us if we are satisfied, we never are, but we can say that we are pleased with the progress BNFL have made and with their attitude. And we are particularly pleased that the frequency of incidents has gone down' (Press Release, 14th December 1987).

It would be absurd to shut down Sellafield. It is a highly advanced reprocessing plant carrying out work vital to the nuclear industry. Even if nuclear power were abandoned tomorrow, there would still be a need for the service which Sellafield provides. In addition, the plant is the major single contributor to the local economy. BNFL currently employ about 6,000 people at the site, and there are many more working on a number of

contractual projects, including the construction of THORP, an advanced reprocessing plant. The THORP plant will help BNFL consolidate its position as one of the world's biggest reprocessing specialists and one of Britain's most successful export industries.

5. RADIOACTIVE WASTE

Radioactive waste exists, and a safe and acceptable means of disposing of it must be found. The Government has clearly and unambiguously accepted its duty to ensure that such waste is properly dealt with:

‘It is Government policy that wastes should be disposed of under strict supervision to high standards of safety and that the period of storage should be the minimum compatible with safe disposal’ (*Radioactive Waste*, The Government's Response to the Environment Committee's Report, Cmnd. 9852, July 1986, Para. 19).

Much of the debate which surrounds this clear statement of Government policy is deliberately orchestrated, mainly by opponents of nuclear power, to suggest that there are insuperable technical problems to be overcome if the policy is to be implemented. In fact, no such problems exist. The problems, such as they are, are entirely political, and stem mainly from the Opposition's interest in attacking nuclear power. Indeed, a good deal of the political debate surrounding radioactive waste is conducted at a level which suggests that nuclear power is the only issue at stake. This, however, is to misunderstand the nuclear waste issue, for two crucial reasons:

- not all radioactive waste is the result of nuclear power. It is also the inevitable by-product of the use of radioactive isotopes in medicine, industry and scientific research.
- even if we abandoned nuclear power tomorrow there would still be radioactive waste to deal with, both from the sources described above, and from nuclear power stations as they were shut down.

The Government's basic policy – that safe disposal can and must be effected – has been supported by the Environment Select Committee:

‘We are convinced that safe final disposal routes are available in the United Kingdom. Indefinite storage presents unacceptable risks’ (First Report from the Environment Committee, 191–I, January 1986, para. 60).

The Issues in Perspective. Those who seek to make a political issue out of radioactive waste disposal are apt to exaggerate the extent of the task, as well as the danger involved. The following facts should be borne in mind:

- The amount of radioactive waste that must be disposed of is relatively small. The amount of low-level waste expected to arise between now and 2030 will be about 1.5 million cubic metres (m³), taking into account new nuclear power stations and the decommissioning of existing plant. LLW from defence sources will add no

- more than 20 per cent to this volume. The amount of intermediate level waste arising will be about 250,000 m³ (again 20 per cent should be added to include defence sources) and the amount of heat-generating waste will be about 3,030 m³.
- By comparison the amount of non-radioactive hazardous waste that is expected to arise by the year 2030 is about 200 million m³. The UK disposes of some 30 million tonnes of domestic waste every year. Coal mining produces 60 million tonnes of spoil every year. In other words, all the low-level and intermediate-level radioactive waste produced in the next 42 years will in volume terms amount to no more than about three weeks' worth of domestic rubbish or 10 days spoil output from the coal industry.
 - The average person is exposed to 2mSv (milliSieverts) of radiation every year. The great majority of exposure (87 per cent) is accounted for by entirely natural sources. Only 0.1 per cent results from the nuclear industry.

Disposing of Nuclear Waste. There are three types of radioactive waste:

- *Low level waste (LLW)* which consists mainly of rubbish such as discarded protective clothing or worn-out equipment. It is only lightly contaminated with radioactivity.
- *Intermediate-level waste (ILW)* which consists of irradiated fuel cladding, reactor components, chemical process residues, ion-exchange resins and filters.
- *Heat-generating waste (HGW)* which is the most dangerous and must be stored in conditions that ensure that the heat it generates can be released without causing a dangerous rise in the temperature of its surroundings.

Direct responsibility for the disposal of low-level waste and intermediate level waste is vested in NIREX, a public company owned jointly by British Nuclear Fuels, the Central Electricity Generating Board, the United Kingdom Atomic Energy Authority and the South of Scotland Electricity Board.

At present LLW is either being safely stored where it arises or disposed of at Drigg in Cumbria. If no alternative site were found to take non-Sellafield waste, Drigg would be filled to capacity by about 2010. ILW is stored where it arises.

NIREX originally examined the possibility of shallow disposal sites for LLW and a deep-site for ILW. Four possible sites were considered for the disposal of LLW. However, on 1st May 1987, Mr Nicholas Ridley, Secretary of State for the Environment, told the House that NIREX had concluded that the economic advantages of shallow disposal sites for the disposal of low-level waste were not as great as first thought. NIREX further concluded that LLW and ILW could be disposed of together in a deep-site at no significant extra cost and with even greater safety. The Government accepted these conclusions. Plans for the four shallow sites were therefore abandoned.

Towards the end of 1987, NIREX published a consultation document, *The Way Forward*, which outlined its new strategy – to find a single deep disposal site for both low-level waste and intermediate level waste. Such a facility would be constructed in a favourable

geological environment about 200–1,000 metres beneath the land or sea-bed, and would be able to accommodate all LLW and ILW produced in the UK for at least the next 50 years.

Two district councils responded positively: Copeland (Sellafield) and the Caithness district of the Highland Region of Scotland. In Caithness two possible sites have emerged, Dounreay and land near Dounreay owned by Lord Thurso.

NIREX intend now to proceed with consideration of the Sellafield and Caithness sites. It is the company's intention to make a recommendation to the Government in the spring of 1989, proposing possible sites.

Heat Generating Waste (HGW). Responsibility for heat generating waste rests with BNFL and it is dealt with at the reprocessing plant at Sellafield. Such waste (of which only a very small amount will arise – 0.2 per cent of the total volume of radioactive waste arising between now and 2030 will be HGW) is currently stored in liquid form. Under the Government's policy, such waste will be stored for at least 50 years to allow it to cool before it is disposed of. BNFL intend to vitrify this waste (convert it to glass-like form) which will make its storage much easier and safer.

Sea Bed Disposal. Since 1982 the UK has ceased the disposal of drummed radioactive wastes to the ocean bed. Although subsequent international reports have suggested that sea-bed disposal may be the best method of disposing of certain types of radioactive waste, Mr Parkinson has recently confirmed that the Government has decided *not* to resume sea-bed dumping of drummed radioactive waste. Mr Parkinson did point out, however, that the Government would be keeping open the option of sea-bed disposal for certain large items of low-level waste resulting from the decommissioning of Magnox reactors.

(G) THE COAL INDUSTRY

1. THE GOVERNMENT'S COMMITMENT

The Government's commitment to Britain's coal industry is just as clear-cut as its commitment to nuclear power. It is shown by the massive investment the Government has made in the industry in order to help transform it into a modern and competitive industry. Mr Parkinson has made this point clear:

‘The Government's commitment to the future of British Coal is not in doubt. More than £6 billion has been invested by the taxpayer since we took office and about £2 million of taxpayers' money each working day is still being invested to make British Coal a modern industry. Those plans stretch through for the next three years’ (*Hansard*, 7th March 1988, Col. 55).

The figures quoted by Mr Parkinson represent only the money the Government is investing in capital projects designed to improve the industry's efficiency and make it more competitive. They do not include money spent on financing British Coal's debt or the Redundant Mineworkers' Pensioners Scheme.

2. PROGRESS IN THE INDUSTRY

The Government's investment in British Coal's restructuring is paying off: real progress is being made towards achieving commercial viability for the company. In 1987–8, British Coal made an operating profit of £216 million, equivalent to a return on capital of 3 per cent, although interest charges, depreciation and restructuring costs resulted in an overall loss for the financial year.

Restructuring Coal. These results demonstrate the scale of the change that the coal industry has had to undergo since the coal strike of 1984–5. No other UK industry in recent times has undergone such intensive restructuring. A number of major changes have taken place since the coal strike:

- The work-force has been reduced by 104,000 to a total of under 117,000. *This has been achieved without the need for a single compulsory redundancy.*
- 79 collieries have been closed or merged. The vast majority of the remaining 93 collieries will have a secure long-term future if their performance can be maintained and improved.
- Productivity at collieries has increased by 71 per cent. British Coal is producing nearly the same total deep-mined output as three years ago with less than half the number of coal faces.
- Operating costs at collieries have been reduced by over 20 per cent in real terms.
- Prices have been reduced on average by 15 per cent in real terms, saving British Coal's customers well over £500 million a year.

Productivity. British Coal operates in a fiercely competitive market and it is under constant pressure to reduce its costs. The substantial productivity gains it has made are therefore particularly welcome. In the first quarter of 1988–9, the national productivity record was broken five times and area productivity records were broken a total of 12 times. As Sir Robert Haslam, Chairman of British Coal, has said:

‘With a series of impressive record-breaking productivity achievements, people in the industry have proved once again that when we are free from disputes, our performance can surge ahead. Because of the progress already made, the coal industry is now in fighting shape to meet fair competition and to pay our way. British Coal are on the brink of success’ (Press Release, 13th July 1988).

British Coal's productivity – and thus its ability to compete – is assisted greatly by massive investment in new mining equipment. The £1.4 billion new Selby complex, for example, is one of the company's most modern and successful mines. Using very modern mining equipment, it is already breaking mining productivity records.

3. INDUSTRIAL RELATIONS

Progress towards a more competitive coal industry is crucially dependent on the co-operation of the workforce. In 1986–7, industrial action by the NUM and NACODS cost British Coal £100 million. As Sir Robert Haslam has said:

‘If industrial relations are peaceful in the current year, we will have a period of relative stability and anticipate only a handful of closures. If there is a repetition of last year, we will see yet another spiralling down with the closure of 20 marginal pits and 20,000 jobs going. Mr Scargill's avowed policy of confrontation to stop pit closures would therefore have precisely the opposite effect’ (Address to UDM Annual Conference, Weymouth, 13th June 1988).

4. FLEXIBLE WORKING

It is a major objective of British Coal to introduce more flexible working practices, including six-day working. These are necessary for two reasons: firstly, to obtain a worthwhile return on major investment in capital equipment which needs to be worked more intensively; and, secondly, to establish British Coal as a high-productivity, high-wage industry able to compete with low-cost producers in other countries. As Sir Robert Haslam has said:

‘Mineworkers need to embrace more continuous operations of the highly capitalised equipment that we have installed in our collieries. Certainly, more flexible working practices are commonplace amongst our competitors, our customers and in other industries. Nothing would give us a greater shot in the arm if we could moderate the culture of confrontation and industrial action which has been such a damaging feature of our industry’ (Press Release, 13th July 1988).

British Coal is particularly anxious to introduce six-day working at Asfordby pit in Leicestershire which is due to start producing coal in the early 1990s, and at the proposed new super-pit at Margam in South Wales. The development of Margam is crucially dependent on the work-force accepting six-day working.

The UDM. In August 1988, British Coal and the UDM announced that they had agreed a deal on flexible working. The union has accepted new rostering of production shifts over six days instead of five, enabling coal mining to take place on 300 days a year instead of the present 233 days. Under the agreement, each underground worker will work fewer shifts a year (though they will be slightly longer) and will have more days off a year than at present. Each miner will work three six-day weeks and will then have the fourth week off. Mr Roy Link, President of the UDM, said of the deal:

‘This agreement is necessary and in my opinion will protect the jobs of many miners and the future of the mining industry. The agreement will allow us to compete with any

foreign competition and is yet another demonstration that the UDM are working for the future while other unions are living in the past' (Press Release, 23rd August 1988).

British Coal and the UDM now plan to apply the framework agreement to the Asfordby mine by local negotiations between management and the union.

The NUM. Unlike its rival union, the NUM remains immune to common sense and refuses to accept six-day working. British Coal have made it clear that until six-day working is accepted by the union none of the potential mines in areas covered by the NUM – Margam, Hawkhurst Moore in the Midlands and Francis in Scotland – can go ahead. Together these mines represent an investment of £590 million, and could create around 3,800 new jobs.

The NUM has, however, shown signs of serious splits over the six-day working issue. While Mr Scargill and the national leadership remain implacably opposed to the concept of six-day working, some NUM leaders in areas where the industry and the union stand to benefit from flexible working have shown interest in the concept. The South Wales area NUM has agreed in principle to flexible working at Margam, a stance which has been backed by Mr Mick McGahey, ex-Vice-President of the NUM, who has said:

'Listen to the miner and pose the question – you can have a week off in every month in which you can be with your wife and family. But to do that you will have to go into job and shift flexibility. I do not know, but the miner might say, "hey I am for that"' (*Marxism Today*, July 1987).

But the real issue at stake has been expressed in its simplest form by one miner hoping to find a job at the new Margam pit, who said:

'I'd rather be employed six days a week than out of work for seven' (*The Sunday Times*, 12th July 1987).

5. COAL AND ELECTRICITY PRIVATISATION

The privatisation of the electricity supply industry has very significant implications for the coal industry. The Government has made it clear that there is no question of obliging private electricity generators to buy coal from British Coal; they will have the option of buying from whichever source is the most competitive. The Government wants British Coal to be the electricity industry's supplier of choice, and not of necessity.

If British Coal is to become the supplier of choice, then it is even more crucial that the management and workforce of British Coal work together to make the industry competitive. Mr Parkinson has put this point clearly:

'Three quarters of our electricity will come from coal-fired power stations way into the future. ... Whether it is British coal that is used is in the hands of the British miner and British Coal' (*Hansard*, 7th March 1988, Col. 56).

Sir Robert Haslam has accepted that the impending privatisation of electricity will present British Coal with a challenge even greater than that created by its extensive restructuring. But, he looks to the future optimistically:

‘British Coal has to maintain its commendable progress in reducing costs. One cannot disagree with that – it is what we are about. I believe that if we carry on the way we have done, when the time comes we can meet the challenge and establish ourselves as the supplier of choice to the privatised electricity supply industry’ (Address to UDM Annual Conference, Weymouth, 13th June 1988).

6. COAL PRIVATISATION

The manifest success of private enterprise in developing Britain's other energy industries, and the recent successes enjoyed by British Coal, have naturally raised the question of whether the industry should be privatised. The Government has no doubts that the long-term prosperity of Britain's coal industry will be best assured by transferring it to the private sector.

At the 1988 Conservative Party Conference, Mr Cecil Parkinson, the Secretary of State for Energy, made an ‘historic pledge’ that coal will be privatised after the next general election. In the future, as Mr Parkinson pointed out:

‘Mr Scargill ... will be sitting down to negotiate with the manager of a private company. From the days when the miners' leaders thought they owned the Government – to the day when every miner owns part of his own mine: that's the change’ (Brighton, 12th October 1988).

(H) RENEWABLE ENERGY

The term renewable (or alternative) is generally applied to any energy source not derived from either fossil fuels or nuclear power. The nature of some of these sources – wind, waves, solar – is self-evident, but a few of the types being researched may be less familiar.

- *Geothermal energy*: energy derived from the hot rocks found deep below the surface of the earth;
- *Biofuels*: energy from organic waste or from specially grown ‘energy crops’;
- *Photovoltaics*: Semi-conductor devices which convert the energy in sunlight into electric current.

Government Policy. Research into renewable energy is being undertaken as part of the Government's strategy to utilise all economic sources of energy. There are essentially three elements to Government policy for renewable energy research and development:

- to encourage the commercial exploitation of proven economically attractive technologies, such as passive solar design and the use of waste materials as fuel and some biofuels by the mid-1990s. (The Government's restructuring and privatisation of the Electricity Supply Industry will make it easier for private sector concerns to introduce electricity into the grid once these renewable sources are under way);
- to continue support for R&D work on promising technologies such as wind, tidal and dry geothermal power, which might prove useful power sources of the future;
- to abandon projects which have very little or no commercial potential. Geothermal aquifers, active solar heating and photovoltaics are included in this category.

Increased Government Funding. Between 1975 and 1980, as a result of decisions taken by the Labour Government, £16 million was spent on the research programme. The Conservative Government increased funding for research into renewable technology, and has spent over £100 million since 1979. £12 million was spent in 1986–7 and 13·7 million has been provided for 1987–8.

Wind power constitutes a resource of considerable national significance. There are three projects currently under way. The first is an experimental 3-megawatt 60-metre diameter horizontal axis wind turbine in Orkney, being undertaken in collaboration with the North of Scotland Hydro-Electric Board. The second project includes provision for the design, construction and monitoring of a 1-megawatt, 55-metre wind turbine at the CEGB's site at Richborough in Kent. The third is the construction of the CEGB's Wind Energy Demonstration Centre at Camarthen Bay in South Wales.

The Government's policy towards wind energy is to support its development so long as it continues to look promising and until the technology has reached the point where its cost-effectiveness under UK conditions can be demonstrated.

Tidal Power. The Severn Estuary is one of the best potential sites for a tidal barrage in the world. It has been estimated that a Severn Barrage could generate as much as six per cent of the country's electricity. The Government and the Severn Tidal Power Group – a consortium of private companies – jointly funded a study into the economic viability of a barrage and further investigations costing £4·2 million (to be met by the Department of Energy, the CEGB and the consortium) will take the project into its next stage. As Mr Spicer has said:

‘We are determined that Britain should lead the world in the development of renewable sources of energy provided they are economically viable and environmentally acceptable. Tidal energy is one of our most promising resources and I am pleased that such good progress is made in studying how to harness it’ (Severn Estuary, 16th September 1987).

The Department of Energy recently announced studies costing £300,000 into the environmental effects of the proposed Severn Barrage. Four studies will be funded which

will assess the likely effect of tidal energy on the natural environment, especially on migrating fish and wading birds.

The Mersey Estuary is also being considered as a possible site for a tidal barrage. The aim with both schemes is to reduce the uncertainty about their potential as soon as possible. The Government hopes to make a decision with regard to both within a year or two.

(I) ENERGY EFFICIENCY

Government Policy. The Government is strongly committed to energy efficiency, which it promotes through the work of the Energy Efficiency Office (EEO). The EEO has a budget for 1988–9 of £20·9 million. The energy used by the nation cost £38·5 billion in 1987, representing 9 per cent of GDP. The Department of Energy estimates that the potential savings through Energy Efficiency could be as high as £8 billion making it vital to our international competitiveness. Under this Government our rate of improvement in energy efficiency is over twice the European Community average – putting the UK in a much better position to compete in the single market from 1992. The Government's action is also beneficial to the environment, as Baroness Hooper, Parliamentary Under-Secretary of State at the Department of Energy, has pointed out:

‘But the narrow economic argument is not the only reason for promoting energy efficiency. All means of producing energy have environmental consequences, and energy efficiency measures which can minimise these consequences, must be part of the package addressing the issue’ (Press Release, 6th December 1988).

The Way Forward. The Government announced a review of the EEO in June. In future, the EEO will be targeting its work on the most economically attractive areas. It will also be examining how the contribution from those who benefit from its industrial and commercial programmes can be increased, and the extent to which its operation can be taken over by the private sector. As Lady Hooper has said:

‘Energy efficiency is in the interest of all of us. There is no point in spending taxpayers' money unnecessarily to subsidise what people know to be in their own interest. The Government must look closely at what it spends to make sure that it is directed properly’ (*ibid*).

Home Insulation. The EEO's main schemes to promote insulation in the home are the Community Insulation projects for which the Government provided in 1987–8 around £45 million. By the end of 1987–8 about 500,000 homes, mostly those of pensioners, will have been insulated under this scheme. Over 300,000 more will be treated in 1988–9.

(J) OPPOSITION POLICIES

1. LABOUR PARTY

Nuclear Power. There is deep disagreement in the Labour Party over the nuclear issue. The great majority want a swift end to all nuclear power generation, but there are some in the Parliamentary Labour Party who are committed to its retention, most notably their Environment Spokesman, Dr John Cunningham and their Treasury Spokesman, Mr John Smith. Labour's 1987 Manifesto papered over the cracks; it referred to:

‘gradually diminishing Britain's dependence upon nuclear energy’ (*Britain Will Win*, 1987).

Mr Stan Orme, then Labour's Energy Spokesman, explained the Party's position with greater clarity during the General Election:

‘We are against PWR, we are in favour of coal-fired stations ... we would replace the existing AGRs, as they come to the end of their life with coal fired stations. I think there is a case for the Magnox stations to be decommissioned’ (LWT, *Weekend World*, 4th May 1987).

Labour's Silence. Such are the problems of trying to heal Labour's divisions over nuclear power that the major policy document *Social Justice and Economic Efficiency* (June 1988) makes no mention of energy policy whatsoever. However, at the 1988 Labour Party Conference it was the Left which had its way. A composite motion was passed which stated:

‘This conference opposes the Central Electricity Generating Board's intention to build a pressurised water reactor at Druridge Bay and pledges its support to the phasing out of nuclear power stations’ (Composite 117).

A Divided Frontbench. Senior figures in the party remain divided among themselves over the issue. In August 1988 Mr John Smith and Mr John Prescott, then Labour's official Energy Spokesman, clashed over nuclear policy. In a BBC radio interview on 15th August, Mr Smith said nuclear power would be needed as part of a balanced energy programme. But later Mr Prescott was quoted as saying:

‘Labour's policy does not accept that we need to maintain an element of nuclear power in order to balance our resources’ (*The Independent*, 16th August 1988).

However Mr Smith could be forgiven for contradicting official Labour policy, as Mr Prescott himself has done so in the past:

‘We give the impression that [nuclear power] will be switched off when Labour comes in. Everybody knows that nuclear energy will be with us into the next century’ (*The Times*, 29th September 1987).

Mr Smith is not alone in supporting nuclear power. Dr Cunningham is on record as saying:

‘[Labour] should not abandon altogether the option of developing Civil Nuclear Power’ (BBC TV, *This Week Next Week*, 4th May 1986.)

It is of course not unusual for Labour energy policy to be inconsistent, and inherently contradictory. This is perhaps best illustrated by Mr Tony Benn who, when he was Secretary of State for Energy, said:

‘The Government agrees with the electricity supply boards that the early nuclear orders are needed and that these must be advanced gas-cooled reactors’ (*Hansard*, 25th January 1978, col. 1392).

Eight years later he changed his mind:

‘Nuclear power must be phased out, the PWR cancelled, the Dounreay project abandoned, Sellafield closed and stations decommissioned, beginning with the oldest first’ (*The Times*, 14th May 1986).

Implications of Labour's Nuclear Policy

- Labour's policy would jeopardise the 100,000 jobs directly supported by the nuclear industry.
- Labour's alternative – an increase in the use of traditional coal-fired capacity – would be vastly more expensive if the CEGB's estimate for new generating capacity of 12,500 MW by the mid 1990s is to be met.
- Considerable damage to the environment would be caused by Labour's policy. A 1,000 megawatt coal-fired power station creates no less than 1.1 million tonnes of ash a year. This ash contains as much as 5 tonnes of uranium, according to the Nuclear Electricity Information Group.

Radioactive Waste. The Labour Party seems incapable of producing a policy on radioactive waste disposal on which Frontbench Spokesmen can agree. During his contribution to a parliamentary debate on nuclear waste, Mr Allan Roberts, a junior Environmental Spokesman, said:

‘Low level waste ... can be safely disposed of. That is what the shallow burial sites were about’ (*Hansard*, 8th December 1987, Col. 294).

But Dr David Clark, Labour's Rural Affairs Spokesman, had declared a few months earlier:

‘The Labour Party welcomes the decision [to abandon the four shallow disposal sites] which we have long argued from the dispatch box is misconceived, undemocratically

perceived and has been found to be deeply flawed technically, as we suggested it would be' (*Hansard*, 1st May 1987, Col. 504).

However, Mr Roberts might be forgiven for being out of step with Dr Clark's version of Labour policy, since he (Dr Clark) had contradicted his own statement himself. During the 1987 Election he declared:

'Every hospital in the country produces low-level radioactive waste. That problem has got to be dealt with. It may well be that we find a shallow trench may be the best way of dealing with it' (*The Independent*, 23rd May 1987).

The confusion goes on. Mr Alan Williams, Labour's Welsh Spokesman, stated in reply to a question by Mr Roberts:

'Despite representing the Labour Party on the management of the nuclear industry I have serious differences with the policy of the Party' (*Hansard*, 28th October 1988, Col. 591).

The Coal Industry. The NUM has, of course, always exercised great influence on Labour's energy policy. During the miners' strike of 1984–5, Labour leaders were consistently equivocal in their attitude towards violence and the political nature of the strike. In Labour's policy document the NUM's influence shines through quite clearly:

'Labour will ... plan for an expanding coal industry in line with the phasing out of nuclear power ... restore the Coal Conversion Scheme, which assists firms to turn to coal burn, and expand it to include the public sector – schools, hospitals ... etc' ('Labour's Energy Policy for Two Parliaments' launched 20th May 1987).

Leaving aside the detrimental consequences such a policy would have for the environment (see above), it is quite impossible to reconcile these statements with Labour's record while in office. The last two Labour Governments 1964–70 and 1974–79, between them closed down a total of 295 pits. Mr Tony Benn, when he was Energy Secretary, emphasised:

'I have never found the NUM, in any way unreasonable where closures are necessary because of exhaustion or because pits are out of line in economic terms' (*Hansard*, 4th December 1978, Cols. 1015–6).

The Union of Democratic Mineworkers. The Labour Party, again under the influence of the NUM, has consistently ignored the interests of the Nottinghamshire miners who chose to join the UDM. Mr Neil Kinnock has said that the UDM would not be affiliated to the Labour Party, 'unless the unlikely event occurs of it being recognised by the TUC' (*The Guardian*, 5th November 1985). Labour's dilemma has been compounded by the public support given to the UDM by the moderate Labour Nottingham MPs, Mr Joe Ashton and Mr Frank Hughes.

Coal Privatisation. The Government's announcement that it plans to privatise the coal industry in the next Parliament has driven Mr Kinnock back into Mr Scargill's arms. Mr Scargill has warned the Government:

‘Make no mistake about it, I'll still be around, I'll still be opposing you and it wouldn't be a worthwhile proposition for you’ (*The Independent*, 13th October 1988).

However, Labour has already failed to present a unified front over the question of coal privatisation. The party's treasurer, Mr Sam McCluskie, who is also the General Secretary of the National Union of Seamen, has said the time had come for Labour to stop attacking privatisation and campaign instead for:

‘employee-share ownership coupled with a formal system of industrial democracy ... Do we honestly believe that the Coal Board is the embodiment of Socialism?’ (*Daily Telegraph*, 8th August 1987).

North Sea Oil. The last Labour Government gave the state a dominating role in the North Sea Oil industry; the Labour Party is still committed to such a policy:

‘A Labour Government will act through ... direct participation in exploration and development ... we shall establish a national oil corporation exploring and developing in partnership with the oil companies’ (‘Labour's Energy Policy for Two Parliaments’, May 1987).

British Gas. At the last Election Labour disguised its pledge to renationalise British Gas by renaming its policy ‘social ownership’. The manifesto stated:

‘Social ownership of basic utilities like water and gas is vital ... Private shares in BT and British Gas will be converted into special new securities’ (*Britain Will Win*, Labour Manifesto 1987).

Since the Election ‘social ownership’ has been replaced by a policy commitment to create ‘public interest companies ... for those industries with a statutory responsibility to service both customers and the national interest’ (*Social Justice and Economic Efficiency*, June 1988).

But once again Labour is simply changing its rhetoric without changing the substance of policy, as Mr Hattersley has indicated:

‘The public utilities – gas, electricity, telecom – should be in public ownership ... it's very much better to have a public monopoly than a private monopoly’ (Today, BBC Radio 4, 28th October 1987).

Indeed, the NEC's statement to the 1988 Party Conference, which was confirmed and is now part of official Labour policy, declared with respect to the public utilities:

‘It is essential that they remain in public ownership – nationalised, in the original sense of the word, as single units owned by the nation’ (Democratic Socialist Aims & Values, October 1988).

The cost to the taxpayer of renationalising British Gas, by purchasing the shares at their offer price, would be enormous – perhaps in the region of £6 to £8 billion – and millions of new individual shareowners would be dispossessed of their newly acquired equity and robbed of the capital gains they have made.

Electricity Privatisation. Labour have committed themselves to renationalising electricity. Mr Prescott, Labour's former Energy Spokesman, made clear:

‘We shall ensure that the industry is returned to public control if the Secretary of State is successful in privatising it’ (*Hansard*, 7th March 1988, Col. 66).

Mr Prescott has tried hard to argue that the Government's proposals do not really introduce competition into the industry – putting forward his views in a way that almost suggests that he is speaking for a Party that has long held competition as one of its most cherished benefits. He argues that there will be no competition in the industry because the distribution companies will retain a natural monopoly. He said of the Government's plans:

‘It is not a question of private competition; it is a question of monopolies, oligopolies and regulated control and has absolutely nothing to do with competition’ (*Hansard*, 25th February 1988, Col. 456).

Mr Prescott completely overlooks the fact that generation – where there will be free and fair competition – accounts for around three-quarters of electricity costs.

Mr Prescott also argues against privatisation on the grounds that the present system has produced cheaper prices. In fact electricity prices are low at present because the industry has not had to make any major investment in recent years. Mr Prescott overlooks this when he argues against the proposed electricity price rises, which are needed because the industry is moving into a period when huge investment will be needed to guarantee electricity supply. Nor does he choose to remember that, between 1974 and 1979, electricity prices rose by 30 per cent over and above the rate of inflation.

Labour's Industrial Pessimism. Labour MPs, particularly Scottish ones, also display deep pessimism about the ability of the coal industry to rise to the challenge that electricity privatisation will set it. They are predicting huge job losses and extensive pit closures as a result of electricity privatisation. Mr Prescott has said of Mr Parkinson's plans:

‘His policy of higher profits in the electricity industry are to be paid for with the loss of thousands of jobs, pit closures and lower safety standards’ (Press Release, 2nd February 1988).

It is characteristic of many Labour politicians that they always start from the premise that nationalised industries are hopeless causes, unable to survive in a competitive market without endless help from government.

2. THE SLD

Nuclear Power. As the SLD combines elements of both the old Liberal party and the SDP (which were never able to agree on this issue), it has (predictably) been unable to produce a clear and coherent policy on which all members can agree. At the last election the 'Alliance' energy policy was a fudge:

'Existing capacity and planned coal-fired power stations are enough to meet our needs for some time to come and we see no case for proceeding with a PWR at Sizewell or other nuclear power stations at the present time' (*Britain United*, SDP/Liberal Alliance Party Manifesto).

According to CEEGB estimates, 9,000 megawatts of new plant will be needed by the year 2000 as current electricity demand expands by 2 per cent each year. Mr Robert Maclennan declared after the election:

'The Alliance lacked the courage to face the civil nuclear issue clearly ... on a subject of such importance the initial stance and the subsequent substance of any new party must be clear' (*The Times*, 2nd September 1987).

At the SLD conference in September 1988, a motion was proposed calling on the party's policy committee to consider phasing out nuclear power. This motion was passed. An amendment calling for a 'moratorium on the commissioning of further nuclear power – at least until it has proved to be both safe and commercially viable in comparison with all other forms of electricity generation' was defeated. Thus the SLD seem unprepared to accept nuclear power at all, even if it is incontrovertibly proven cheap and safe.

Mr Maclennan, with his constituency interest in Dounreay, now seems to be completely at odds with his party's policy on nuclear power. He has stated with regard to the Fast Breeder Reactor programme at Dounreay:

'There is a case for accelerating development, not scrapping it' (*The Guardian*, 6th May 1988).

Electricity Privatisation. Opposition to the Government's proposals was expressed by Mr Matthew Taylor when he was SLD Energy Spokesman. In a press statement released on 25th February 1988, Mr Taylor claimed, among other things:

- that privatisation of electricity will be a 'repeat performance of British Telecom and Gas in that there will be no protection for the consumer';

- and that ‘the only result of privatisation so far has been an increase in electricity prices ... The Government has yet to convince that privatisation on these terms will benefit anybody but the get rich quick privateers’.

Mr Taylor's views are in sharp contrast to those of his replacement, Mr Malcolm Bruce, the SLD's present Energy Spokesman. In an article entitled ‘Why I'm buying electricity shares’ in *Liberal News*, Mr Bruce wrote:

‘it is impossible to defend the status quo in the electricity industry. The Central Electricity Generating Board has become a centralised monopoly which is closed, secretive and accountable to no one. The economics of generation and conservation are neither being properly examined or subjected to market forces’ (2nd October 1987).

He goes on to say:

‘Competition and accountability is only likely to be achieved to any extent if the CEGB is broken up and area boards take on a combined generating, distribution and marketing role’ (*ibid.*).

3. THE SDP

The chief contribution to the debate about energy by the leader of the SDP, Dr David Owen, has been a statement of recantation:

‘The last Labour Government, of which I was a member – I take my share of collective responsibility for this – caused a massive increase in electricity charges’ (*Hansard*, Col. 820, 17th December 1988).

The SDP in a recent White Paper declared support for nuclear power:

‘The *SDP* remains of the view that it is necessary to operate existing nuclear power stations and to construct additional nuclear power stations ...’ (*Power with Responsibility*, SDP White Paper No. 17, September 1988).

The SDP have also shown support for electricity privatisation:

‘The *SDP* supports electricity privatisation and the advantages to consumers that a competitive generating market will bring’ (*ibid.*).

The White Paper was approved by the 1988 Conference except for the passages in support of the proposed privatisation of British Coal. The Conference asked the policy committee to look at alternative ways of introducing competition into the coal industry. The SDP has clearly observed the success and popularity of the Government's privatisation programme without really understanding what such a policy entails. Transferring British Coal to the private sector is the only way to ensure a strong,

independent coal industry free from Government interference and properly accountable to its shareholders.

7. AGRICULTURE, FISHERIES AND FOOD

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(A) THE CONSERVATIVE RECORD

1. TEN YEARS OF ACHIEVEMENT

The last decade has been one of great achievement by Britain's food producers. The emphasis of agricultural policy has changed and the industry is moving in new directions, but the record is one of consistent progress.

Greater Self-Sufficiency. Britain's farmers are amongst the most efficient in the world; less than 2.5 per cent of the working population is engaged in agriculture, yet the country is now more self-sufficient in food than ever before. Some of the things we eat cannot, of course, be grown in our temperate climate; but of those which can, three-quarters is produced by British farmers, compared with only two-thirds just a decade ago. Overall, the industry produces almost two-thirds of our total food requirements, compared with less than half in 1960.

Food Exports Up. Indeed, Britain has now become a major food exporter. Exports have increased by almost 50 per cent since 1979 and now earn the industry more than £5 billion a year. The 'Food from Britain' agency, established in 1983, has made an important contribution to the British export drive. 1992 will add a new momentum to the marketing efforts of the food and agriculture industry. Many of our food companies are well placed to benefit from the single European market in 1992.

Increases in Productivity. The competitiveness of British agriculture has been maintained by steady increases in productivity. Productivity per person in agriculture has increased by around a half since 1979. This dramatic improvement has followed from the

practical application of technological innovation. As a result, yields of all major crops have risen by about 2 per cent a year throughout the past decade. British farms are generally larger than those elsewhere in the European Community; our farmers have made the most of this competitive advantage. Their productivity has risen faster than that of their European competitors, and they have increased their share of the European market. In the interests of future prosperity, Mr John MacGregor, Minister for Agriculture, Fisheries and Food, has emphasised the need to:

‘keep British agriculture thoroughly efficient and competitive, taking advantage of technological change and not halting it simply because of the surpluses. To take a Luddite approach ... is not the way other industries have become competitive in world markets; and I want to ensure that our agricultural industry remains competitive and thoroughly up-to-date’ (*Hansard*, 5th May 1988, Col. 1037).

Stable Food Prices. The consumer enjoys greater choice and gets better value for money today than ever before. Since May 1979 the annual rate of food price increases has averaged just under six per cent; the rate of increase has been falling progressively, and has normally been even lower than the much reduced overall rate of inflation. The annual rate of increase is currently running at about 4 per cent, well below the RPI as a whole. In contrast, under the last Labour Government, the average annual increase in food prices was 16.4 per cent, and was generally higher even than the record overall levels of inflation.

Low food prices are of particular benefit to those on lower incomes as they spend proportionally more of their money on food. Household expenditure on food has fallen from 24 per cent in 1973 to 21 per cent now of total spending – a smaller proportion of generally higher incomes.

(B) THE PROBLEM

The Costs of the CAP. For many years the CAP encouraged practices that were in the interests of neither producers, consumers nor taxpayers. It offered incentives for growing more than markets could sustain. The intervention system, designed to act as a safety net, became an alternative market outlet in itself. The result was the growth of massive food surpluses and the distortion of the market system, both of which proved highly damaging:

- The mounting costs of the CAP increased agriculture's share of EC finance and prevented spending in other areas.
- The disposal of surplus production was costly and depressed international prices, hitting struggling Third World countries and risking trade wars with our international competitors.
- The distortion of the agricultural market has caused farm incomes to fall in contrast to those in the rest of the economy.

By 1986 almost half the entire EC budget was being devoted to buying up, storing and disposing of the Community's surpluses, at a cost to the European taxpayer of around £250 million per week, or £13 billion per year. The cost of the CAP had doubled in seven years.

Britain has led the way in pressing for constructive reforms of the CAP. The process has not been easy: reforms have to be acceptable to each of twelve Member States with very different farming systems and traditions. But progress is now being made. As Mr MacGregor has said:

‘Getting control of the CAP has been a difficult task and there is still much to be done. But either we controlled it or it controlled us. We are now winning, and the gain is for farmers as well as taxpayers. Farmers need stability. They detest lurching from one crisis to another. Yet that is what the old system offered. The action we have taken has changed that’ (London, 2nd November 1988).

A World-wide Problem. The problems posed by surplus production have not been confined to the European Community. Most industrial countries have been providing extensive support for their agricultural sectors – and now face similar difficulties of over-production. Surpluses have accumulated on an international scale, and their subsidised disposal on world markets has depressed prices. This has heightened trade tensions, particularly between the US and the EC, and has discouraged Third World countries from developing their agricultural production. The Government has recognised the need to press for reform not only at a European level, but at a world level. It is therefore working through GATT as well as through the EC. Britain has a vital role to play in attempting to reconcile the interests of the United States with those of the EC.

International Support For Change. There is increasing recognition of the need for action both within the EC and amongst the Western industrialised countries as a whole. At their meeting in Toronto in June 1988, the Heads of State of the seven major economic powers emphasised the need for reform of world agricultural production and trade policies in their final Summit resolution:

‘In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of agricultural trade reform ... short-term options [must be developed] in line with long-term goals and other measures affecting directly or indirectly agricultural trade’ (22nd June 1988).

This declaration reflected an international determination to achieve fundamental reform in world agricultural practices. It echoed the views expressed by Mr MacGregor in a speech to the Royal Institute of International Affairs, in which he stressed the need for reality and flexibility in both the long-term solutions and the short-term measures needed to control production:

‘The goal of the GATT negotiations is to reduce, and reduce significantly, the overall level of world support and protection. I can understand the attraction of the approach advocated by the United States to eliminate agricultural support over a decade. Whilst I am convinced we should travel in that direction, I cannot believe that agreement on such a drastic target is feasible. Changes can and should be made, but for social, environmental and rural economic reasons a range of support measures will need to survive. The aggregate approach should leave sufficient flexibility for special measures that are judged desirable in many countries after support reductions have been adopted’ (11th May 1988).

The Conservative Approach. The British Government has been at the forefront of efforts to control community agricultural expenditure. The way forward has been outlined by Mr MacGregor:

‘We want to see agricultural markets world-wide brought into better balance through genuine liberalisation of trade. This will require a reduction in the levels of assistance to – and Government involvement with – agriculture. Support systems in the EEC and in other developed countries must be reformed. Market forces need to be given much greater play ...

Intervention must cease to be an alternative “market outlet”. That does not require a revolutionary shift in thinking; after all, the great majority of agricultural production *is* going to markets. It does in any case accord with what farmers really want: producing for genuine consumption. And it would free substantial taxpayers' resources, currently being wastefully applied, for other much needed purposes’ (Cirencester, 8th January 1988).

And he has been equally blunt about the cost of failure to act:

‘The alternative to CAP reform is ... a disorderly descent into chaos, and that is in no one's interest, least of all the farmers’ (6th July 1987).

(C) CAP REFORM

1. THE PROGRESS OF REFORM

The British Government's well-established determination to reform the CAP and tackle its excessive cost, and the consequent misallocation of resources, has led to some long and arduous negotiations. It took a number of years to convince our partners of the need to control the cost to Community taxpayers of agricultural support. The pressure for reform started to produce positive results in 1984.

The Fontainebleau Summit. At the Fontainebleau Summit in June 1984, it was agreed that agricultural spending should rise at a rate lower than the growth in the EC's income, and so take a gradually diminishing proportion of the total EC budget. In each successive year since 1984 support prices have been reduced in real terms.

The agreement reflected the British Government's fundamental belief in price policy as a means of correcting the imbalance between agricultural supply and demand in Europe. The Government's document on agricultural policy, *Farming UK*, published in 1987, reaffirmed this commitment:

‘Price policy ... is an indispensable basis of any programme designed to restore balance to the CAP. The Government believes that the root cause of imbalance between supply and demand is that prices are set too high’ (p. 13).

Milk Quotas. 1984 also saw the introduction of quotas to reduce surplus milk production, which was then taking about 30 per cent of CAP expenditure – largely for the disposal of unwanted surpluses. National quotas, despite the rigidities they impose, became the only practical solution to which all Member States were prepared to agree.

The ‘December Agreement’. By 1986, however, it was clear that the quotas would need to be tightened to deal with continued excess dairy production.

A permanent quota cut of 3 per cent had been agreed earlier in the year but in December, under the British Presidency of the EC, the Agriculture Council introduced new measures to reduce Community milk production by 9.5 per cent over the next two years. As a result dairy surpluses have virtually been eliminated.

Confidence is returning to the dairy industry, the efficiency of producers has increased and there is greater stability now than for many years.

The Brussels Summit. In February 1988, at a meeting of the European Council, the Prime Minister and the Minister of Agriculture secured major reforms of the CAP which have already introduced much stronger budgetary discipline. They are also reconciling supply and demand, placing European agriculture in a more sustainable position as we move into the 1990s. The summit produced agreement to the introduction of stabilisers and a legally binding limit to CAP expenditure.

Stabilisers. The Government led moves to introduce budgetary stabilisers for each major agricultural commodity. Stabilisers are better at controlling production than quotas. They have a number of major advantages. They are more flexible; less costly; less bureaucratic; less vulnerable to fraud; and less likely to disadvantage the UK with its relatively large farms.

The central feature of the stabiliser system is the imposition of an automatic price penalty if agreed production thresholds are exceeded. Stabilisers should cut costs and make producers much more responsive to the wishes of consumers. The EC cereals stabiliser, for example, was introduced in 1988 based on a production threshold of 160 million tonnes for each of the next four years. If Community production exceeds this limit, prices will be cut by 3 per cent a year. As the cuts are cumulative, this could mean a 12 per cent price cut by the fourth year. In addition, there is provision for an increase in the co-responsibility levy (paid by producers and indirectly by consumers) of up to 3 per cent.

Legal Limits on CAP Spending. The agreement on a legally binding limit to CAP market expenditure marked a major triumph for the Government's steady and sustained insistence upon budgetary discipline. The financial guideline provides that agricultural spending should rise by only three-quarters of the rate of growth of Community GNP as a whole. The legally binding ceiling is backed up by various practical measures to strengthen financial control. An early warning system monitors monthly expenditure on each commodity and ensures that action is taken if overspending is likely. As the **Prime Minister** has said, the change:

‘will reduce the proportion of Community expenditure taken by agriculture, so reversing the trend of the past’ (*Hansard*, 15th February 1988, Col. 706)

The most recent estimates suggest that CAP market spending will decline as a proportion of total EC expenditure from 68 per cent in 1987 to less than 55 per cent in 1992.

The effectiveness of the new controls was clearly demonstrated in the 1988–9 farm price negotiations completed in June 1988.

2. THE SUCCESS OF CAP REFORM

Major Savings. Reforms of the cereals regime, coming on top of the earlier decisions on milk, are producing major savings on planned CAP expenditure. In his Autumn Statement in 1988, the Chancellor of the Exchequer was able to announce that Britain's CAP expenditure (mainly by the Intervention Board for Agricultural Produce) for 1989–90 and 1990–91 will be £420 million and £400 million less than originally planned. Some of the £300 million saved in 1988–9 was, however, attributable to the American drought and the lower than expected UK harvest. There is therefore a need for further progress, particularly with yields continuing to increase. As Mr MacGregor said of the North American drought:

‘No-one should delude themselves that one year's exceptional weather in North America removes the underlying problem of overproduction in the cereals sector ... Whatever the temporary effects of the drought, it must not be allowed to deflect us from our longer term strategy’ (London, 12th July 1988).

As a result of both long-term reform and exceptional short-term factors, EC stocks of surplus wheat have fallen by around 70 per cent since the beginning of 1986. In addition:

- butter stocks fell by around 76 per cent in 1987–8 and are expected to disappear completely this year;
- skimmed milk powder stocks are now almost non-existent.

In total, stocks of surplus produce in Britain have fallen significantly, so that the value of food in storage is now less than half of the level at the end of 1985. To discourage future stockpiling, the Brussels Summit also produced an agreement to introduce systematic depreciation of the price given for produce taken into intervention stocks.

3. PROTECTING BRITISH INTERESTS

Throughout the process of reform, the Government has demonstrated its determination to ensure that the problems of the CAP are not solved at the expense of British farmers. The burden should be spread fairly across all EC Member States. The **Prime Minister** has consistently emphasised this point. As she told British farmers in 1986:

‘We do not believe that Europe should cut surpluses by penalising the very efficiency which you have successfully achieved over the years, nor shall we accept policies which ask the British farmer to bear an unfair proportion of the cost just because so many of our family farms are larger than those on the continent’ (London, 11th February 1986):

Indeed, farmers who overproduce elsewhere in the Community are now facing far more severe price cuts than British farmers. For example:

- the 1988–9 target price for sunflower seed was cut by nearly 20 per cent – around double the previous year's reduction.
- the target price of soya in 1988–9 showed a cut of more than 10 per cent.

In successive EC negotiations, the Government has successfully demonstrated its resolve to fight discriminatory proposals that could harm British farmers. For example:

- In 1984, the Government resisted proposals to limit barley intervention on the basis of fibre content, which would have had an adverse effect on UK producers.
- During the stabiliser negotiations, the Government protected British farmers against a series of discriminatory proposals on oilseed, sugar beet and cereals.

4. FARM INCOMES

The Need to Replace Subsidies with Higher Earnings. The Government is aware of the continuing and long-standing pressures on farm incomes which have occurred at a time when incomes in other types of employment have risen substantially. These pressures have been felt despite the record amounts that have been spent on agricultural support. This apparent paradox is explained by the fact that farmers have been producing more than real markets can sustain; for part of their output at least, they have been unable to meet effective demand at the prevailing price without a significant subsidy to cover their current cost of production. For stability and prosperity, agriculture needs greater exposure to market forces. There are, inevitably, potential difficulties inherent in the transitional process, as Mr MacGregor has said:

‘Of course, this period of adjustment is not easy for farmers. Their incomes have been hit. But many are responding to the challenge and now earn a higher proportion of their income from the market place, rather than rely on the false security of intervention’ (Speech to Women's Farming Union, 23rd November 1988).

Many farmers are indeed on low incomes, but many others are able to supplement their farming incomes from other sources – other businesses, other jobs, investment income and so on. Farming activities themselves provide only 50 to 60 per cent of aggregate farm incomes.

Action on Monetary Compensatory Amounts. The Government has also helped restore the competitive position of British farmers by securing large reductions in the level of negative Monetary Compensatory Amounts (MCAs) which, in effect, act as import subsidies. Negative MCA levels have been significantly reduced compared to their peak in 1987. The most recent improvement came as a result of the Government's success in getting a 3·2 per cent devaluation of the Green Pound in the 1988–9 price fixing arrangements: this change in itself will add £120 million to farm incomes. The devaluation secured by the UK was more than double that for France or the Republic of Ireland, normally our main competitors. The MCA situation has changed very favourably over the last two years:

Sector	United Kingdom MCAs		
	Week beginning 9.2.87	Week beginning 23.1.89	Reduction Per Cent
Beef and Veal	-24·5	0	24·5
Cereals and Sugar	-32·8	-4·0	28·8
Eggs and Poultry	-28·3	0	28·3
Milk	-31·0	-2·5	28·5
Pigmeat	-27·2	0	27·2

(Source: MAFF)

This means, for example, that the subsidy on an imported pig carcass, which was £8 in February 1987, has now disappeared completely. The Government has secured agreement to the abolition of all MCAs by 1992 as an essential part of the creation of a single European market in agriculture.

Cutting the Tax Burden. The Government has also done much to reduce the burden of capital taxation on the farmer since 1979. Amongst other measures:

- relief against inheritance tax (formerly Capital Transfer Tax) has been improved;
- there have been substantial reductions in the level of inheritance tax;
- capital gains incurred before April 1982 are now no longer taxed. (This is of particular benefit to farmers in view of the large land price increases of the 1970s).

(D) A NEW ERA IN THE COUNTRYSIDE

1. THE WAY FORWARD

Mr Macgregor has set out six key objectives for British agricultural policy:

- i. To 'get supply and demand into better balance and get on top of the budgetary indiscipline in spending on agriculture in the Community that we have seen hitherto, as well as surpluses worldwide'.
- ii. To 'keep British agriculture thoroughly efficient and competitive, taking advantage of technological change and not halting it simply because of surpluses'.
- iii. To focus 'on the market place in meeting changing and ever more demanding consumer requirements'.
- iv. To come fully to terms with 'the fact that more land will have to come out of agricultural production ... Hence the importance of our many initiatives to help ease that process, including Set-aside'.
- v. To 'recognise that land is a resource to be managed and that alternative products outside agriculture – alternative businesses and leisure activities – will all have an increasing part to play in providing rural employment and rural prosperity'.
- vi. To 'achieve a new balance between farm production and environmental objectives' (*Hansard*, 5th May 1988, Col. 1037).

British agriculture is entering a new era that offers great opportunities. As Mr MacGregor told an international audience:

'Here in the UK we are giving agriculture new directions for the 1990s. In all our countries very few industries are the same as they were 10 years ago. Change is not optional. It is inevitable. In these competitive but exciting times, agriculture is no exception to the rule ...' (London, 22nd November 1988).

The Government is determined to help British agriculture through this period of adjustment. Its efforts are directed at bringing further realism to the CAP and ensuring that agriculture and the countryside have a prosperous future. It has already launched a number of initiatives to put these plans into effect.

2. ALTERNATIVE LAND USE

ALURE. In February 1987 the Government announced its ALURE proposals – short for Alternative Land Use and the Rural Economy. They are designed to enhance environmental protection and encourage alternative enterprises in the countryside at a time of surplus production. The package included measures to encourage afforestation and a range of other non-traditional enterprises on farms, and created a number of Environmentally Sensitive Areas.

Environmentally Sensitive Areas (ESAs). These help protect some of the most attractive and sensitive rural areas from the impact of changing agricultural practices. The Government led the campaign to secure their introduction throughout the EC, and has

itself established 19 ESAs in the last two years. Advised by the Countryside Commission and the Nature Conservancy Council, the Ministry of Agriculture has identified the ways in which the character of each ESA can best be safeguarded. Farmers who follow the appropriate farming practices receive payments over a five-year period. Around 2,500 farmers have put more than 100,000 hectares into the scheme – 85 per cent of the area considered suitable for it.

Set-Aside is a further scheme to bring supply and demand into better balance, complementing price policy. It is a voluntary scheme under which farmers receive up to £200 per hectare for taking at least 20 per cent of their eligible arable land out of production; it will also help compensate them for any reduction in their incomes brought about by the introduction of stabilisers. Around 2,000 British farmers have already applied to take 60,000 hectares out of production this year; a further 24,000 farmers have registered 60 per cent of Britain's total arable land area for possible Set-Aside in future years. In return for payments under the scheme, land must be kept environmentally attractive and capable of a rapid return to production if required.

Farm Diversification. Farmers have always been entrepreneurs, and large numbers are now looking for new opportunities to diversify their businesses. Many need no Government help in finding new sources of income, but some require assistance as they begin to develop unfamiliar enterprises. The Farm Diversification Scheme was launched for their benefit in January 1988. It provides farmers with grants for capital expenditure associated with diversification projects, along with finance for professional advice and marketing studies. By December 1988, well over 1,000 applications had already been received from farmers throughout the country. Over 700 had been approved and well over £3 million committed, of which a substantial proportion is likely to be paid out in the 1988–9 financial year.

Farm Woodland Scheme. Introduced in October 1988, this scheme provides annual payments to farmers who take land out of agricultural production and turn it over to woodland. These payments are designed to help farmers bridge the gap between planting and the first income they receive from timber. The aim is to convert 36,000 hectares of agricultural land to woodland in the first three years. It is hoped that many producers will come to regard farm woodlands as a viable alternative to more traditional farm crops.

Conclusion. Each of these schemes offers opportunities which will be attractive to some farmers, depending on their individual circumstances. They will benefit both the appearance and the economy of rural areas and will help reduce the burden of price support on the European taxpayer.

3. ENHANCING THE RURAL ENVIRONMENT

Grants. Capital grants have been changed to reflect new priorities for agriculture and the countryside. Grants for increasing production, or improving production facilities, have been sharply reduced. The emphasis has been switched to grants for environmental protection and the prevention of pollution. Between 1983 and 1988:

- grants for production facilities declined from 96 per cent to 52 per cent of total expenditure;
- grants for conservation and effluent prevention work increased from 4 to 48 per cent of total expenditure.

In November 1988, Mr MacGregor announced that the Agriculture Improvement Scheme would be closed immediately and outlined a new Farm and Conservation Grants Scheme, to be implemented in the early part of 1989. Under the new arrangements grants worth up to £50 million over the next three years will be available to help farmers prevent incidents of farm pollution. Other grant aid will encourage the regeneration of native woodlands and heather moors on farmland and help with the cost of repairing vernacular farm buildings.

Farmers: The Custodians of the Countryside. The Government has been keen to correct the impression given by those who have falsely portrayed agricultural production and environmental concern as fundamentally contradictory, and who have depicted farmers as enemies of the rural environment, rather than its defenders. As Mr MacGregor has made clear:

‘Given that 80 per cent of our land is farmland, agriculture is the environment ... I believe that such attacks are an insult to the vast majority of farmers who are the true custodians of our countryside, and who, may I say, are just as angry about the few who give farming a bad name as anyone’ (Brighton, 11th October 1988).

4. RESEARCH, DEVELOPMENT AND ADVICE

‘Near Market’ Research and Development. In common with other Government departments, the Ministry of Agriculture has been reviewing its Research and Development programme. It considers that research which offers the prospect of commercial application within the near future should be funded by those who will benefit from it (as in other industries). It is intended to transfer the funding of ‘near market’ work amounting to some £30 million (at full economic cost) to industry over a 2–3 year period, though the change will not be implemented until a detailed consultation process has been completed. There will be no decrease in the funding already agreed for 1989–90. Spending on certain areas of basic and strategic research, including environmental and consumer protection, will be increased.

ADAS. In the 1988 Autumn Statement it was announced that ADAS (the Agricultural Development and Advisory Service), which started charging for its services in 1987, is to be set a new target of achieving 50 per cent recovery of its costs by 1993–94.

5. THE SINGLE MARKET

As far as agriculture is concerned, the British Government has two major objectives in the approach to 1992. As Mr MacGregor has said:

‘First, I want to make it clear we do not achieve a single market for food and agriculture produce until we have eliminated MCAs. Second, 1992 will have a major impact on our animal and plant health controls. We shall make every effort to ensure that the measures introduced provide protection and do not put at risk the high health standards we have built up’ (Norwich, 24th October 1988).

The Government has secured EC agreement to the abolition of MCAs in four stages before 1992. As regards food safety, it is determined that European food standards should be brought up to the highest reasonable levels, not levelled down to the lowest. Britain's standards are generally at a higher level than those of other EC countries; as a result we are able to export to a number of markets closed to other European producers (pigs to Brazil and Mexico and cattle to Japan and Canada, for example).

1992 offers particularly important opportunities for Europe's food producers. At present, only about 15 per cent of Community food is supplied by trade between Member States. Progress towards the Single Market is increasing rapidly: much has already been done to harmonise food laws and labelling requirements. Britain's producers, the most efficient in Europe, are well-equipped to take advantage of the opportunities ahead. As Mr MacGregor told the Norwich Single Market Conference:

‘1989, Food and Farming Year, is an ideal opportunity for the food industry to launch its offensive for 1992. It will provide an excellent platform for the industry and enable you to show your customers what you have to offer’ (24th October 1988).

6. FOOD AND FARMING YEAR

1989 is both the centenary of the Ministry of Agriculture and British Food and Farming Year. It offers a unique opportunity for the industry to correct some of the misconceptions that threaten to tarnish its image. It can take great pride in the successes of the last ten years. As Mr MacGregor told the 1988 Conservative Party Conference:

‘It is time we started banging the drum. Stop being defensive about the nonsenses of the CAP – we are tackling these. Start being positive about the magnificent contribution of our farmers, about the safety and quality of our food, about the beauty of our countryside, [and] the strength of our rural economies’ (Brighton, 11th October 1988).

(E) FISHERIES

The Industry's Importance. Britain has one of the largest fishing industries in Europe. It provides two-thirds of British fish supplies and is a major exporter. The main aim of Conservative fisheries policy is to maintain fishing opportunities by conserving and exploiting fish stocks, and by providing financial support for the modernisation of fishing fleets and implementing other measures designed to improve the industry's performance.

Fisheries Act 1981. This legislation forms the basis of the Government's policy and has enabled it to respond more effectively to the changes brought about by the Common Fisheries Policy (CFP). It simplified the organisation of the industry and improved arrangements for marketing, conservation and modernisation.

Common Fisheries Policy. The EC's Common Fisheries Policy was agreed in January 1983 and provides European arrangements that determine how much fish should be caught and by whom. It ensures the maintenance of adequate fish stocks through regulating the mesh sizes of nets and allocating national quotas within a total allowable catch (TAC) for all species threatened by over-fishing. It has improved fish marketing and provided financial aid for the restructuring of Member States' fishing fleets.

Long-Term Security. In recent years the Community has sought to base TACs even more closely on the available scientific evidence. This approach was reflected in the TACs agreed for 1988 and 1989; but it has attracted criticism from certain sections of the industry as quota restrictions have begun to make themselves felt.

This year's limits are particularly tight for cod and haddock, but they are essential because of the poor state of the stocks. Many fishermen had great difficulty in catching their 1988 allocations. The problem has been caused by past over-fishing and the unpredictability of fish breeding cycles: the number of young haddock coming to the North Sea fell by 90 per cent in 1987–8. Given the scientific evidence, it would have been irresponsible to set TACs any higher than they are. Any increase would damage the industry's long-term prospects.

In the circumstances, the agreement reached for 1989 was the best possible. TACs for most stocks remained virtually unchanged. Britain obtained the largest single share of the haddock quota and a number of valuable new fishing rights.

(F) FOOD: PROTECTING THE CONSUMER

In common with other Government departments – such as Trade and Industry – the Ministry of Agriculture, Fisheries and Food successfully represents the interests of both consumers and producers. The result has been that agricultural productivity and food safety standards have risen simultaneously.

Government Policy on Food Safety. Two key principles underlie all Government measures on food safety. They are:

- i. The right of consumers to make informed choices when buying food.
- ii. The need to take prompt and effective action on the basis of proper and detailed scientific evidence.

Legal Protection for Consumers. The Government takes action whenever it is advised to do so by its scientific and medical advisers. Awareness of its duty to protect the consumer is always the paramount consideration in any decision on food safety.

Ten years of responsible and effective action have ensured that consumers now enjoy safer food and more choice than ever before. Conservative legislation has put the consumer first:

- The Food Acts require that *all* food should be safe and that consumers should not be misled,
- The Food Act 1984 requires *all* interests to be considered when subordinate orders are being proposed,
- the removal of Crown Immunities in March 1987 extended full environmental health standards to hospital kitchens.

A further major piece of consumer protection legislation is on the way. A new Food Bill, to be introduced as soon as Parliamentary time permits, will bring Britain's food laws up to date with the latest developments at all stages of the food chain.

Consumer Representation. Consumer interests are strongly represented on the various independent expert committees that advise the Government on food safety. The views of consumer groups are welcomed in the preparation of food legislation and in the development of UK negotiating positions on issues raised in Brussels. However, in 1988 the Head of the Ministry's Food Standards Division was invited to meet consumer organisations on only four occasions, but he received nineteen invitations from the food industry.

Information for Consumers. The Ministry of Agriculture has acted to improve public understanding of food additives and labelling. It has issued a total of over two million free booklets on these issues alone. The aim is to provide consumers with accurate information which is easy to understand to help them make informed choices when they buy their food.

Food Labelling. Regulations have been tightened in recent years to ensure that consumers get the facts they need. The situation is kept under close review and the Ministry examines new developments as they occur. The recent growth in the use of the words 'natural' and 'low alcohol' in the description of various food and drink products has led it to review, and where necessary to tighten, the arrangements under which they can be used. More comprehensive labelling is intended to compensate for the decision not to impose detailed rules requiring the composition of most food products to be specified. However, certain regulations have been retained in instances where consumers could otherwise be misled. The minimum content requirements that now apply to meat products will be extended to fish products and fruit-based drinks.

Food Additives. The UK has taken an increasingly critical view of the use of food additives. The Ministry of Agriculture only approves the use of an additive if it is

satisfied that it is both necessary and safe. Its experts monitor international evidence on the safety of food additives, and it has sponsored its own research into the possible harmful effects of additives. The Food Advisory Committee is currently reviewing their use in baby foods.

Government Action: Past and Present. The Ministry of Agriculture has responded promptly and effectively to public concerns about food safety. These have included lead levels in canned food, and diethylene glycol in certain imported wines. The action taken in response to the Chernobyl nuclear accident was later endorsed by the all-Party House of Commons Agriculture Committee.

The Government has also acted swiftly on the basis of sound scientific advice to tackle the recent increase in salmonella and listeria:

- Advice by the Chief Medical Officer on salmonella and listeria has been widely publicised.
- Guidance has been given to NHS hospitals on food preparation and Codes of Practice have been issued to egg producers.
- The Government is consulting interested parties with a view to banning the sale of untreated milk in England and Wales. Sales are already banned in Scotland. Effective heat treatment is the only way to minimise risks of transmitting milk-borne diseases, like listeria, to the consumer.
- A committee with outside experts and an independent Chairman was set up in February 1989 to advise the Government on the microbiological safety of food.

Government action on food safety is being co-ordinated by a Cabinet sub-committee chaired by the Prime Minister. Its task is to improve still further standards that are already among the highest in the world. As Mr MacGregor has stressed:

‘The Government takes the problem seriously: we have taken and are taking action on every front across the food chain. To date, no fewer than seventeen specific measures have been announced and we receive and act on the very best scientific advice’ (London, 14th February 1989).

Better Food Hygiene in the Home. The increasing use of ‘convenience foods’, intended to be rapidly reheated and eaten, has inevitably increased the importance of proper kitchen hygiene if health risks are to be minimised. In 1988 the Ministry of Agriculture commissioned a survey of domestic kitchen hygiene. The survey showed that consumers still have an important part to play in reducing the risk of food poisoning. It revealed that:

- consumers do not normally look at the storage instructions on chilled or frozen pre-packed foods;
- 94 per cent of respondents had *never* checked the temperature of their refrigerator and 66 per cent *never* adjusted the temperature control;
- only 18 per cent appreciated the hazard of keeping foods at room temperature for a prolonged period.

As a result, the Government is preparing a major public awareness campaign on the importance of the proper preparation and storage of food in the home.

(G) OPPOSITION POLICIES

1. LABOUR PARTY

Out of Touch with Rural Interests. Labour has remained quiet on agricultural matters since the last General Election despite having acknowledged its need to win rural seats if it is to have any hope of forming a government. Agriculture was not even debated at the 1988 Labour Party Conference, apart from at a fringe meeting that had to be organised by the Country Landowners' Association.

Earlier in the year Dr David Clark, Labour's Agriculture Spokesman, had embarked upon a series of ill-attended meetings in a vain attempt to convince the electorate that 'Labour Listens to Rural Areas'. He admitted that Labour had been out of touch with agricultural interests, and the meetings did little to change that situation. As he himself said:

'Over the past few years the Labour Party's attitude has been dominated by the inner cities at considerable cost in small towns and in rural areas' (13th February 1988).

His solution was for the Labour leadership 'to start listening to "The Archers"' (ibid.).

Dr Clark himself appears to be out of touch with other agricultural matters. At the 1988 Royal Welsh Show at Builth he coupled a criticism of Britain's big farmers – the most efficient in Europe – with a condemnation of the National Farmers' Union and an attack on the Prime Minister for having, in his words, 'funked pressing for a fundamental reform of the CAP' (*Financial Times*, 21st July 1988). The criticism was particularly ludicrous in view of Mrs Thatcher's telling contribution to the historic Brussels reforms agreed earlier in the year.

Land Nationalisation. The Labour Party finds it hard to suppress its instinctive support for land nationalisation, but it is understandably reluctant to be too explicit about it. Its 1986 *Statement on the Environment*, for example, stated that 'Labour's aim is to expand the common ownership of land' (p. 17), but failed to explain exactly how this Socialist dream would be put into effect. The whole issue was conveniently ignored less than a year later when Labour published its 1987 General Election Manifesto, *Britain Will Win*. It eschewed any commitment on land nationalisation, as indeed it did on virtually every other agricultural issue.

Rating Agricultural Land. Labour is also instinctively in favour of bringing agricultural land and buildings within the rating system, as it reaffirmed in its 1987 Local Government Consultative Paper. Its proposals were, however, mysteriously omitted from its Manifesto produced later that year, but have since reappeared. According to its 1988 policy review document, Labour is once more in favour of legislation 'along the lines of

the Consultation paper on local government reform which we published in 1987' (*Social Justice and Economic Efficiency*, June 1988, p. 37).

Planning Controls. Labour continues to seek a massive extension of planning controls in rural areas. It is clear they would be highly restrictive.

'Planning permission would have to be sought for all farm buildings and before removal of hedgerows, woodlands and wildlife habitat' (*Statement on the Environment*, August 1986, p. 18).

Undermining Farm Incomes. Labour's plans to bring bureaucracy into the countryside would impose unnecessary and costly burdens on British farmers. They are in favour of additional planning restrictions which would hinder the process of farm diversification, while the rerating of agricultural land and buildings would dramatically increase farm costs. The total value to the farming community of the derating of agricultural land is put at around £440 million a year by the Ministry of Agriculture. Rerating would mean either passing this sum on to the consumer in the form of higher food prices, or corresponding cuts in farm incomes.

On a number of other issues, Labour has consistently taken positions that would put British farmers at a competitive disadvantage. In an article in the *Commons House Magazine* (13th May 1988), for example, Dr Clark claimed that there was a good case for having some reduction in headage payments after a herd or flock had reached a particular size:

'The headage payments system favours the larger farmer by paying on the basis of the number of individual animals'.

Yet any such change in the sheep meat regime would discriminate against British producers, who generally have larger flocks than their less efficient Continental counterparts. Moreover, apart from opposing tax reductions that have been of universal benefit, the Labour Party has also expressed its hostility to any changes in the Green Pound and MCAs (Monetary Compensatory Amounts) although farmers see such changes as essential to their future prosperity (see p. 214).

The Effects. The Labour Party simply has nothing to offer the industry. Its policies would undermine the success and stability of British agriculture and destroy our negotiating position in Brussels.

Labour's Record. It should be remembered that the last Labour Government's record on agriculture was one of almost unmitigated failure. Any progress that was made was achieved despite, not because of, its policies. The introduction of Capital Transfer Tax and the creation of hereditary tenancies under its Agriculture (Miscellaneous Provisions) Act 1976, which made it virtually impossible for new, young farmers to rent a farm, were particularly damaging to the interests of the farming community. Consumers also suffered from spectacular increases in food prices (see p. 209).

2. THE SLD

An Out of Date Policy. The SLD's approach to agriculture and conservation is typically confused and unoriginal. Its policy was set out in a 'Federal Green Paper' produced by its grandiloquently named 'Land Use Planning Working Group' in August 1988. The document, entitled *A Green and Pleasant Land?*, showed how out of touch the SLD is with the real issues:

- It insisted that Britain was continuing 'to grow yet more for the EEC's food mountains' (p. 9), despite the fact that Britain's food surpluses – in common with those of the European Community as a whole – are continuing their sustained and dramatic falls.
- It asked 'how can we diversify rural land use so that food production is balanced with demand, the rural economy is revitalised, and the needs of conservation are more fully met?' (p. 10). The Government had already addressed this question two years before in putting forward its ALURE (Alternative Land Use and the Rural Economy) proposals in 1986.

This document – breaking the SLD's silence on agricultural affairs – contained nothing of relevance to Britain's farmers.

Contradictions on the Rural Economy. The SLD's professed concern for the conservation of the countryside contrasts sharply with its desire to impose additional costs on those who maintain it – the farmers. The effects on the then 'Alliance's' proposals at the last election to introduce a two-tier price structure for a comprehensive range of commodities would have been simply disastrous for farm incomes (see *The Campaign Guide 1987*, p. 208).

The SLD's attitude on planning also co-exists uneasily with its stated concern for farm incomes. They support a massive increase in planning restrictions in rural areas and, according to their Green Paper, they want the 'local communities' affected to receive 'a reasonable share of the increase in the value of land when planning permission is granted for development' (p. 17). Presumably this is on the basis that, as **Mr Simon Hughes MP** told the 1988 SLD Conference, 'the land belongs to the people' (27th September 1988).

Extensification. The SLD's call for less intensive use of agricultural land epitomises its confusion on rural matters. The Green Paper attempts – and fails – to:

'distinguish between incentive payments to farmers and land owners to achieve widely shared objectives – which we support – and compensation for desisting from environmentally damaging practices – which we oppose' (p. 23).

Another SLD Green Paper published at the same time, entitled *Europe* was also 'highly critical' (p. 32) of Set-Aside, despite the scheme's many environmental safeguards (see p. 215).

3. THE SDP

Such comments as the SDP have made on agriculture since the General Election appear in a booklet entitled *The Social Market, the CAP and the Rural Environment* (February 1989). It showed that the SDP had not learned from its past mistakes. It repeated the proposals made by Dr Owen in his notorious lecture at the Royal Agricultural College on 8th January 1987. In it he proposed to create a 'two-tier' price structure and a system of taxation that would have discriminated against British producers simply because of their greater size and, consequently, efficiency (see *The Campaign Guide 1987*, p. 208).

8. ENVIRONMENT AND CONSERVATION

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(A) THE CONSERVATIVE COMMITMENT

1. THE RECORD

The Conservative Party has a clear and *sustained* record of care for the environment. There has been no 'instant conversion' to the environmental cause. The Prime Minister's recent emphasis on conservation reflects a growing concern about the environmental challenges which confront Britain and the world; but, throughout its term of office, the Government has been working steadily and effectively towards a number of important objectives for environmental protection. Mrs Thatcher's political initiative has now increased public awareness of the long-standing commitment to the environment.

The Scientific Approach. The Government has consistently based its practical responses to environmental problems on the latest (and best) scientific evidence that is available.

Mr Nicholas Ridley, Secretary of State for the Environment, has emphasised the importance of the scientific approach to environmental protection:

‘What we should do is employ our galaxy of brilliant scientists to guide us through the years ahead, so that we tackle those environmental problems which are real and serious, while rejecting those which are unreal, alarmist and based on emotion rather than scientific analysis. The problems are serious, but very far from insoluble’ (Brighton, 11th October 1988).

This level-headed and practical approach to conservation, taking full account of the true facts of each case, as well as drawing out the economic and cost implications, distinguishes Conservative policies for the environment from those put forward by the extreme green lobbies and taken up by Labour and the centre parties. Such sound and realistic policies command much public confidence.

Friends of the Earth. This Government's record – and the record of earlier Conservative administrations back into the nineteenth century – underline the fact that it is the Conservative Party which is the natural party of conservation. As the **Prime Minister** has said:

‘It's we Conservatives who are not merely friends of the Earth, we are its guardians and trustees for generations to come. The core of Tory philosophy and the case for protecting the environment are the same. No generation has a freehold on this earth. All we have is a life tenancy – with a full repairing lease. And this Government intends to meet the terms of that lease in full’ (Brighton, 16th October 1988).

2. SUSTAINABLE DEVELOPMENT

Protecting the earth's environment through a period of profound economic and industrial change is a challenge which faces all the governments of the world. As the **Prime Minister** has said, ‘the choice facing us is not industrial development or a clean environment. To survive we need both’ (ibid.).

The Prime Minister's important and influential contribution to the environmental debate has been to make clear the potential threat to the earth's environment posed by increased industrialisation and economic development. In her speech to the Royal Society in September 1988, **Mrs Thatcher** warned of the consequences of increased industrial development for the global environment:

‘For generations we have assumed that the efforts of mankind would leave the fundamental equilibrium of the world's systems and atmosphere stable. But it is possible with all these changes (population, agricultural, use of fossil fuels) concentrated into such a short period of time, we have unwittingly begun a massive experiment with the system of this planet itself’ (London, 27th September 1988).

Economic development must be accommodated within the constraints of the planet's environment. Sustained industrial development depends on the preservation of the environment and of the natural resources on which it is founded. Equally, it is through the application of technology and the proper management of the prosperity that economic development creates, that the natural systems of the earth can be protected.

The Brundtland Report. The report of the World Commission on Environment and Development, *Our Common Future* (known as the Brundtland Report, April 1987) had at its heart the concept of 'sustainable development'. The report decisively rejected zero growth as an answer to environmental problems, in favour of a balanced approach which called for environmental considerations to be taken into account in all areas of economic policy-making.

The Government has endorsed the concept of sustainable development wholeheartedly. All relevant government departments have been asked to examine their policies in light of the key recommendations of the report. The Government's view of the importance of sustainable development was expressed succinctly in this paragraph of its response to the Brundtland Report:

'Successfully applying the tried-and-tested concept to meet modern conditions will represent a major breakthrough in managing and reconciling two vital elements that only a decade ago were regarded as fundamentally incompatible: economic growth and the conservation of natural resources. The Report demonstrates that with wise management not only can the two be made compatible but that they are essential to each other' (*Our Common Future*, The UK's Perspective, p. 7).

As the rest of this chapter demonstrates, the Government has taken action to protect the environment in a number of key areas. In each case the Government's approach has not been to reject the needs of industry out of hand, for such a policy would severely weaken our economic base and our ability to deal with the problems that exist. Rather, the Government has adopted measures which seek to accommodate the needs of a modern economically-advanced country within the constraints of Britain's and the world's environment.

(B) CHANGE AND THE COUNTRYSIDE

1. ACCOMMODATING NECESSARY DEVELOPMENT

The growth of Britain's economy which has been sustained over recent years has boosted demand for the development of new office and factory space, new homes and shops and for more roads and railways. Such economic activity is to be welcomed. It is the sign of a

prosperous nation. But such an expansion in the demand for new building does also give rise to legitimate concerns about the need to protect Britain's countryside through a period of such significant change. **Mr Michael Howard**, Minister for Water and Planning, has addressed these concerns:

‘Some people see [economic regeneration] as a threat to our heritage. I sometimes see the most exaggerated claims that our towns and our countryside are being torn apart by the pressure for development, and that the planning system is in disarray. These fears are unfounded. Of course we are committed to promotion of economic growth based on individual enterprise. But it is nonsense to think that can only be achieved with a Philistine disregard for the environment. There will be occasions when there are real conflicts between these two objectives. But there is no reason why we should not arrange matters so that growth is perfectly compatible with conservation of what is best in our heritage’ (8th September 1988).

This is a problem of conservation, not a problem of pollution, although some have been quick to link the problems of accommodating new housing development with other environmental issues such as acid rain or the ‘greenhouse effect’. As Mr Ridley has said: ‘Homes cannot be described as pollution’ (Brighton, 12th October 1988).

Development Pressure. The pressure which is mounting for new building development is not solely the consequence of the steady expansion of the economy. Nor is it the case that the South-East, because of the rapid growth in its regional economy, is being asked to cater for a vast influx of job-seekers from the North. Social factors are playing a significant role in increasing the demand for new homes, as Mr Ridley has explained:

‘The demand for these extra houses is not coming from people flooding down from the North. In fact there is a small but growing movement away from London and the South East. It comes from the increasing number of households and the declining number in each household in the South itself. It comes from rising living standards and a wish for more space. It comes from people living longer. It comes, I'm sad to say, from rising divorce rates and one parent families. In 1971, 1,000 people needed 354 homes; in 1988 they need 387 homes; and in the year 2001 we predict they will need 420 homes. That is where the extra demand is coming from’ (ibid.).

Meeting the Demand. The increasing demand for houses cannot be ignored. As Mr Ridley has said:

‘Our duty as a Party must be to allow for sufficient homes to be provided to house decently all our fellow citizens ... I am sure none of us would wish to deny this basic proposition. To do so would be to condone increasing homelessness, people sleeping rough, overcrowding, the “cardboard city”’ (ibid.).

2. PLANNING

It is crucial to recognise that economic growth is *not* incompatible with protection of the environment and the preservation of the countryside. There are, of course, problems associated with accommodating change, but such problems are not insuperable and the Government is committed to finding solutions.

The mechanism by which the need for building and the protection of the countryside can be reconciled is the planning system. Although Britain's planning system is now forty years old, it has undergone a process of continual evolution, adapting to accommodate the changing demands put on it. As Mr Howard has said:

‘After 40 years it was necessary to look again at the main components of the system. After all what was appropriate just after the Second World War will not necessarily meet today's needs. So last year we revised the Use Classes Order to take into account changes in the character of commercial and industrial activities and in the provision of shopping and similar services. I know that some planners still have their anxieties about this. All change arouses anxiety but we are watching its impact and are ready to make changes if they are shown to be needed’ (8th September 1988).

The General Development Order. The Government's consistent policy since 1979 has been to review and overhaul the planning system where necessary, as part of its general strategy of removing unnecessary barriers to enterprise. The most recent changes to simplify and strengthen the system were incorporated in a new General Development Order in 1988. Although the changes introduced were technical in nature, they constitute an important element in the Government's strategy to simplify planning. As Mr Howard has said of the Order:

‘This marks the latest stage in the Department's major programme of work to simplify and improve the planning system. Our major objective in this legislation is to provide a clearer, simpler and more coherent system while, at the same time, strengthening control in those areas where it is needed’ (Press Release, 31st October 1988).

Accommodating New Development. Although technical changes such as the General Development Order are important elements of planning reform, the major challenge which confronts the planning system is the need to adapt planning to the heavy demands of new building development. Nothing short of root and branch reform of the planning system will prepare it to face the challenge which confronts it.

Developing the Cities. New houses and businesses can be developed on recycled land within the inner cities. Such a policy is both environmentally desirable and economically necessary. The Government's attack on the problems of the inner cities (see Chapter 5) plays a valuable double role – on the one hand improving the economy and the environment of urban areas, while on the other hand removing some development pressure from the countryside.

Increasing Use of Recycled Land. The proportion of new development taking place on recycled land is increasing. In the past two years, some 46 per cent of all housebuilding

was on this type of land; 55 per cent in the South-East. The rate at which agricultural land is taken for development is less than one-third of the levels in the 1960s and 1970s.

However, preserving the countryside by developing the cities is an approach which demands a certain caution. Mr Ridley has made this point quite clear:

‘The fact is that it is simply not possible to accommodate all demand in towns or force all development into towns and cities. Apart from anything else, there is another environmental lobby too which we tend to overlook – and it is growing. That is from urban and suburban residents who reject the idea that their lives should be made a misery by greater and greater density of housing and congestion in their areas to save the picturesque view of people who live in less urban surroundings. They need parks and green spaces and gardens too, and resent the implication that all development can be dumped in their back yard’ (London, 10th May 1988).

The number of households in the South-East is expected to increase by over 500,000 in the last decade of the century. About 150,000 can be accommodated in London. The inevitable consequence is that, in the South-East particularly, but also elsewhere in the country, new development will have to take place in country areas. The change that is needed should be seen in perspective. At present around 87 per cent of the South-East is open countryside: the development needed by the end of the century is estimated to reduce this proportion by just one per cent. Allegations that the South East is about to be concreted over are totally unfounded.

Protecting the Green Belt. There is no question of allowing new development to take place in the Green Belt. The Government has been quite specific: restrictions on development in areas which are designated as Green Belt are stringent and they will remain so. As Mr Ridley has emphasised:

‘We have strenuously protected the Green Belt against development and we have more than doubled the area of the country which has protected Green Belt status from 1·8 million acres to 4·5 million acres. The fact that developers put in applications to develop on Green Belt sites is not the same as my agreeing to them. People are frightened by the number of applications and assume this means that Government policy is to develop the Green Belt which it most emphatically is not’ (ibid.).

The Government has made it quite clear to developers through its words and actions that applications which would breach its Green Belt policy will not succeed. Developers have also been warned that if they persist with applications to build in the Green Belt, and pursue them through lengthy planning inquiries, they can expect not only to have such applications rejected but also find costs being awarded against them.

The New Planning System. To say that the Green Belt is sacrosanct is not the same thing as saying that no development in rural areas should be permitted. Green Belt covers specific areas surrounding Britain's larger cities, designated for planning purposes as regions where development is restricted and the preservation of the countryside is

paramount. But not every green field is Green Belt, just as not every rural landscape is designated as an Area of Outstanding Natural Beauty and made subject to equally stringent planning regulations. It is in these areas, outside the Green Belt and other protected areas, that space needs to be found for new development outside the cities.

Of course, the preservation of the countryside is always a major concern whether it is official Green Belt or not. Where new development is necessary in such areas, it is the Government's objective that building is carried out in such a way that any detrimental effect on the environment is kept to the absolute minimum. The latest reforms of the planning system, proposed by the Government, are designed to secure this objective. They are the subject of a White Paper, *The Future of Development Plans* (Cm. 569, January 1989).

Decentralising Planning. At the heart of the Government's proposals for the planning system is the principle that both control over, and responsibility for, planning decisions should be devolved away from central Government and given to local people acting through their local authorities. Mr Ridley has described this fundamental reform as follows:

'I propose a new deal. The new deal is that you – the local people – decide, through your local councils, how, where and when to provide for the development needed in your area. You can decide these things through having a local plan. Wherever there is a well-prepared and up to date local plan, reflecting the views of local people and consistent with national and regional policies, it will carry a great deal of weight in planning decisions. I will ensure that my inspectors take full account of it in deciding planning appeals' (Brighton, 12th October 1988).

The benefits of the local plan system are clear. Given that new development is necessary, it makes good sense and is wholly in line with sound Conservative philosophy, for individuals in local communities to play as full a role as possible in deciding how best that new building can be accommodated.

One of the major criticisms of the planning system as it currently stands is that too many planning decisions are decided on appeal by the Secretary of State on the advice of his planning inspectors. Such remote decisions are understandably resented by local people who are often in a much better position to judge the case. In fact, the number of planning cases decided on appeal is small (about two per cent of the total), the majority being decided locally; but ideally all planning cases should be a matter for local settlement. Under the new planning system, the number of cases decided on appeal should be reduced still further, as the following paragraph from the White Paper makes clear:

'Well prepared and up-to-date local plans, consistent with national and regional policies, provide the best basis for planning at the local level. Without such a basis, the control of development can be an arbitrary process. In the absence of an adequate local plan, neither developers nor local people know where development will or will not be permitted' (Para. 5).

Local Development Plans. At present far too few local plans exist. Only about 20 per cent of England and Wales (by population) is covered by formally adopted local plans. Of the 333 non-metropolitan districts, fewer than 60 have local plans covering their full area. Some 70 have no local plans at all, the remainder have local plans only for a small part of their area. The Government wants to extend coverage of local plans throughout the whole of England and Wales.

It is proposed that District Councils will be given a statutory duty to prepare development plans for their area. Districts should aim to produce plans that will be relevant for ten years from the likely date of adoption. Districts will also be required to review their development plan regularly, so as to keep it as up to date as possible. It is crucial that the planning system should be flexible enough to respond to change.

Local development plans will, of course, have to be consistent with national and regional planning policies determined by the Government and the counties. But they must also take account of the views of local people on how necessary development can best be accommodated in ways that respect the local environment.

The local development plan will provide guidance to potential applicants for planning permission on the policies that will be applied by the planning authority in considering individual applications. To ensure clear guidelines, the plans will comprise both a comprehensive written statement and maps giving details of specific land-use proposals.

The Role of the Counties. The present planning system, based on detailed county structure plans, is not suited to current demands. It lacks flexibility and is excessively bureaucratic to operate. Full structure plan coverage of England and Wales took 14 years to complete. Even now, with initial structure plans in place, it still takes over two years on average for alterations to the plans to receive approval.

However, although county structure plans are to be abolished under the new system, county councils will continue to play a vital role in the planning process. Counties will still have to formulate policies on issues which need to be considered on a county-wide basis and will provide overall regional guidance. Such a role will be carried out through county policy statements which will replace structure plans. Policy statements will differ from structure plans in three important respects:

- statements will concentrate only on genuine county issues;
- the county role will be more carefully defined and distinguished from the part played by district councils;
- each county itself will be responsible for adopting its own policy statement. It will not be subject to formal approval by the Secretary of State.

Each county will be required to prepare its policy statement on a defined range of subjects, subject to guidance from the Secretary of State. It will provide a framework for district councils in drawing up their more detailed development plans; it will therefore

need to spell out the county's policy in a number of key areas. Examples of matters which will need to be covered in policy statements include:

- new housing, including figures for housing provision in each district;
- Green Belts, Areas of Outstanding Natural Beauty and other statutorily protected areas;
- countryside conservation and the rural economy;
- major industrial, commercial and other employment-generating development;
- strategic highway and other transport facilities;
- mineral working and protection of mineral resources;
- waste disposal (in England), land reclamation and re-uses.

Metropolitan Districts. The changes outlined above apply to non-metropolitan districts in England and Wales. In the metropolitan areas, the Local Government Act 1985 provides for unitary development plans. Such a system is very similar to what is being proposed for the rest of England and Wales – single tier development plans drawn up with the participation of local people. No reforms are therefore proposed for planning in metropolitan districts.

The Quality of New Development. A great deal of the planning debate concerns not so much the quantity of new development, but its quality. Concern about standards is perfectly understandable in view of the obvious inadequacies of the high-rise housing estates built in the 1960s, which today have serious implications for the quality of life in the inner cities. The public criticisms of certain modern buildings made by the Prince of Wales, while they are not universally accepted, have also drawn attention to this problem in a dramatic fashion. Mr Ridley has outlined the nature of the problem:

‘Most of you would agree that in the last 20 or 30 years we have not, on the whole, built with sensitivity and good taste. Indeed I suspect one of the main reasons for hostility to development is because much of it has been insensitively designed and laid out’ (Brighton, 12th October 1988).

It is both difficult and unhelpful to search for a scapegoat for low standards in building design: planners, developers, consumers as well as the designers themselves, must all take some responsibility for what has gone before. Mr Ridley has called upon all these groups now to take responsibility for ensuring that what is built in future is of high quality:

‘To the planners I say: “Throw out the awful; but do not try and substitute your ideas for the designers”. To the developers I say: “Your image is not good: you must do better; engage the best designers, listen to what they have to say; more attention to design is in your interest too”. To the customers ... I say a prosperous society should demand higher standards. “Don't buy the ugly and the drab. Make your taste felt in the housing market.” We must build so that you do not regard new homes as a form of environmental pollution. Homes for families should not be seen like that’ (ibid.).

There are some signs that the quality of new buildings is improving. In country areas, developers are showing a new-found concern to see that new houses are constructed in the local style to blend in with their surroundings. Such an approach undoubtedly makes new development more acceptable and has a vital role to play in minimising the environmentally detrimental effect that new development has in the countryside. In the cities – and particularly the inner cities – imaginative design of new buildings can bring positive improvements to the local environment.

3. THE RURAL ECONOMY

A number of significant changes in the countryside – notably the use of intensive farming techniques leading to large food surpluses, and the sharp rise in rural property values, particularly in the South – have created considerable concern about the future of Britain's rural economy. The Government has been quick to respond to these concerns.

The development of intensive farming and food surpluses have profound environmental, as well as economic, consequences. The central principle on which the Government has based its response to these problems, is that farmers are the natural custodians of the countryside. The Government has introduced a number of measures to encourage farmers to protect the countryside, notably the development of environmentally sensitive areas and the agricultural set-aside scheme. These initiatives are described in detail on pp. 215–6.

Low-cost Housing. Of even greater concern in many areas is the lack of homes that are available for sale or rent to people on low incomes. The migration of such people to city areas where cheaper homes are available has profound implications of the future of the rural economy.

The Government has responded with initiatives designed specifically to boost the supply of homes for low-income groups in rural areas. These initiatives are described in more detail on page 427. It is, however, impossible to increase the supply of such homes significantly if more land is not made available for development. The planning system must be able to accommodate such development. The Government has proposed changes to make development of this kind possible, by ensuring that the planning system allows for small scale development of low-cost housing specifically for local people. However, it is equally important that people already living in the villages affected appreciate that low-cost homes have to be built somewhere. Inevitably, this will lead to new building in some villages, some of it on land that would not otherwise have been made available for development. Such development may seem undesirable on environmental grounds, but it is absolutely vital if the prosperity of rural communities is to be preserved. It is on the strength of the local economy that the future of such communities, their character and their environment ultimately depend.

(C) THE AIR AND THE ATMOSPHERE

The task of combating air pollution has been a feature of Government environment policy for many years. A great deal has been achieved, as Mr Ridley has pointed out:

‘Cleaner, clearer air is the most immediately obvious of all the environmental improvements that have taken place in the recent past. A whole generation has grown up who have never experienced the thick choking smogs and fogs that used to blanket our cities ... Much of the improvement was due to the Clean Air Acts of the 1950s and 1960s, which were a massive step forward. Indeed, not only our cities, but the whole country has benefited from the dramatic improvements they brought about’ (Lincoln, 30th November 1988).

Yet though effective action has been taken to curb the emission of visible pollutants which cause smog, other sources of air pollution remain. The most significant of today's air pollutants are sulphur dioxide and nitrogen oxides (which contribute to acid rain), chlorofluorocarbons, which cause severe damage to the ozone layer and contribute to the ‘greenhouse effect’, and carbon dioxide, which is also a major ‘greenhouse’ gas. The Government has responded swiftly and effectively to meet the threat which these gases pose to the future of the environment.

1. ACID RAIN

Sulphur dioxide (SO₂) and oxides of nitrogen (NO_x) are emitted from a number of fossil fuels when they are burnt. Coal-fired power stations are the major source of these gases. They are also produced by car exhausts.

These gases when dissolved in water make it acidic. The so-called ‘acid-rain’ which results from the presence of these gases in air can cause damage to buildings, and contribute to the acidification of rivers and lakes. It may also contribute to the damage to forests.

Acid rain can be particularly damaging when it falls on the type of soil found in Scandinavia and other places. In Britain, where 70 per cent of the bedrock consists of limestone or other non-acid rocks, the soil effectively neutralises acid rain and the problem is less severe. Nevertheless, as an industrial nation with many potential sources of SO₂ and NO_x, Britain must, of course, be conscious of the effect emissions of these gases here have on other countries.

The problem of acid rain has been recognised for some years. There is no doubt that SO₂ and NO_x are major contributors to the problem. That is why the Government has taken tough action to curb emissions of such gases.

Government Action. In 1984, the Government set a target of a 30 per cent reduction in total SO₂ emission (from 1980 levels) by the end of the 1990s. In order to meet this objective, the Government set in hand the second largest programme of desulphurisation in Europe. In 1986, it was announced that a number of Britain's largest coal-fired power stations, with a total capacity of 6,000 megawatts, would be fitted with flue-gas

desulphurisation equipment which would effectively 'scrub' SO₂ out of their waste gases. All new coal-fired power stations are to have such equipment built in. This programme of desulphurisation will cost over £600 million. As a result of these measures, SO₂ emissions from British power stations should be down to around half their peak level by 1997.

Tough measures have also been taken to curb emissions of NO_x. In 1987, a programme was announced to reduce NO_x emissions by 30 per cent by the end of the 1990s. To meet this target, the Government decided that all 12 of Britain's major coal-fired power stations should be fitted with low-NO_x burners, at a total cost of £170 million. Total investment in new technology to combat acid rain totals over £1 billion.

Further Cuts. In June 1988, the Government agreed to even stricter targets for the control of SO₂ and NO_x which were proposed by the EC. For SO₂, the target is a total cut of 60 per cent (from 1980 levels) by 2003, to be achieved in three stages: 20 per cent by 1993, 40 per cent by 1998 and the full 60 per cent by 2003. NO_x emissions are to be cut in two stages, 15 per cent by 1993 and 30 per cent by 1998 (again from 1980 levels). These new targets will require substantial *additional* investment in technology to control emissions over and above the existing programme of investment described above.

Vehicle Emissions. Power stations account for 70 per cent of our national total of SO₂ emissions. The steps that are being taken to cut those emissions will deal with most of the pollution that causes acid rain. However, acting together with our European partners, the Government has also agreed on measures to control NO_x pollution caused by cars:

- in December 1987, agreement was reached that new cars of two litres and above should not emit more than 6.5 grammes of NO_x and hydrocarbon per test, while a limit of eight grammes per test was agreed for smaller cars with capacity between 1.4 and 2 litres;
- in June 1988, it was agreed to extend the 8 grammes limit to cars with an engine capacity below 1.4 litres.

As a result of this agreement, individual emissions by new cars will on average be halved. In the UK, the total level of car emissions will be lower by the turn of the century than now, despite the projected large increase in car ownership and use.

2. PROMOTING UNLEADED PETROL

High quantities of lead absorbed into body tissue can cause damage to the central nervous system, and, in babies and small children, may lead to brain damage and retardation. Emissions from vehicle exhausts are a major source of atmospheric lead: all the cars on Britain's roads today pump some 3,000 tonnes of lead into the air each year.

The Government has, for some years, been working to reduce the amount of lead emitted by vehicle exhausts. In 1981, the UK drew up regulations to cut the amount of lead in petrol by nearly two-thirds. In 1985, the Government secured the agreement of the EC

Environment Council to a directive implementing this proposal. As a result, the level of lead in the atmosphere in the UK has fallen by about 50 per cent since the end of 1985.

As a result of pressure from the UK, the Environment Council agreed in 1985 to targets for the introduction of unleaded fuel. Since 1st October 1988, all cars above two litres capacity have had to be capable of running on unleaded fuel. From 1st October 1990, this will apply to all new cars.

The Chancellor of the Exchequer gave a significant boost to the use of unleaded petrol by introducing a duty differential in favour of such fuel in his 1987 Budget. The tax differential in favour of unleaded petrol was increased in the last Budget to over 10p, making unleaded petrol some five or six pence cheaper at the pump than ordinary four-star.

Individual Action. Although the Government has taken a strong lead in promoting the use of unleaded petrol, in this area the individual can and should demonstrate a personal commitment to protecting the environment. As Mrs Virginia Bottomley, Parliamentary Under-Secretary of State for the Environment, has said:

‘When it comes to making the right choice at the petrol pump, fundamentally it is a decision for the individual to make. The changes in duty which the Chancellor included in his Budgets in 1987 and 1988 ... have opened the way for motorists to show their concern for the environment in a practical way and save themselves money at the same time’ (Merseyside, 25th November 1988).

At present, not all cars on Britain's roads are capable of running on unleaded petrol. However many more could do so if they underwent minor mechanical adjustments costing a few pounds. Altogether two-thirds of cars on British roads could run on unleaded petrol, and with new cars increasingly being able to do so, the number is growing. The Government is working to promote the use of unleaded petrol wherever possible and demand for it is increasing rapidly. As Mrs Bottomley has pointed out:

‘The distribution of unleaded petrol is no longer a serious problem ... petrol companies have brought about a rapid rise in the number of service stations selling unleaded petrol across the country. By the end of the year, we expect the number to reach 3,000 so that one in four garages will stock unleaded petrol’ (ibid.).

3. PROTECTING THE OZONE LAYER

The ozone layer acts as a shield high in the earth's atmosphere, protecting us from harmful ultra-violet radiation from the sun. Over-exposure to ultra-violet radiation can cause several forms of severe skin cancer.

In recent years, disturbing evidence has come to light which indicates that the ozone layer is at risk from certain chemicals in the atmosphere which react with ozone itself and destroy it. The British Antarctic Survey has discovered a hole in the ozone layer over the

Antarctic circle. Obviously, evidence of its partial destruction has profoundly serious implications for life on earth.

A major source of danger to the ozone layer are chlorofluorocarbons (CFCs) which, in the atmosphere, break down into chemicals which react with ozone and destroy it. CFCs have four major uses: as aerosol propellents (which in the UK account for some 60 per cent of their use), in refrigerators and air conditioning systems, as a component of certain plastics and in fire-fighting equipment.

The Montreal Protocol. Britain played a leading role in pressing for cuts in the use of CFCs. At the end of 1987, the Montreal Protocol, which Britain played a major part in negotiating, called for a 50 per cent cut in the use of CFCs by the end of the century. Over 40 countries have now signed the Protocol. In December 1988, the UK, the European Community and most member states ratified the Montreal Protocol in time to meet the deadline of 1st January 1989 when it came into force.

The Montreal Protocol gave an important signal to industry, indicating the urgent need to develop substitutes for CFCs and the chemically related halons. British industry has responded extremely well; aerosol manufacturers expect to phase out the use of CFCs as propellents almost completely by the end of 1989. By that time, Britain's consumption of CFCs will have been reduced by the 50 per cent Montreal target – ten years ahead of the date required by the Protocol.

Need for Further Action. Since the Protocol however, the scientific evidence against CFCs – gathered by British scientists working for the UK Stratospheric Ozone Review Group – has built up. It is now recognised that CFCs pose an even greater threat to the ozone layer than first thought. The 50 per cent reduction target called for by the Protocol is unlikely to be enough: so the Government pressed for reductions in CFC consumption of *at least* 85 per cent as soon as possible. Lord Caithness, Minister of State at the Department of the Environment, has been active in seeking to persuade his European colleagues to accept targets for the reduction of CFCs along the lines proposed by the UK. In March 1989 the EC agreed to ban CFCs totally by the year 2000.

Spreading the Message. It is not enough for Britain alone or even the whole European Community to cut down on CFC use. Countries around the world – particularly developing countries – must seek alternative materials as substitutes for CFCs wherever they are used. All governments must commit themselves to protect the ozone layer. In order to strengthen the world-wide commitment to the ozone layer, Britain hosted a major conference of Government ministers and representatives of industry from developed and developing countries in London in early March 1989.

4. THE 'GREENHOUSE EFFECT'

A number of gases contribute to the so-called atmospheric 'greenhouse effect'. These gases in the atmosphere trap reflected radiation from the earth, leading, over a period of

time, to a warming of the atmosphere with serious potential implications for the world's climate. The **Prime Minister** has drawn attention to those implications:

‘We are told that a warming effect of 1°C per decade would greatly exceed the capacity of our natural habitat to cope. Such warming could cause accelerated melting of glacial ice and a consequent increase in sea level of several feet over the next century. This was brought home to me at the Commonwealth Conference in Vancouver last year when the President of the Maldives reminded us that the highest part of the Maldives is only six feet above sea level. The population is 177,000’ (London, 27th September 1988).

The ‘Greenhouse’ Gases. Most public attention has been focused on carbon dioxide (CO₂) as the cause of the ‘greenhouse effect’, and indeed it is extremely significant; but CFCs are also very significant ‘greenhouse’ gases. Molecule for molecule, CFCs are 10,000 times more powerful ‘greenhouse’ gases than CO₂. By 2030, scientists estimate that, without the Montreal Protocol, CFCs would account for about a quarter of any global temperature rise due to the increase of the ‘greenhouse effect’, while CO₂, which is present in much greater quantities, would account for about half. Even with the Montreal Protocol as it now stands, CFCs will contribute some 13 per cent.

The Government's concerted action to bring about even greater reductions in CFC consumption than the target set at Montreal therefore reflects not only a determination to protect the ozone layer, but a commitment to one crucial and practical measure towards alleviating the ‘greenhouse effect’.

Securing reductions in emission of CO₂ is more difficult since this gas is the inevitable by-product whenever carbon-based fossil fuels are burned in air. Given the present state of scientific knowledge, it is not at the moment possible to devise precise reduction targets for CO₂ emissions. The Government's first priority is to improve understanding of the problems of climatic change and their impact on the environment.

The Scale of the Problem. The UK emits a total of over 600 million tonnes of CO₂ into the atmosphere every year. Of this, 232.5 million tonnes result from electricity generation, 146.2 million tonnes from industry, 120 million tonnes from domestic, commercial and public burning of fossil fuels, and 99.8 million tonnes results from transport uses, with 2.9 million tonnes coming from other sources (these figures are estimates for 1987.)

The realistic pricing of energy to encourage its efficient use and the continued development of sources of power other than fossil fuels will help to reduce the generation of CO₂. Exhaust emission standards for small cars recently agreed by the EC will also help by preserving the incentive to develop fuel-efficient ‘lean-burn’ engines.

The Contribution of Nuclear Power. The Government's commitment to nuclear power has a special significance in terms of the contribution it can make towards alleviating the problem of the ‘greenhouse effect’. The processes by which nuclear power is created do *not* produce CO₂ (nor, unlike coal power, do they produce either of the acid rain gases,

SO₂ and NO_x). There is a very strong case for nuclear power on the grounds that it contributes neither to the 'greenhouse effect' nor to acid rain.

Electricity Privatisation. The Government's commitment to cleaner forms of power generation is reflected in its proposals for the privatisation of the electricity industry. After privatisation, a certain set proportion of Britain's electricity will have to be generated by non-fossil fuel sources. Most of this commitment to non-fossil fuel power will be met by nuclear power, but renewable energy will also be an option.

Energy Conservation. The Government recognises that the efficient use of electricity has an important role to play in reducing the generation of CO₂ by reducing demand for electricity, including fossil fuel generated electricity. Although the Government believes that promoting energy conservation must largely be a matter for the consumer – it is, after all, very much in the consumer's own interest in terms of cost savings – the Energy Efficiency Office plays an important role in stimulating conservation action by both industrial and domestic users. The Department of Energy estimates that consumers in their homes could save £4 billion a year in their total energy bill of £11 billion by adopting an effective approach to energy conservation. In this way individuals can demonstrate a personal commitment to the environment as well as saving themselves money. Industry is estimated to be able to save a further £1 billion a year on energy costs through conservation.

(D) LAND POLLUTION

1. WASTE DISPOSAL*

For a summary of Conservative action to secure the safe disposal of radioactive waste, see pp. 195–7.

The UK disposes of some 30 million tonnes of ordinary domestic waste and around 4 million tonnes of hazardous waste every year. The Government is committed to a system of waste management which covers the whole disposal process – from the point of creation to final safe disposal – operated to high national standards. Such standards must be rigorously and consistently applied.

New Proposals for Waste Management. In June 1988, the Government put forward proposals for tightening existing controls over waste disposal in this country. The main elements of the proposals were as follows:

- A statutory duty of care is to be imposed on both producers and holders of waste to exercise reasonable care to ensure its safe disposal. Guidance will be set out in a code of practice.

- Carriers of waste will be obliged to register with a waste disposal authority, and there will be provision for the revocation or refusal of registration to persons with unspent convictions for relevant offences.
- Waste disposal authorities will be given powers to refuse or revoke disposal licences for unfit persons and to ensure the technical and financial competence of licence holders.
- Nationally prescribed charges are to be introduced by waste disposal authorities for the issue of site licences and the registration of waste carriers.

In 1988 the Government announced further proposals to strengthen controls over waste management:

- Certain changes will be made to the Control of Pollution Act 1974, so that the Secretary of State for the Environment will be able to add, through regulations, criteria which are relevant to the consideration of a licence application.
- Waste disposal authorities will be given a clear responsibility for record keeping and for monitoring closed landfill sites.
- Scavenging at private sector waste disposal sites will become an offence, as it already is at public sites.
- The registered keeper of a vehicle used in fly-tipping will be liable to prosecution unless he can demonstrate that he has taken reasonable steps to try and prevent the vehicle being used for such purposes.

The Government's third set of reforms for waste management, which complement and strengthen the earlier measures, were published in a consultation paper on 24th January 1989. Through these reforms the Government aims to achieve national standards, applicable to both public and private sector operations, by requiring regulation authorities to have regard to Waste Management Papers prepared by Her Majesty's Inspectorate of Pollution (HMIP) in carrying out their functions.

The regulatory and operational functions of waste disposal authorities will be separated. Operational functions will become the responsibility of 'arms-length' local authority disposal companies. Waste Disposal Authorities (which will be re-named Waste Regulation Authorities) will retain purely a regulatory function and will be required to publish annual reports on their performance to strengthen public accountability. HMIP in turn will have a statutory duty to examine and report on the regulatory performance of the Waste Regulation Authorities.

These proposals have much in common with the Government's plans to establish a National Rivers Authority (see p. 241). In both cases regulatory and operational functions now carried out by the same body are to be separated. This strengthens the system of control by removing the potential for any conflict of interests inherent in a system of self-regulation. Commenting on the plans Mr Ridley said:

'Our proposals are aimed at securing high national standards of waste management which are consistently and fairly enforced at local level. They build on the arrangements

established under the Control of Pollution Act 1974 but address weaknesses and criticisms which have emerged in the light of experience' (*Hansard*, 24th January 1989, WA, Col. 504–5).

The overall objective of all the Government's proposed waste management reforms is to provide a rigorous system of control over waste from the moment it is created to the moment of disposal. Responsibility for the proper disposal of waste should be shared between the producer, carrier and disposer. The Government's proposals will make sure that this joint responsibility is recognised in law. The reforms will be included in legislation to be laid before Parliament in due course.

Import and Export of Waste. The Government takes the view that international trade in waste disposal services can be economically and environmentally desirable, provided that it is properly carried out and regulated. As Mrs Bottomley has said:

'If the UK has suitable facilities – properly regulated and monitored – and our neighbours do not, it makes sense for us and them if we agree to provide a service for them. Imports in these cases can actually help to finance facilities which we need ourselves. Moreover, it really would be hypocritical to criticise others for dumping awkward wastes in the Third World while refusing them access to our facilities and our skills' (London, 8th September 1988).

Allegations that the UK is the 'dustbin of the world' are well wide of the mark. Less than five per cent of special waste treated in this country comes from abroad; most is generated here. Nevertheless, even though the amounts involved may be relatively small, trade in such waste must be strictly regulated.

Transfrontier Shipment. The Government has implemented the EC Directive on the Transfrontier Shipment of Hazardous Wastes. Under the regulations, waste importers have to notify the relevant waste disposal authority in advance about the content and characteristics of the waste that is to be imported; the facility to be used to dispose of the waste must be identified. The disposal authority may halt shipment if it considers that the transport or disposal of the waste would not meet the relevant legal requirements for its handling.

Although the regulations described above serve as important checks on the import of waste, the Government believes that further action needs to be taken. Lord Caithness has explained the Government's approach:

'The range of existing powers over the import of waste – covering harbour safety, plant and animal health, special waste regulations and site licensing – have proved effective to date. But they are not, in Eurojargon, transparent. That is, it is not obvious to the public that this range of powers really can do the job. So we want to make things clear' (London, 23rd November 1988).

The Government proposes, by means of legislation to be introduced in this session of Parliament, to take clear powers to prohibit, restrict or control imports or exports of waste according to certain criteria. These powers, which would be exercised by regulations, would be desirable, for example, if trade in particular wastes were to pose potential risks to humans, animals, plants or the environment generally, were to affect the availability of disposal facilities or would result in improper disposal. The Government has also been pressing our European partners to take a harder line on the transfrontier shipment of waste. Lord Caithness has outlined Britain's proposals:

‘First, that the transfrontier shipment of wastes for disposal should, in general, be restricted to wastes going directly to treatment plants or incinerators licensed to dispose of that waste. Second, shipments of waste intended to go directly to landfill, without treatment, should be permitted in exceptional circumstances only with the specific agreement of the importing country. Third, *all* transfrontier shipments should be subject to prior contracts and pre-notification procedures as set out in the existing transfrontier directive’ (ibid.).

Recycling. Recycling is an essential element in pollution control, helping to conserve scarce resources and minimise waste disposal. The Government is anxious to encourage the recycling of waste wherever possible, and since 1984 a minister in the Department of Trade and Industry has had specific responsibility for co-ordinating the policy of various departments concerned with recycling. Just as in the case of unleaded fuel, so in the area of recycling too, individuals themselves can make a positive contribution towards protecting the environment. And, as Mrs Bottomley has pointed out, recycling has considerable economic, as well as environmental, benefits:

‘Recycling saves on imports as well as contributing a substantial £189 million to our exports last year alone’ (London, 24th November 1988).

2. LITTER

Although global environmental issues such as the ‘greenhouse effect’ and acid rain have profound implications for the future of the earth, many of the most immediate concerns which affect people are much closer to home. The problem of litter is one such issue.

Clearly this is a matter on which individuals must be expected to accept most of the responsibility. Individual action in clearing up litter – or more to the point not causing it in the first place – will always be more effective than Government legislation which could be difficult to enforce.

Lord Caithness has endorsed the community approach to litter and has called for:

‘The local Chamber of Commerce, voluntary organisations, community groups and neighbours to get together to keep *their* street clean and to instill a sense of civic pride’ (Nelson, 15th December 1988).

The Government has not, however, ruled out the possibility of legislation, as Lord Caithness has explained:

‘We in Government will certainly be looking at the legislation to see if it can be beefed up in any way. In particular we are watching the City of Westminster experiment with a fixed penalty system for littering to see if it is worth developing into a national scheme’ (ibid.).

Action through Schools. The importance of making a conscious individual effort to preserve the environment is a lesson which needs to be learned early. It is important, therefore, that schools, as well as parents, play a role in educating children against dropping litter. In December 1988, Mr John Butcher, the Junior Education Minister, launched a Government initiative to encourage effective anti-litter campaigns in schools.

Tidy Britain Group. This Group is the Government's recognised anti-litter agency. At present it is running a number of pilot projects – an initiative launched by the Prime Minister in March 1988 – with the aim of determining the best ways to solve the country's litter problem. There are 16 pilot projects in the five key areas of tourism, special events, local government, industry and commerce and transport.

The Government's grant to the Tidy Britain Group has been doubled this year in order to enable it to carry out its important pilot projects. A further £3 million has been made available to the Group in 1989–90 to enable it to complete the projects and pass on whatever lessons are learned to a wider audience.

UK 2000. This project is another Government-sponsored initiative to tidy up Britain. The Scheme is extensive: to date about 500 projects have been supported by UK 2000. In 1988 some 15,000 Community Programme trainees were employed on these projects and 100 long-term jobs have been, or will be, created. Government funding of nearly £3·8 million since the project began in 1986 has been matched by equal investment from the private sector.

(E) WATER

1. QUALITY OF WATER

The quality of Britain's rivers and estuaries is generally very high. The Water Research Centre, in a report published in June 1987, compared surface water quality in England and Wales with other countries of the European Community. The survey found that:

- 90 per cent of the length of rivers and canals in England and Wales was of ‘good’ or ‘fair’ quality, compared to an average 75 per cent throughout the Community;
- over 90 per cent of Britain's estuaries are of good or fair quality compared to a Community average of 85 per cent.

For a heavily industrialised country such as Britain, the general high quality of our rivers and estuaries is remarkable. Such high standards have been achieved, in part, through action taken by this Government, as Mr Michael Howard, Minister for Water and Planning, has explained:

‘Major investment in sewerage treatment facilities and infrastructure has brought about astonishing improvements in the state of our estuarial waters, so that we can now claim that the Thames is the cleanest metropolitan estuary in the world. We all know about the success of the salmon, but more than 100 species of fish have been recorded since the 1970s in a river which threatened to become a filthy and lifeless stain on our capital city.

‘Throughout England and Wales we can catalogue improvements. Northumbrian Water's major clean-up has brought the Tyne up to the standards of the best salmon rivers, after 30 years of sterility. The Wear and the Tees have seen sea trout and migratory fish once again. Some £600 million has been spent by Yorkshire Water on the rivers and estuaries of South and West Yorkshire – the Trent and the Humber are greatly improved’ (York, 16th November 1988).

The Government is committed to upholding the very high standards of Britain's rivers and estuaries and to achieving improvements where they are needed.

Cleaning the Mersey. The biggest challenge which remains is to clean the Mersey and to bring it up to the same high standards that exist elsewhere. A Mersey Basin Campaign has been established for this purpose. The Department of the Environment is co-ordinating this campaign, which will cost £4 billion in the next 25 years. The aim is to clean 1,700km. of river in the Mersey basin by 2010 and bring it up to at least class two quality.

2. THE WATER BILL

A Major Advance. The Water Bill, which is now before Parliament, will make a major and lasting contribution towards securing the Government's high standards for river quality. As Mr Ridley has put it, the Water Bill represents ‘a major advance in the history of UK environmental legislation’ (London, 24th November 1988).

The National Rivers Authority. The Water Bill will create a new public body, the National Rivers Authority (NRA), which will have a specific responsibility (and the powers it needs) to regulate and protect the water environment. This new body is central to the Government's drive to maintain and improve the high quality of Britain's water resources. The NRA will be responsible to Ministers and accountable to Parliament as a national body responsible for:

- control of water pollution and improvements in quality, including the system of consents for effluent discharges;
- the management of rivers and other waste resources, including the issuing of licences for abstraction and impoundment;

- land drainage and flood defence;
- recreation and amenity management, including fisheries;
- the navigation functions of the three water authorities which at present have such functions (Southern, Thames and Anglian);
- providing expert advice on water quality objectives and representing national interests in the European Community and abroad.

Mr Ridley has underlined the importance of the NRA:

‘The NRA will be a strong, professional body staffed by those who have experience of the water authorities’ work in this field. So it will have a full understanding of the complexities of river basin management. Its task will be to champion the health of our rivers and estuaries and to safeguard the interests of all who use them, including the new water plcs’ (London, 11th May 1988).

New Pollution Controls. As well as establishing the NRA the Water Bill contains other important provisions to strengthen the present system of pollution control. New measures to control industrial discharges will be introduced and more recent problems – such as those caused by intensive agriculture – will be tackled. The key elements of the proposed new system are as follows:

- New statutory quality objectives for rivers and other waters will be introduced. They will be specified by the Secretary of State and enforced by the NRA. These will provide a firm basis on which pollution can be controlled.
- A duty will be imposed on the NRA to exercise its powers, including the authorisation of discharges, in ways that will achieve these statutory quality standards.
- The NRA will have powers to recoup pollution control costs from dischargers, thereby encouraging them to minimise their own costs by keeping harmful discharges to a minimum.
- The NRA will have the power to establish water protection zones. In such areas the use by farmers of nitrates or pesticides might be controlled or even banned in order to protect vulnerable rivers from pollution from such sources.

Red List Substances. The statutory system of water quality objectives will be comprehensive and, as regards the great majority of substances regularly discharged into water, it will provide a full system of control. However, particular measures need to be taken to control the discharge of the most dangerous substances into water – the so-called ‘Red List’ substances.

In July 1988, the Government published new proposals for tighter controls over the Red List substances. The aims of these proposals are fourfold:

- to reduce discharges of those substances which represent the greatest potential hazards;
- to improve the scientific basis for identifying such substances;

- to develop a more integrated approach to the problem;
- to take account not only of point sources but also of diffuse sources of pollution – for example the entry of certain pesticides into water from farming land.

Mr Howard has explained how the Government intends to develop these proposals:

‘Our proposals, which have been almost unanimously welcomed, aim to produce a tough but flexible set of controls, aimed at minimising the input to the water environment, from whatever source, of these particularly dangerous substances. In a new, combined approach, emissions of these substances will be governed both by strict environmental quality standards and by a requirement for firms to use the best available technologies not entailing excessive cost ... In addition, measures will be taken to minimise the input of Red List substances from diffuse or non-point sources, where these may be contributing to pollution problems’ (York, 16th November 1988).

Those responsible for the discharge of Red List substances would have to satisfy Her Majesty's Inspectorate of Pollution that they are using the best available technology which does not involve excessive cost in order to minimise such emissions. They would have to produce satisfactory evidence not only that they were using the best available technology, but that the relevant environmental quality standards could be met.

The Water Bill contains measures which will allow these new arrangements to begin on an interim basis in advance of further planned legislation on integrated pollution control (see section F).

Removing the ‘Poacher-Gamekeeper’ Conflict. The present structure of the water industry contains a serious flaw which has potentially detrimental implications for the water environment. At present, the water authorities are responsible for the regulation of all discharges into rivers and estuaries, including their own sewage discharges. There is a clear conflict of interests here. The fact that, because of lack of investment in sewage treatment – largely the fault of the last Labour Government – some sewage discharges by the water authorities fail to meet the standards required by the Control of Pollution Act 1974, only serves to undermine confidence in this system of regulation.

The Water Bill will remove the ‘poacher-gamekeeper’ conflict of interests. Regulation of all discharges will become the responsibility of the NRA, separate from the new water plcs which will carry out their legitimate commercial functions of water supply and sewage disposal subject to independent regulation. The NRA will be responsible for granting consents for all discharges into rivers, including those made by the new privatised utilities. If any discharger is in breach of a consent, the NRA will have the power to bring a prosecution. Furthermore, since the Water Bill proposes new statutory quality objectives for water, all discharges into water will have to be regulated to ensure that these objectives are not breached. The NRA will have the powers to ensure this is done.

Land Owned by Water Authorities. In general, the privatised water authorities will be free to dispose of any land which they no longer require for operational purposes. Indeed, the water authorities are already under a duty to dispose of such land. It is absurd to suggest that there will be a sudden spate of building on this land. Normal planning controls will of course still apply. Much of the land in question is in National Parks or other Areas of Outstanding Natural Beauty where particularly stringent planning regulations exist to prevent unsuitable development. There is no question of exempting water authority land from such regulations.

Some concern has been expressed about access to water company land after privatisation. Here again existing rules will remain in force. The existing duty of water authorities in respect of public access to their land will continue to apply to the water plcs. Furthermore, the new water plcs will be under a statutory duty to make their waters and associated land available for recreation – so far as this is consistent with their other functions – and to do this in the best manner. The Secretary of State will be able to publish Codes of Practice on these matters.

Drinking Water Quality. British tap water is one of the cheapest and safest commodities available. All drinking water from public supplies in England and Wales is safe to drink. It is a top priority for the water authorities to maintain this standard: at present their capital expenditure on water supply alone is about £400 million.

Aluminium and Nitrate. Aluminium arises naturally in some water supplies and is also used world-wide for water purification. Most aluminium is removed at water treatment works before it enters the water supply. Most British water supplies comply with the EC Drinking Water Directive of 200 microgrammes per litre. Action is being taken by the water authorities to bring the remaining supplies into line with the Directive.

Most water supplies also comply with the EC's directive on nitrate concentration of 50 milligrammes per litre. Again, action is being taken by the water authorities where supplies do not comply. The provisions in the Water Bill to control nitrate pollution – including the power to establish water protection zones – will make an important contribution towards ensuring that the amount of nitrate found in water supplies is reduced still further.

3. THE BENEFITS OF PRIVATISATION

Controlling Sewage. The privatisation of the twelve water authorities in England and Wales will itself bring considerable benefits to the water environment. At present, the greatest threat to the quality of our rivers and estuaries comes from sewage. This threat has arisen chiefly because the last Labour Government cut capital investment in the water industry, as the all-party Environment Select Committee has pointed out:

‘There are a number of reasons why water authority effluents fall short of the present consent standards. The most immediate reason is because from the mid-1970s until the early 1980s there was a steady drop in investment by the water authorities in sewerage

and sewage disposal. This is now making itself felt in the overloading of existing sewage works and operational failure' (Environmental Select Committee, Third Report, HC 183–I, 13th May 1987 Para. 27).

Investment: Labour's Record. Labour cut capital investment in the water industry by a third during their last term of office. Investment in sewerage and sewage disposal fell by one half. As Mr Ridley has said: 'the Labour Party, with the help of the man from the IMF, was the dirty party of Europe' (*Hansard*, 4th November 1988, Col. 1290).

Repairing the Damage. This Government, however, has more than reversed Labour's cuts: capital expenditure by the water authorities has risen by 50 per cent in real terms since 1979. In cash terms the investment programme has doubled to £1.2 billion this year. Next year, total investment in the water industry will increase by 20 per cent to £1.43 billion. On sewerage and sewage treatment alone the water authorities will spend £560 million.

Water authorities are already planning to spread their capital programmes over the next four years. The programmes will bring almost all sewage treatment works to comply fully with their consent limits by March 1992. The total cost will be between £900 million and £1 billion over the four years to March 1992.

Private Investment. Although proper management of the economy has ensured that funds are available for much improved investment in water, there are still many other competing claims on the public purse which inevitably limit the amount that is available for the water industry. As Mr Howard has put it:

'As things stand, whichever Government is in power, water inevitably has to take its place well down the queue behind schools, hospitals, social security and the like. Privatisation will change that forever' (Skegness, 11th November 1988).

The privatisation of the water authorities is the best way of ensuring that funds are available to carry out the investment that is vital if the water environment is to be protected. Not only will the new water plcs have free access to capital markets, enabling them to raise finance by borrowing commercially, but the healthy commercial atmosphere that privatisation will induce should help them to operate more effectively and efficiently, to develop and diversify, and to compete overseas. As a result profits should rise (as has happened with other privatised companies), providing increased revenue for the companies to invest in the environment.

The Value of Privatisation. The value of privatisation in terms of efficiency gains and the commercial freedom which it brings to companies is discussed in Chapter 3. These points all apply to the water industry and are in themselves powerful reasons for privatising the industry even without the huge benefits which privatisation and the new structure of the industry will confer on the water environment. Water privatisation will also boost further the spread of share ownership. The Government wants to see both the industry's customers and its employees take up shares in the new water plcs.

Competition in the Industry. The Government accepts that water supplies and sewerage facilities constitute natural monopolies. However, that does not mean that there will be no scope for competition. As Mr Howard has pointed out:

‘There will be competition between the various privatised concerns in the capital markets, there will be competition over supply to “inset areas” and there will be competition in the provision of various commercial interests. There will be the yardstick of competition between the companies themselves which will enable the Director-General of Water Services, in setting the price at which the companies will be permitted to sell their water, to ensure that consumers benefit from improved efficiency’ (*Hansard*, 8th December 1988, Col. 523).

Competition by Comparison. The Government's commitment to competition by comparison is reflected in amendments it has proposed for the Water Bill. These will require the Monopolies and Mergers Commission, when considering any take-over bids for water companies, to take into account the undesirability of mergers which would reduce the scope for comparative competition. Such bids could be blocked solely on the grounds that the take-over would reduce the number of water companies in independent ownership and hence the scope for competition by comparison. However, such a consideration might be overruled if there were other public interest reasons which outweighed the loss of comparative competition.

Take-over bids can help stimulate efficient and effective management. However, there will inevitably be difficulties inherent in the transition of the water industry from state to private sector. The Government believes that the water companies should be protected from take-over during a five-year transition period. During that time the Government will retain a ‘golden share’ in the water plcs and the consent of either the Secretary of State for the Environment or for Wales (in respect of Welsh companies), will be required before the take-over can proceed.

Privatisation will give the water authorities much greater scope to diversify and develop their businesses. In time, thanks to privatisation, British water companies may well be in the position to take over their foreign counterparts. That would have been inconceivable if the water authorities had remained nationalised.

Protecting the Consumer. Because water is a natural monopoly, the Government intends to introduce tough regulation through the Water Bill to ensure that the interests of consumers are fully protected. An office of the Director General of Water Services (DGWS) will be established: the DGWS will operate a licensing system for water operators which will apply both to the privatised water plcs and to the private statutory water companies which at present supply some 25 per cent of Britain's water. Licences for water operators would contain conditions governing their activities including:

- limitation of charges;
- avoidance of undue discrimination between classes of customer in setting charges;

- an obligation to report on levels of service and performance as measured against clear targets;
- an obligation to report on the arrangements and estimates for maintaining underground water and sewerage systems;
- a report on accounting information;
- the preparation of a customers' code of practice;
- the provision of information required by the DGWS;
- the payment of licence fees to the DGWS.

The DGWS will therefore have powers to ensure that customers are protected from unjustified price increases, or reductions in services. He will be able to monitor the performance of all the water companies against the conditions set out in their licences and against each other. And he will have power to enforce the licence conditions where necessary.

Money Back Guarantees. When water is privatised, there will be a scheme to provide financial compensation for customers if and when the water companies breach certain guaranteed standards. The Government envisages a payment of £5 for every day or every occasion that a breach in one of the guaranteed standards of service occurs. Details are still being considered, but it is intended that the guarantee will cover, among others, circumstances such as delays beyond a specified time limit in restoring water supplies and delays in fulfilling meter reading or other service appointments. Mr Howard has described the new arrangements as:

‘A no-nonsense, no-quibble scheme to provide a spur to management for good commercial manners and quick recompense to customers for the inconvenience they have suffered ... It will be but one of the many benefits that will accrue to the customer as a result of privatisation’ (*Hansard*, 8th December 1988, Col. 524).

Paying for Water. The present system of water rates will have to end by the year 2000, following the replacement of domestic rates with the Community Charge. The water companies will then be free to use whatever charging method they wish. Metering is a possibility and trials have begun to examine the use of water meters. Alternatives to metering include flat-rate charges or charges based on numbers per household or floorspace.

4. SEAS AND BEACHES

In 1987, a group of scientists from all the countries with a North Sea Coastline produced a Quality Status Report on the North Sea. The Report concluded that, in general, the North Sea is not excessively polluted and that its general condition is good. Some areas however, particularly in the eastern North Sea, were reported as giving cause for some concern.

Rivers are by far the single most important source of pollution entering the North Sea; continental rivers account for some 80 per cent of such pollution, British rivers the

remaining 20 per cent. 50 per cent of North Sea river pollution arises from the Rhine and the Meuse alone.

Clearly, it is not only Britain's responsibility to ensure that the North Sea is protected; effective action requires the co-operation of all North Sea states.

The North Sea Conference. In November 1987, at a conference hosted by Britain, ministers from North Sea states agreed on a number of proposals to safeguard the quality of the North Sea. These proposals were:

- a reduction of around 50 per cent in dangerous substances entering the North Sea through rivers by 1995;
- an end to the dumping of harmful industrial waste into the North Sea by the end of 1989;
- an end to marine incineration in the North Sea by the end of 1994;
- a ceiling set at 1987 levels for contaminants in sewage sludge in the North Sea;
- the setting up of an international task force to co-ordinate and improve scientific understanding of the North Sea.

The UK has taken an early lead in implementing the conference declaration and published proposals for action in February 1988.

The Irish Sea. The condition of the Irish Sea is also generally good though, as with the North Sea, some particular areas such as Liverpool Bay could be improved. Radioactive discharges from Sellafield into the Irish Sea have been cut by 90 per cent in the last ten years, and further reductions are planned as the result of a massive continuing investment programme being carried out by BNFL.

Seals. The exaggerated comments made about the poor quality of Britain's seas have led some people to assume that this was responsible for the deaths of a large number of Britain's seal population. In fact these deaths were the result of a virus, similar to that causing canine distemper, and no link between this virus and marine pollution has been established. However, as part of its £1.2 million North Sea research programme, the DOE has commissioned a research project to look at pollutant levels in seals. This will cost £35,000.

Beaches and Bathing Waters. Some £70 million is being spent this year on improving bathing waters in those areas where they do not come up to standard. As Mr Ridley has said:

‘There are some 400 bathing waters within the scope of the EC bathing waters directive. About 60 per cent of them now meet the quality standards on sewage bacteria. We must bring the remainder up to these standards as soon as possible. The water authorities have done a good job in drawing up improvement programmes ... We have recently asked them to assess whether these programmes could be accelerated so that all our bathing

standards will be up to EC standards by 1995' (*Hansard*, 4th November 1988, Col. 1292).

(F) INTEGRATED POLLUTION CONTROL

Any sensible approach to pollution control should take account not only of the effect pollution has on any one particular part of the environment – air, land or water – but of its effect on the environment as a whole. This principle underlies the concept of integrated pollution control, a concept which the Government wholly endorses and intends to develop through forthcoming legislation.

Her Majesty's Inspectorate of Pollution. The formation of Her Majesty's Inspectorate of Pollution (HMIP) in 1987 was a significant step towards a more integrated approach to pollution control. HMIP brings together the three previous inspectorates which had specific responsibility for air pollution, hazardous waste and radiochemicals. HMIP will have an important role, working with other bodies such as the National Rivers Authority, in developing a much more integrated approach on which the Government's environmental policy is based.

The Government's proposals for integrated pollution control, were set out in a consultation paper issued in July 1988. They reflect the established procedure of choosing the most practical option for protecting the environment. The broad aims of the Government's proposals are to:

- develop an approach to pollution control that deals with discharges from industrial processes to all parts of the environment in the context of the effects on the *whole* environment;
- to improve the efficiency and effectiveness of HMIP;
- to streamline the regulatory system, clarifying the roles of HMIP and other regulatory authorities;
- to contain the burden on industry;
- to maintain public confidence in the regulatory system by making it more visible and accessible;
- to produce a flexible system, able to respond effectively to changing technology and scientific knowledge.

Leading the Field. The Government's development of integrated pollution control puts Britain once again at the forefront of policy-making on the environment. And, as Lord Caithness has explained:

‘Integrated pollution control is the way legislation on environmental protection must and will develop across Europe in the 1990s. I think it is greatly to our advantage to be

somewhat ahead of the game. It puts us in a position of influence and authority in shaping the form in which this process evolves' (London, 7th December 1988).

(G) THE COST OF ENVIRONMENTAL PROTECTION

Protecting the environment has a cost. But it is, as the **Prime Minister** has said, a price well worth paying, because:

'the health of the economy and the health of our environment are totally dependent on each other' (London, 27th September 1988).

The Polluter Pays. The Government believes that, as a general principle, it should be the polluter who meets the cost of measures to control pollution. The 'polluter pays' principle is reflected for example in the new arrangements for the water industry: the NRA will be able to charge for discharge consents (which it will also have the power to grant or refuse), and will also have powers to recover from the polluter the costs of dealing with pollution incidents.

Having established the 'polluter pays' principle, it is not unreasonable for the polluter to expect to pass on the costs of dealing with pollution control to the consumers of his products. Such pollution, after all, arises as a result of the production of goods and services which the consumer demands, and it is only right that the consumer should recognise that a price must be paid in order to minimise the detrimental effects on the environment such production might have. As Mr Ridley has put it:

'It is easy to see the "polluter" as some opulent plutocrat with a cigar who should be punished for the damage he causes, but in practice each polluter is merely supplying the demands of his customers who willingly consume the chemicals, weedkillers, electricity, water, petrol or other substances from which the public benefit' (Brighton, 11th October 1988).

Electricity and Water. Two specific cases where this principle will apply are the water and electricity industries. The massive investment – totalling over £1 billion – which is being made in flue-gas desulphurisation equipment and low NO_x burners will certainly be reflected in higher electricity prices.

Equally, investment in a cleaner water environment will inevitably lead to higher water charges. At present three major clean-up programmes are under way: investment in sewage treatment works to bring them all up to standard by 1992, investment in cleaning up beaches and bathing waters, and investment to improve drinking water supplies where necessary. The cost of these programmes is high, as Mr Ridley has explained:

‘The three clean-up programmes come to £2.4 billion on top of existing plans. They are only an estimate of the extra funds necessary to achieve the three known requirements going beyond present plans ... increased capital expenditure of the order of £2.4 billion to the end of the century would indicate costs in real terms of 7.5 to 12.5 per cent higher than they would otherwise have been’ (*Hansard*, 7th December 1988, Col. 342).

Prices. There is no truth whatsoever in Labour's allegations that prices will double or treble in the short term.

The increases have nothing to do with privatisation, which, in any case, tends to put a downward pressure on costs. They are to pay for investment in pollution control which the public is demanding and which would therefore have to take place anyway whether or not the industries are privatised.

(H) ANIMAL WELFARE

Major legislation has been passed by this Government to provide greater protection for animals both in captivity and in the wild – in accordance with a long-established Conservative tradition. In particular, the Animals (Scientific Procedures) Act 1986 introduced new controls over experiments on animals (for details of this and other legislation passed before the 1987 election, see *The Campaign Guide 1987*, pp. 360–2).

Decline in the Number of Experiments. The number of experiments carried out on live animals has declined in each year since 1979; the number carried out in 1987 was the lowest for 30 years. About half as many experiments were carried out in 1987 as in 1977. The Government is encouraging the continued development of alternatives to experimentation on live animals, and has given substantial support to the Fund for the Replacement of Animals in Medical Experiments, an independent charity.

Penalties for Cruelty to Animals. The Government gave full support to the Protection of Animals (Penalties) Act 1987, a Private Member's measure introduced by Mr Harry Greenway MP. It doubled the maximum penalties for offences under the Protection of Animals Act 1911. The maximum penalties are now a £2,000 fine, or six months' imprisonment, or both.

The Cruel Tethering Act 1988. The Government supported this Private Member's measure, introduced by Mr David Amess MP. It seeks to protect horses, ponies and donkeys from being abandoned provides a statutory code of practice for their tethering, and obliges owners to arrange for humane methods of identification of their animals.

The Protection of Animals (Amendment) Act 1988. The Government also supported this Private Member's measure, introduced by Mr John Browne MP. It includes provisions to ban people from having custody of an animal after a first conviction of cruelty. It also increased the fines and penalties for organising or being present at animal fights.

Seals. In response to the concern about the threat posed to the seal population by the canine distemper-type virus, the Home Secretary laid two Orders before Parliament in October 1988. They have the effect of banning the killing, injuring or capture of common seals at any time in Britain or its coastal waters; the same ban applies to grey seals in England and Wales. Both Orders will last for two years.

(I) OPPOSITION POLICIES

Both Labour and the centre parties have tried to promote themselves as the natural protectors of the environment. For Labour it has often been a case of pandering to the votes of extreme environmentalists as part of their strategy to build up an electoral base from among a coalition of fringe groups. The Liberal-left wing of the old 'Alliance' and today's SLD have been equally quick to embrace extreme green politics.

As ever, the gestures of the opposition parties with regard to the environment present a stark contrast with their record in power. The protection of the environment was one of the many casualties of Labour and Lib-Lab mismanagement of the economy between 1974 and 1979.

It is hardly surprising therefore, that a recent opinion poll (*The Observer*, 23rd October 1988) showed that more people trusted the Conservatives than any other Party (including the Greens) to protect the environment.

1. THE LABOUR PARTY

Labour's Cuts Condemned. It has already been noted (see p. 243) that Labour slashed capital investment in the water industry and that the *all-party* Environment Select Committee identified these cuts as a key factor leading to present-day inadequacies in the sewage treatment system.

Labour's response when challenged about its record has been to attempt to distort the figures – even claiming that 1977–8 was the last year of the Labour Government, conveniently ignoring the cuts that took place in the year after that.

Ignoring the Basic Realities. There is no evidence that Labour has yet learned the simple lesson that economic prosperity is vital if the environment is to be protected. It continues to call for expensive investment in pollution control measures while rejecting the economic policies needed to create and sustain the wealth to pay for them. Labour's opposition to the Water Bill is rooted in its ideological obsession with nationalisation; it takes no account either of the failure of nationalisation to provide the money necessary to protect the environment, nor of the obvious dangers of allowing the nationalised water industry to be its own regulator. It is committed to renationalising the industry.

More Bureaucracy. Labour's latest major policy statement *Social Justice and Economic Efficiency* (1988), the first report of the Party's policy review, states that the Party

remains committed to its 1986 Environment Statement. The Policy Review lists some of the issues addressed in the 1986 document, such as the 'better monitoring, inspection and enforcement of pollution control' but avoids references to the concrete proposals for more intervention that it contained. These proposals made it clear that the key element of Labour's approach to environmental protection is to introduce more bureaucracy. Labour want to set up:

- a Ministry of Environmental Protection;
- an Environmental Protection Service; and
- a Wildlife and Countryside Service.

The 1986 document also committed the party to public ownership and 'democratic control' of the water industry and was also much more frank about the Party's objectives as regards land:

'Labour's aim is to expand the common ownership of land. We intend to establish a land bank to control land already held in public and semi-public ownership' (p. 17).

Cunningham's Dirty Dozen. In a desperate attempt to get publicity by exploiting popular interest in environmental issues, **Dr John Cunningham**, Labour's Senior Environment Spokesman, wrote an open letter to the Prime Minister 'welcoming' her Royal Society speech and then proceeding to list 12 areas where he claimed that the Conservative commitment to the environment was lacking. Dr Cunningham's wild attack, in which he criticised everything from the Government's 'lamentable' response to the Chernobyl disaster and its 'churlish, miserly and dishonest, response to the October 1987 storm damage to its 'consistent refusal to introduce a Freedom of Information Act' demonstrated Labour's complete inability to mount an effective response to the Government's environmental initiatives.

2. THE SLD AND SDP

The SLD is carrying on the tradition of the old 'Alliance' which was always fond of parading its concern for the environment, but failed to develop clear and coherent policies to tackle the problems it identified.

- The 1987 'Alliance' Manifesto called for 'tough new measures' to deal with acid rain (*Britain United*, p. 15) – without indicating what these measures should be.
- On key environmental issues, such as nuclear power, the 'Alliance' was unable to formulate clear policies owing to divisions between the SDP and the Liberals.

The SLD attack 'Mrs Thatcher's government's high-handed attitude towards the acid rain problem' (*Europe*, Federal Green Paper No. 4, p. 36) – yet make no mention of what action they propose. Indeed their policies would unquestionably make matters worse: at their 1988 conference, delegates voted for the 'commissioning of sufficient non-nuclear generating capacity to enable an orderly shut down of all other nuclear power stations' (Federal Policy Motion No. 11). Such 'non-nuclear generating capacity' would have to

rely predominantly on fossil fuels: an increase in fossil fuel power generation would worsen the acid rain problem.

The SLD have also failed to formulate a clear policy on how to deal with water pollution. Mr Simon Hughes, then Environment Spokesman, voiced concern over the contamination of water (*Hansard*, 28th July 1988, Col. 728): yet the SLD voted against the second reading of the Water Bill (*Hansard*, 8th December 1988, Cols. 528–9). Only privatisation can ensure investment in the water industry on the scale needed to improve pollution standards.

The SDP has so far failed to make a full policy statement on environmental matters. They joined with their former colleagues in the SLD in voting against the Government's Water Bill.

9. TRANSPORT

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(A) SETTING THE FRAMEWORK FOR THE EXPANSION OF SERVICES

The Transport Boom. Nowhere have the effects of Britain's economic revival been seen more clearly than in the transport field. In the ten years 1976–86, total consumer spending increased by some 27 per cent in real terms; consumer spending on transport rose by just under 40 per cent. A relatively large part of people's increased income has therefore been spent on personal transport.

But greater prosperity has not only meant greater spending on transport; it has also led to a marked increase in particular transport services. Over the same ten-year period, expenditure on cars and other vehicles rose by almost 60 per cent, and spending on air transport trebled. In 1987 alone traffic on the motorways increased by over 12 per cent. The number of passengers using UK airports has risen by about 6 per cent a year – each year – over the past ten years. And demand continues to rise at a phenomenal rate.

Increased Demand in London. Moreover, the success of London's economy has reversed the long-established decline in demand for public transport – commuter rail

services, buses and the Underground. Bus usage in London is now higher than it was ten years ago; on the Underground an all-time record has been achieved. Since 1980, demand at peak periods on London Underground (LUL) has risen by 35 per cent; off peak demand by 80 per cent.

Responding to the Challenge. The sudden increase in demand has created problems – particularly congestion but, as Mr Paul Channon, Secretary of State for Transport, has said:

‘Let us remember these are problems of economic success – not of economic failure’ (Conservative Party Conference, Brighton, 11th October 1988).

Under the last Labour Government investment in transport, when it was not actually cut, was maintained at totally inadequate levels. Investment in BR in 1988–9 is higher in real terms than in any year between 1974 and 1979. Spending on road building was cut by 36 per cent in real terms between 1977 and 1979.

By contrast, this Government is taking the action needed to equip Britain with first-rate transport services for the 1990s and beyond. In particular it is tackling the congestion which hinders economic growth and causes grave inconvenience and discomfort to individual travellers. And at the same time it is extending choice – which has always been one of its overriding aims.

The Government's Priorities. The transport system must be developed and operated with due regard for the environment and, above all, it must be safe. The Government's role therefore is to:

- set safety and environmental standards;
- provide investment for the transport infrastructure;
- ensure free and fair competition between operators, thereby increasing efficiency and extending consumer choice.

Greater competition has meant savings for the taxpayer – while investment has risen to record levels. Capital spending on transport infrastructure rose by 5 per cent between 1981–2 and 1987–8, but public expenditure on transport as a whole fell by 8 per cent in real terms. The reductions have been made largely on running costs and subsidies (down 30 per cent in real terms). The result is more efficient and better run transport services.

Investing for the Future. Year after year the Government has provided the resources needed to extend and improve the system:

- Capital spending on road building has increased by over 50 per cent, after allowing for inflation, since 1978–9. Almost £3 billion will be spent over the next three years on building and improving our motorways and trunk roads. This represents an increase of 40 per cent on spending in the previous three years to March 1989.

- Capital spending on road maintenance has more than doubled in real terms since 1978–9. Another £1.3 billion will be spent over the next three years.
- £3 billion has been invested in the railways since 1979. A further £3 billion will be spent over the next three years.
- Investment in London Regional Transport (LRT) will amount to £441 million in 1989–90 which is 78 per cent higher, after allowing for inflation, than in 1984–5, the last year of GLC control.

Cutting Wasteful Subsidies. Better management and new equipment have reduced the need for subsidy:

- Support from the taxpayer for British Rail (BR) was reduced by 27 per cent in the period 1983–6 – beating the target set by the Government. The current target – to reduce the subsidy by a further 22 per cent by the end of 1989–90 – is almost certain to be achieved a year early.
- The subsidy paid to LRT has been reduced by £55 million without the closure of any major bus routes or Underground stations. In 1988–89, the burden on ratepayers, in real terms, will be half what it was in 1984–5, the last year of GLC control.
- After the introduction of tendering for bus services local authorities reported savings of £40 million a year. Some adjustments to services have since proved necessary but most authorities are still making significant savings to the benefit of ratepayers and taxpayers.

Privatisation. The Department of Transport has been at the very forefront of the Government's drive to remove the dead hand of the state from Britain's industries. In 1979 railways, road haulage, aviation, airports, docks, buses and coaches were all partly or wholly within the public sector – bastions of protectionism, denying proper competition. The position has now been transformed. As Mr Channon has said:

‘We have deregulated buses, leading to more services, more operators and big savings for ratepayers and taxpayers. We have made great strides towards liberalising air services. The result has been cheaper fares, more routes and greater competition. We have sold off state-owned corporations, allowing them to develop the flair that goes with private ownership’ (ibid.).

The National Freight Consortium (NFC), Associated British Ports, Sealink, the British Airports Authority (BAA), the National Bus Company (NBC) and British Airways (BA) have all been returned to the private sector, with benefits for customers and employees alike (for details of these sales, see *The Campaign Guide 1987*, Chapter 11). The privatisation of more ports, the injection of private capital into local authority bus companies and airports and into roads, together with the possible privatisation of BR, are all now on the political agenda.

The Way Forward. It is, therefore, because the private sector has already been involved so significantly and successfully in the last ten years, that the Government is now

considering how that involvement could be extended to those areas of transport infrastructure, such as roads and the railways, where private investment has so far been strictly limited. Private finance is making an important contribution in both seaports and airports. Already the Channel Tunnel and the Dartford-Thurrock Crossing are two wholly private sector projects – both the biggest of their kind in Europe. BR has invited private companies to build, and possibly even own, a new high-speed rail link from the Channel Tunnel to London, which could mean private sector rail services competing with BR. The Government is now examining ways of involving private finance in the provision of roads and will soon be publishing its ideas. For, as Mr Channon has said:

‘Why should we make the automatic assumption that bureaucrats – or even politicians – have some God-given right to decide what kind of roads we need and where? Why should not private enterprise play a larger part?’ (ibid.).

(B) GOVERNMENT ACTION TO IMPROVE THE ROAD AND RAIL NETWORKS

1. ROADS

Massive Increase in Resources. The Government has shown its commitment to developing and improving the road network by putting up spending by 50 per cent in real terms on construction and by more than doubling expenditure on maintenance. In the next three years another £3 billion will be provided for road building – and a further £1.3 billion for maintenance so that 240 miles of motorway and 600 miles of other trunk roads can be renewed. This Government has now reduced the backlog of road maintenance from 88 miles to 39 miles on motorways and from 230 miles to 173 miles on other trunk roads.

The Government is directly responsible only for motorways and trunk roads. Other roads are the responsibility of local authorities, although for those roads considered to be of more than local importance a contribution is made by central government. This contribution is in the form of a Transport Supplementary Grant: allocation for 1989–90 has been increased by 7 per cent to £204 million.

Expanding the Network. Since 1979, 255 road schemes have been completed, adding 870 miles to the national road network. Of these, 95 have been bypasses – such as those at Ely and York – which take heavy through traffic away from unsuitable roads in towns and villages, cutting accidents and improving the quality of life. In the last year (1987–8) 31 schemes were completed – 14 of them bypasses or relief roads. In 1988–9, 23 major new schemes were planned to start, adding another 70 miles to the network. These include the M40 extension to Birmingham; the widening of the M25; the Newcastle bypass; the completion of the M20; and the Norwich Southern bypass. And, as a result of

a significant increase in funding of £250 million announced by the Chancellor in his 1988 Autumn Statement, the Government is planning to start around another 40 new schemes in 1989–90. That will mean a further 200 miles of new roads, including 18 bypasses.

Lane Rental. In order to reduce delays to motorway users, the highly successful system of lane rental was started in 1985. If contractors finish their work early they are paid a bonus, but if they overrun their deadline then they pay a 'rent' for occupying the motorway. So far lane rental contracts have saved about 2,000 days of delay, worth some £35 million to the taxpayer.

New design standards have also been introduced: motorways are now being constructed to last for 40 years, with appropriate maintenance, before major reconstruction becomes necessary.

The M25 was finally completed in the autumn of 1986 at a cost of almost £1 billion. It is the world's largest ring-road, and has virtually removed traffic which has no need to be on London's roads. Indeed, it is estimated that it has taken one in five heavy goods vehicles out of London. One section of the M25 is already being widened, and the rest is being studied with a view to future widening.

Severn Estuary. The Government is determined to ensure that traffic can cross the River Severn without difficulty or delay. Consequently, a programme to strengthen the existing crossing is already under way and is expected to be completed by 1990. In addition, consultants have been appointed to undertake detailed investigations into the design and finance of the second Severn crossing. Proposals for a new bridge will be sought in the spring of 1989. They must either provide for a crossing that is privately built, operated and owned, or one that is publicly owned with building and design contracted out.

'Autoguide'. The introduction of driver information systems – giving drivers route guidance and warnings about current traffic conditions – will be authorised by the Road Traffic Bill now before Parliament. The Bill will allow licensed operators of such systems to install roadside beacons and other apparatus which transmits information about roadworks, accidents and congestion to equipment in a vehicle, which then devises the best route for its driver. This is conveyed to the driver via an electronic display unit attached to the vehicle's dashboard.

The Government's Transport and Road Research Laboratory has estimated that an 'Autoguide' system throughout London could help cut average journey times by some 10 per cent and reduce mileage by around 6 per cent. The Government will shortly invite proposals for a pilot 'Autoguide' scheme in London, capable of being upgraded to a fully commercial London system.

2. BRITISH RAIL

Investing for the Future. 'The greatest modernisation programme on the railway since the switch from steam to diesel' (Conservative Party Conference, Brighton, 11th October

1988) is how Mr Channon has described the massive investment in BR since 1979. £3 billion has already been spent, and a further £3 billion will be spent in the next three years to tackle overcrowding, replace out-of-date rolling stock and signals and maintain strict safety standards.

The Government has accepted every investment proposal put to it by BR. In the six months to February 1989 approval was given for:

- 200 new rail coaches for North Thames and Thameslink services at a cost of £70 million;
- a further 138 Sprinter Express coaches for the Provincial sector at a cost of £54 million;
- 77 new Network Turbo coaches for services out of Marylebone;
- the electrification of the Cambridge to King's Lynn line.

The Government will continue to support any worthwhile investment programme which has a sound prospect of improving the railway's finances or which is needed to provide passengers with a higher standard of service on the grant-aided parts of the network.

Investment for the Channel Tunnel. The Government has approved in principle a £550 million investment package related to the Channel Tunnel which BR has proposed. This includes:

- the new international passenger station at Waterloo;
- new rolling stock for passenger and freight services;
- connecting links from Waterloo lines to the London-Dover line and the West London line.

Improving the Service. Mr Channon agreed new targets to improve BR's quality of service in June 1987. Significant progress has been made – though there is more still to be done. 90 per cent of all passenger trains arrived on time, or within five minutes of their arrival time, in 1987–8; just 1.1 per cent of time-tabled services were cancelled in the same year; new computerised ticket machines have been introduced; and improved information systems installed at many stations. Since 1983, more than 80 stations have been opened or reopened. As Mr Channon has said:

‘Passengers have a right to expect clean, punctual and reliable trains and friendly staff. Much has been achieved already but there is still some way to go before I will be satisfied’ (Oxford, 25th November 1988).

Financial Performance. In 1987–8 BR achieved the highest operating surplus in its history – £109 million. The number of passengers carried was the highest for 27 years, and passenger earnings at £1,662 million were the highest in real terms since the nationalisation of the railways in 1948.

Comprehensive financial objectives for BR were first set by the Government in October 1983. They require BR to reduce its subsidy – by improved efficiency, *not* by route closures. The freight and parcels sectors have for some time been required to work towards a financial profit, and grant was withdrawn from the Inter-City sector in 1988. These sectors now constitute a large commercial railway. The Board's Corporate Plan aims to have Inter-City and freight earning a 6 per cent return on assets within the next five years.

Reducing BR's Subsidy. Between 1983 and 1986 support from the taxpayer fell by 27 per cent, beating the target set by the Government. The current three-year target to reduce the subsidy by a further 22 per cent by the end of 1989–90 is likely to be achieved a year early. Since 1983 staff productivity has increased by 18 per cent. Further substantial reductions in subsidy are planned.

Electrification. 8 electrification schemes have been approved by the Government since 1983. These include the electrification of the East Coast Main Line at a cost of £383 million (1988–9 prices), including locomotives and rolling stock. This is the largest single investment for 25 years, and the biggest ever electrification scheme. Spending on electrification over the period 1979–88 was £614 million – £68 million per annum on average; over the period 1974–9, it was £213 million – £42 million per annum.

3. TACKLING LONDON'S PROBLEMS

Decline Halted. During the 1970s and early 1980s, when the GLC controlled London Transport, passenger numbers fell by around 25 per cent; subsidies rose thirteen-fold in real terms from £6.5 million to £369.8 million; and fares rose in real terms by 65 per cent on the buses and by 106 per cent on the Underground.

Since 1982, however, passenger numbers have increased dramatically, thanks to the booming economy. Bus usage is higher than it was ten years ago, and more people are using the London Underground than ever before.

Setting the Scene for Better Services. The expansion of transport services in London to meet increased demand can no longer be held back by the GLC. The London Regional Transport Act 1984 removed transport from the GLC's control, and established the new authority, LRT, which now operates with London Buses Ltd. and London Underground Ltd. as its two subsidiaries.

The large subsidies, which transport in London once received, are no longer needed. LRT was asked to reduce its revenue subsidy from £190 million to £95 million by 1987–8. In fact this was achieved almost two years early; in 1987–8 LRT required a revenue subsidy of just £58 million. The figure for 1988–9 is expected to be lower still.

The Government's Role. The Government takes very seriously its responsibility for improving transport in London, and reducing congestion. It is implementing a clear five-point strategy to:

- provide through traffic with clear alternative routes around London such as the Dartford-Thurrock Crossing and the M25 (its London Assessment Studies are examining other possibilities);
- meet increased demand for rail transport to, and from, the centre of the capital through major investment (£365 million this year) assisted by recommendations from the Central London Rail Study, and the East London Rail Study;
- make the best possible use of existing roads by such means as new technology, clamping, 'Autoguide', and investment in road schemes which eliminate bottlenecks;
- ensure proper links to national/international transport networks through major trunk road schemes in East London, the Heathrow Rail-Link, and improvements to the BR network between London and the Channel Tunnel;
- tackle congestion problems in key areas assisted by the current London Assessment Studies and the Heathrow Assessment Study.

The Department of Transport has published a booklet, *Transport in London* (January 1989), which sets out its objectives, and describes some of the practical steps being taken to achieve them.

Increased Investment. £441 million will be invested in LRT in 1989–90 – which is 78 per cent higher in real terms than in 1984–5, the last year of GLC control. £1.5 billion will be invested over the next three years.

Investment in the Underground will amount to £299 million in 1989–90, nearly twice as much in real terms as in 1984–5. The Government fully recognises that the Underground requires a high level of investment to modernise the system and cope with increased demand. Services have been increased and the purchase of 16 additional trains will ease overcrowding on five lines. A programme for the re-equipment of the Central Line, costing over £700 million, was approved by Mr Channon in October 1988. No investment proposal by London Underground has ever been turned down by this Government.

The Central London Rail Study (CLRS) was launched in March 1988 to examine ways of improving services for passengers on the BR and LUL networks in London, and to provide a forecast of demand on the two networks up to the year 2000. The joint study by LRT, BR and the Department of Transport was published on 26th January 1989. It concluded that demand at peak periods may grow by up to a further 20 per cent by the end of the century. To meet this demand and improve the quality of the services, it proposes a twofold approach.

Firstly, it calls for a major upgrading programme costing some £1.5 billion to make the best use of the existing network. This would bring more and larger trains into service; provide increased capacity at Underground stations; and reorganise services to ease bottlenecks. But although these steps would ease urgent problems they would not be enough to cope with the forecast increase in demand and provide an acceptable level of service. Secondly therefore, the study recommends the building of new lines. It proposes

two alternatives each consisting of two new lines in tunnels under London, and each costing around £2 billion.

Safety. Vigorous action is being taken by the Government, together with LUL, to implement the recommendations in the Report on the King's Cross fire (see pp. 269–70). £266 million will be spent on safety over the next three years.

Fares. LRT average fares have fallen well behind London wages since 1980, and are now no higher than 1980 levels in real terms. The concessionary travel scheme for elderly and disabled people has been maintained; indeed it is now protected by law. The London boroughs and LRT have reached agreement in principle on continuing their free travel scheme for the next two years.

Docklands Light Railway (DLR) opened in the summer of 1987 at a cost of £77 million, and is already acting as a major catalyst in the regeneration of the Docklands. Work is now under way on an extension to the Bank underground station which will then link the City with the new financial development in Canary Wharf; approximately half the cost of this work will be met by the private sector developers of Canary Wharf. A further extension to Beckton will be financed entirely by private developers from increased land values created by the huge development potential it will open up.

A Central Plan? In recent months it has been suggested that a detailed master-plan for London should be drawn up and implemented by a single central agency. The Government does not see this as an answer to London's transport problems. Highly centralised decision-taking usurps the role of the transport operators and boroughs, who are best placed to assess local transport needs. What happened under the GLC shows the disadvantages of the whole idea. It took ten years to produce its development plan and then get approval for it (1976). Virtually nothing had been done to implement it by the time the GLC was abolished in 1985. In any case no plan drawn up ten years ago could have foreseen the growth and demand for transport in London which has actually occurred.

The Government is developing an approach within which all those involved in meeting London's transport needs can operate. As Mr Channon explained in his foreword to the official publication, *Transport in London*:

‘My aim is to ensure that London has transport systems which are safe and efficient, which match the needs of all types of transport-user and which respect the environment. I want to promote customer choice, not stifle it. I want to see demand for transport met, not suppressed. And I want to see London paying its own way rather than being subsidised by the rest of the country. These are the long-term goals which determine the Government's approach to the immediate problem of congestion’ (January 1989).

(C) INVOLVING THE PRIVATE SECTOR AND EXTENDING CHOICE

1. ROADS

Public spending on a large scale will continue to provide new roads and improve existing ones (see pp. 254–5). However, Mr Channon has said that ‘we need to open the door to private sector businesses to finance, build and operate new roads’ (Speech to Adam Smith Institute, 2nd November 1988). There are three advantages:

- i. The private sector has management and financial skills on which the Department of Transport needs to draw. A company building a road on its own may use more cost-effective methods than if it is contracted to work for central or local government.
- ii. The Government has a duty to ensure that taxpayers' money is spent prudently and does not, therefore, invest in transport infrastructure unless there is a proven demand. The private sector might be willing to fund more speculative schemes, and should be given the opportunity to do so.
- iii. The private sector is much more likely to devise innovative solutions to transport problems if it is given the chance to exploit them profitably. Indeed, its very success depends on identifying new investment opportunities.

Joint Initiatives. Private sector road building is nothing new. This year alone over 150 schemes, worth some £84 million, are either under preparation or construction. These schemes are opening up the inner cities, creating development opportunities and improving access to business centres. Most of them are jointly funded by the private sector and the local authority – like the Metrocentre in Gateshead and the Meadowhall development in Sheffield.

The Dartford-Thurrock Crossing is the first privately financed national road scheme to be undertaken this century. In July 1988, the two existing tunnels at Dartford were leased to a private company, Dartford River Crossing Limited, which is the consortium building the bridge. While building is in progress, the company will receive revenue from the tunnel tolls; when the bridge is built it will collect tolls there too until it has received a return on its investment. The bridge and tunnels will then revert to the Government and tolls will cease. Road users will get the benefit of a new bridge (due to open in 1991) over and above the Government road programme, easing congestion on one of the major routes in the South-East.

Would Tolls be Acceptable? Tolls on bridges and tunnels are the exception rather than the rule. But, as Mr Channon has said:

‘If the private sector provides a road, it expects to recover the cost and to earn a realistic return on the investment it has made and the risk it has taken. So, it is going to have to levy a charge which reflects the use made of the road.’ (ibid.).

Those who argue that drivers would use an alternative route rather than pay a toll ignore the evidence from other countries where toll roads exist alongside free roads. This would suggest that significant numbers of drivers are prepared to pay a toll.

There is no suggestion that all new roads should be provided by the private sector. It would clearly be absurd to build toll roads when alternative free routes were not congested, since no one would use them. But if a private company identified a possible new route, which would be sufficiently attractive to road users to make tolls viable, then it should be encouraged. The rational individual motorist or business will use a route which saves on fuel costs and driving time.

A Useful though Limited Contribution. There will continue to be large public infrastructure programmes. Privately financed schemes will not in the near future account for a high proportion of total provision but they can make an important contribution and, above all, provide new ideas and new approaches. It is Government policy to encourage private sector involvement whenever it makes economic sense to do so. The Department of Transport will shortly be publishing its ideas on the subject.

2. BUSES

Anyone who meets strict safety standards can now run long distance coach services and local bus services outside London following the removal of restrictions on them by this Government (for details of the deregulation of both, see *The Campaign Guide 1987*, pp. 214–5).

More Services. The first 18 months of competition in local bus services saw an increase of some 16 per cent in registered bus miles across the country as a whole. By the end of June 1988, there had been a net increase of 465 new operators running local services. Private sector vehicle mileage has increased by 78 per cent, and private sector market share from 8 per cent to 14 per cent.

Minibuses are now operating in nearly 400 areas, providing fast and efficient services – in many cases to areas which bigger buses cannot serve.

Fares. Overall, the Government calculates that fares have not been affected by deregulation. However, the Local Government Act 1985 provided for the capping of the precepts which Passenger Transport Authorities (PTAs) can levy on the ratepayers in metropolitan areas to pay for subsidies. Consequently, capped areas such as Merseyside and South Yorkshire have seen fares rise to much more realistic levels than existed previously. As fares had been artificially low, the percentage increases used by critics are misleading. For example, the 300 per cent increase in Sheffield means that the cost of a 3

mile journey rose from 10 pence to 30 pence. The previous subsidy cost every man, woman and child in Sheffield £60 a year out of the rates.

The Government supports all sensible concessionary fare schemes. The Transport Act 1985 gives local authorities the power to require operators to participate in them.

Subsidies for socially necessary services have been provided by the Government. In 1987–8, £295 million was made available for local authority spending on public transport: £240 million was actually spent. Local authorities are budgeting to spend £238 million in 1988–9: Government provision is for £266 million. Tender prices have fallen as a result of greater competition, reflecting the increasing success of the commercial sector. Tendering produced initial savings of £40 million a year. While some adjustments to services have since been necessary, most authorities are still making significant savings to the benefit of ratepayers.

Privatisation of the National Bus Company. In order to ensure fair competition, the 70 subsidiaries of the NBC were formed into separate companies for privatisation. All were sold, many to their own management and employees, well before the statutory deadline of January 1989.

The Government is now keen to see the private sector take over bus companies owned by local authorities and passenger transport executives. Already the Yorkshire Rider Bus Company has been sold to its management and staff.

3. BRITISH RAIL

In recent years, both BR's financial position and the service it provides have improved (see p. 256). There has been, and will continue to be, huge capital investment in new rolling stock to relieve overcrowding; in new signal equipment to improve safety standards and to ensure a more frequent and more reliable service; and in electrification schemes to cut journey times.

The Attractions of Privatisation. Nevertheless, further improvements in efficiency and quality of service are clearly needed. The Government is therefore now considering the long-term future of BR in order to ensure that its customers receive the best possible service. The issues of safety, subsidy and monopoly all have to be addressed.

The privatisation of the railways has been widely suggested – and the Government has made its interest clear. As Mr Channon has said:

‘We prefer to see commercial businesses run in the private sector and subject to commercial disciplines. That makes them less dependent on Government decisions. It puts the business on the same footing as their competitors. It means above all that they have to pay attention to the needs of the customer if they are to win business and develop’. (Speech to the Centre for Policy Studies, 28th October 1988).

The Private Sector Moves In. BR has already sold several peripheral assets: Sealink, its hotels, large amounts of unused property and, most recently, Travellers Fare and British Rail Engineering Ltd (BREL). In addition Mr Channon announced at the 1988 Conservative Party Conference that BR had his approval to invite private companies to build, or even own, any new high-speed rail link from the Channel Tunnel to London.

Privatisation: The Alternatives. Five options are currently being considered by the Government:

- i. The railways might be divided into a number of independent regional companies. Competition, between the regions, would be largely indirect. The morale of staff might be improved by building on local loyalty, and regional companies would certainly be more flexible than a national organisation. Problems might arise over through ticketing and through trains, and economies of scale could be lost.
- ii. The industry might be divided vertically with track owned by a track authority and independent operating companies running the trains (known as the 'track authority' option). This would introduce competition in the running of trains, with several companies using the same track. However, competition between the companies would be limited by the practicalities of railway operation and the track authority would be a monopoly, remote from the customer. Investment decisions could become complicated since investment in track and trains often interacts (as for example, in the case of electrification).
- iii. A single private company could run the whole network – BR becoming 'BR plc'. There would be continuity and little cost with no new arrangements being needed for through ticketing or inter-company transactions. Competition of any sort would not be possible, and the distinction between those services requiring subsidy and those which do not would not become any clearer.
- iv. There could be several independent companies based on BR's business sectors. This would avoid the problem of weakening the commercial incentives as a result of subsidies, since the loss-making services would be concentrated in the provincial sector. However, much of BR's track is used by more than one sector so the question of who should actually own it could arise. If it were the sectors themselves on a geographical basis, the scheme would resemble the regional option; if it were an umbrella body, it would be similar to the 'BR plc' option; and if another party, then it would be like the 'track authority' option.
- v. There could be a hybrid scheme combining aspects of more than one of the other options. For example, arrangement could be made under which parts of the railway were run by independent companies, and other parts had a track authority and operating companies. This option would allow some of the better features of the others to be put into effect while avoiding the drawbacks.

Subsidy. Some of BR's services receive substantial subsidies. The amounts have, however, been reduced in recent years as, one by one, the business sectors into which BR is now divided have been required to operate without support. Already Freight, Parcels and Inter-City operate without a grant and Network SouthEast, which runs the main London commuter services, could follow soon. This will leave the Provincial sector,

which provides many socially necessary services and which is likely to require a subsidy for the foreseeable future.

Subsidy in no way depends on ownership, so privatisation of the railways would not mean wholesale line closures. It would, however, clearly be in the public interest to ensure that subsidies were only paid when they were really needed. At present, BR does not make clear (or indeed know itself) which lines require support; it simply receives a block amount by way of grant. A private railway might make a clearer distinction between those services requiring subsidy and those able to operate without it. In fact the private sector with its proven ability to improve efficiency and marketing might be able to reduce the required subsidy.

Monopoly. In some markets, such as the London commuter belt, BR faces little competition from other forms of transport. A private railway would need to be strongly regulated in such areas to ensure consumer protection and value for money.

Safety. There is no reason why safety standards should in any way be affected by a change of ownership. Safety requires rigorous oversight by an independent Inspectorate, which the railways have had for almost 150 years. So the Government can insist on the highest standards of safety regardless of ownership.

Heathrow-Paddington Rail Link. In July 1988, Mr Channon approved in principle BR's participation in a joint venture with BAA to construct a fast rail link between Heathrow and Paddington.

A Bill is now before Parliament to enable the joint BAA/BR project to proceed. The project, which will cost about £190 million, is to be financed largely by the private sector. Fast direct trains, owned by BAA, will operate a regular service between the airport and Paddington – much like the successful Gatwick Express. The journey time could be as little as 17 minutes to Terminal One when the first train starts running in 1993.

Channel Tunnel Passenger Rail Link. BR believes that initially it will be able to cope with Channel Tunnel passenger traffic on existing rail lines in North Kent. However, once the number of passengers using this service into Waterloo exceeds 15 million per annum, a new high-speed line will become necessary. These were the main conclusions reached by BR's report on links to the Channel Tunnel, published in July 1988. The report identified four possible new routes, and BR is now consulting local authorities and other affected parties in Kent and London with a view to settling its preferred route by early 1989.

Already, people living where these routes would go have been offered compensation for the full value of their houses where their plans to sell have been affected by these proposals. BR will also be discussing with the Department of Transport the arrangements to compensate those directly affected by the preferred route (they are likely to be similar to those for major road schemes).

BR is now inviting private companies to build, or even own, this vitally important link. It might even be possible for private sector rail services to compete with BR along the line.

British Rail Engineering Limited (BREL) has been sold to a consortium consisting of the management and employees of BREL, Trafalgar House, and Asea Brown Boveri Limited. The business operates from works at Crewe, York and Derby which manufacture and overhaul railway stock. BREL has greatly improved its commercial viability and competitiveness in recent years, winning 70 per cent of orders since BR introduced competitive tendering. In the private sector, it will have far greater scope to diversify and to compete for work outside the railway industry. BR, Eurotunnel and the London Underground are all expected to place large orders for rolling stock in the near future, which could be won by BREL.

4. THE CHANNEL TUNNEL

The Channel Tunnel Act in July 1987 gave formal approval for the construction of a fixed-link rail tunnel between France and Britain. Work on the first tunnel started early in 1988. It marked the beginning of Europe's biggest engineering project which remains firmly on course for completion by the planned date, May 1993. That will be one year after the completion of the Single Market, and so the tunnel will symbolise Britain's full participation in that Market.

Eurotunnel will run it for 55 years, collecting tolls. The tunnel will then become the joint property of the British and French governments.

Need for a Tunnel. In recent years cross-Channel traffic of all types has grown substantially faster than traffic in Britain as a whole. In 1962, 5.5 million passengers crossed the Channel by sea; by 1980 this figure was 18 million and forecasts suggest it might be 45 million in 2000. The volume of freight crossing the Channel is expected to double over the next twenty years.

Finance. All of the £6 billion which is needed has been successfully raised through the international capital markets: £5 billion in credit facilities with an international group of lending banks and £1 billion in equity finance. There is no Government funding or guarantee.

Employment. The Tunnel project will create work for an average of 15,000 people in Kent and elsewhere during construction. Transmanche Link (Eurotunnel's contractors) are now committed to placing orders worth over £400 million: there is at least £300 million more to come, plus BR orders which will take the total to some £1 billion. The DTI has set up an information network for potential suppliers, including regional contact points to pass information on to local firms.

The tunnel's likely effect on employment in Dover and Folkestone after it has been completed was outlined in the White Paper, *The Channel Fixed Link* (Cmnd. 9735, February 1986).

<i>With Link</i>	1985	1993	2003
Ports and ferries	14,600	9,000	11,500
Tunnel	–	4,000	5,000
Total	14,600	13,000	16,500
<i>Without Link</i>	14,600	16,000	18,000

Inevitably, the tunnel will affect the size and capacity of the ferry fleet. However, as a result of the expected general increase in cross-Channel traffic, total ferry capacity is likely to rise in later years after a short decrease with the opening of the tunnel. The number of ferries will be fewer since existing vessels are to be replaced by a new generation of larger, more efficient ones. The following table shows the change that has been estimated in UK-flag ferry capacity employed on routes between Portsmouth and the Wash:

	<i>Without fixed link</i>		<i>With fixed link</i>	
	Vessel numbers	Capacity (pcus)*	Vessel numbers	Capacity (pcus)
1984	31	10,900	31	10,900
1993	30	13,500	22	10,000
2003	31	20,000	26	15,750

*‘pcu’ indicates passenger car units: lorries and coaches are counted as 6 pcus each (*The Channel Fixed Link*, February 1986).

Regional Benefits. Orders are being placed nation-wide. Major orders settled so far include:

- a £21.2 million contract with James Howden and Co, Glasgow for tunnel boring machines;
- a £15 million contract with Robbins, an American company, and Markhams of Chesterfield for marine tunnel boring machines;
- a £6 million contract for material supplied by Foster Yeoman from their quarry at Glensada, West Scotland;
- a £10 million contract for cast iron tunnel linings from Parkfield Foundaries of Stockton on Tees.

Opportunities for Enterprise. The tunnel will provide a direct link to Britain's most important and fastest growing export markets: Europe now accounts for more than 60 per cent of all our trade. The tunnel will make it possible for goods to be delivered fast by road or rail to Europe's industrial and commercial centres, putting British industry on equal terms with its European counterparts.

British manufacturers, particularly in Scotland, Wales and the North of England, will gain significant advantages from through rail freight services to continental markets. BR

estimate that rail freight from all parts of the country to the continent will triple in the first year the tunnel is open. Up to 1,500 lorries will be removed from British roads.

Passenger Rail Services. In addition to 'shuttle' trains every 10–12 minutes taking road vehicles and foot passengers, there will be hourly through passenger services between London, Paris and Brussels. These specially-built high speed trains suitable for both British and Continental systems, should take 3¼ hours from London to Paris and 3 hours from London to Brussels. There will be some direct services to the Midlands and the North, avoiding Central London.

Links to the Regions. BR is planning to provide direct passenger and freight services to points beyond London as soon as the Tunnel opens. However the services must be commercially viable, since subsidies are prohibited by Section 42 of the Channel Tunnel Act. Section 40 of the Channel Tunnel Act requires BR to publish a plan by the end of 1989 setting out its proposals for passenger and freight services. BR is now consulting interested parties throughout the UK over this plan. The Government will approve any investment proposals arising from Section 40 which can be commercially justified.

Impact on Kent. A joint consultative committee has been established to maximise the benefits and minimise the impact of the tunnel on Kent. The Committee, which includes representatives of Eurotunnel, the local authorities, BR and Government Departments, set up the Kent Impact Study Team which has identified significant opportunities for growth.

Terrorism, Safety and Rabies. The British and French Governments are studying all aspects of the scheme which might give potential scope to terrorists. They will ensure that all the necessary precautions are taken to prevent any terrorist action.

A Safety Authority consisting of British and French experts will examine all aspects of the design and operation of the tunnel. There will be a ban on smoking which will be enforced by attendants.

Rigorous checks to prevent the importation of rabid animals will continue to be made as they are now.

5. AIRPORTS AND AIR SERVICES

British Airways was returned to the private sector in February 1987, when over 78 per cent of its staff bought shares in the company. The merger with British Caledonian will strengthen the international competitiveness of the UK air industry and will open up new opportunities for other British airlines.

The British Airports Authority whose official title is now simply BAA was privatised in July 1987, and separate companies have been set up to run each of the seven airports released from its control. All the main regional airports are now run by Companies Act companies. They can, if they wish, seek to attract private investment.

Local Authority Owned Airports. The Government is keen to see the introduction of private capital into airports owned by local authorities. The Airports Act 1986 enables authorities to dispose of shares in the company as they think fit, but it does not require disposal.

Deregulating Air Services in Europe. The Government has strengthened competition within Europe. The traveller is now benefiting from new routes (for example, from regional airports to European destinations) and from better services and lower fares.

Under pressure from the Government, agreement was secured in December 1987 within the EC to a worthwhile package of measures as a first step towards the completion of the Internal Market in Aviation by 1992. The new regulations, which came into force in January 1988, enable airlines to offer cheaper fares (with new off-peak discounts); they also open up new routes and increase competition on existing routes. EC competition rules are also applied to aviation for the first time. As a result Government control will be reduced, and greater choice provided for the traveller.

Since January 1988, UK airlines have started new services to Ibiza, Mahon, Madrid and Arrecife-Funchal. Lower fares have been introduced on the Gatwick-Paris route: the single unrestricted business fare is down from £105 to £92; the new one-way Euro Budget fare is £69, as opposed to £85 Economy fare.

The Way Ahead. Further liberalising measures are due to be adopted in June 1990, on the basis of proposals to be submitted by the European Commission by November 1989. The British Government is very anxious to see further substantial liberalisation, including:

- liberal route licensing criteria, laid down in EC law. When cross-border ownership of airlines becomes possible within the EC, this measure will open up monopolies within other Member States.
- effective controls on unfair state aids to publicly-owned EC airlines.
- the opening up of routes between *all* EC airports.
- the opening up of charter and cargo markets.
- the relaxation of conditions on discounted fares.

Britain's Share of the EC Market. Britain's airlines have 25 per cent of the total EC market. Some critics of deregulation argue that opening up the market further could threaten the UK airlines' position. However, the main reason why UK airlines hold a large market share is because they are competitive and efficient. As the market opens there is no reason why they should not increase their share further. In addition, the European market is forecast to double by the year 2000, offering significant scope for growth.

Meeting Demand. Liberalisation is also criticised on the grounds that it leads to growth in demand and congestion: lower fares encourage more people to travel. Measures are now in hand which should alleviate congestion at Britain's airports (p. 271). But ever increasing regulation is not what is needed: market forces themselves can provide the

best answers. If travellers are concerned about airport delays, operators will have to respond. A larger number of quieter aircraft could be used (which are able to fly during the night); back-up aircraft could be made available to prevent disruption on one service delaying the next; and there could be discounts for mid-week flights.

6. ROAD HAULAGE

Lorry Quotas. On 1st January 1992, all quotas and permits within the EC will be abolished, creating a free international market for road haulage within the EC. In the meantime, increases of 40 per cent in the community quota were agreed for 1988 and again for 1989. The Council will decide by 31st March 1990 on any increases in the Community quota for the years 1990–2.

British hauliers are among the most competitive in Europe because they already face free competition at home. The Government is now campaigning to make them aware of the opportunities 1992 presents. It sees no reason to believe that the abolition of quotas will mean a huge increase in the number of foreign vehicles coming to the UK.

The Government believes that all road users should meet their vehicle's track costs. British hauliers do so through Vehicle Excise Duty. The Government is determined to ensure that British lorry drivers should not suffer any unfair disadvantages in the European market. Accordingly, the Commission has made proposals to alter Member States' vehicle taxation.

(D) SAFETY

Mr Channon has emphasised: 'I see the maintenance and improvement of safety standards as the most important of all my transport responsibilities' (Conservative Party Conference, 11th October 1988).

1. ROADS

Working for Further Improvement. In 1987 there were 5,125 road deaths – 5 per cent fewer than in 1986 and the lowest figure since 1954. Total casualties fell 3 per cent to 311,473; pedestrian deaths were down by 7 per cent. Indeed, Britain has the best overall road safety record in the EC, but the Government is determined to improve it still further, and provide better protection for the most vulnerable people, children and pedestrians.

The Government's target is to reduce casualties by one-third by the year 2000 – from 300,000 per year to 200,000. In July 1988 agreement was reached between local authorities and the Department of Transport on a programme of joint action to achieve this objective. The main elements are: the wider use of low-cost road engineering schemes to reduce casualties on local roads, where most accidents occur, and the introduction of local targets to reduce casualties.

The Road User and the Law. The Road Traffic Law Review Report (the North Report) was published in April 1988. It contained 137 recommendations for the reform of the road traffic law, designed to make it simpler and fairer, by ensuring that penalties are proportionate to offences. The Government's response to the Report was published in the White Paper, *The Road User and the Law* (Cm. 576), in February 1989.

The White Paper proposes that:

- the offence of reckless driving should be replaced by a new offence of dangerous driving, based more firmly on the observable standard of driving. Proof of the driver's reckless state of mind – which has caused difficulties in securing convictions – will no longer be necessary.
- a new offence should be created of causing death by careless driving while unfit through drink, drugs or other forms of medical incapacity.
- there should be a new offence of endangering road users by obstructing a road intentionally or interfering with devices for the regulation of traffic. These particularly serious offences would carry a maximum penalty of seven years.

Other proposals in the White Paper include: a tougher driving test for certain disqualified drivers before their licence is restored; measures for the rehabilitation of drink-drivers; and the use of new technology to detect speeding and traffic light offences.

Motorcycles account for less than 2 per cent of road traffic, but for some 14 per cent of all road deaths and 20 per cent of all serious accidents. The accident rate is falling, but motorcyclists remain one of the most vulnerable groups of road users.

The Transport Act 1981 sought to improve motorcycle safety by restricting learner drivers to machines with a maximum capacity of 125cc. It also introduced a two-part motorcycle test and a limit of two years on the duration of a provisional licence, upon the expiry of which another provisional licence could not be obtained within one year.

The Road Traffic Bill, now before Parliament, tightens up the law still further. At the moment, there is no requirement for motorcyclists to take any training at all, though if learners wish to continue riding after two years they must pass both parts of the motorcycle test. In practice, many riders take neither training nor tests, but simply give up riding after two years. This Bill introduces compulsory basic training for all new learners which will replace the first part of the present motorcycle test. In future, a provisional licence will not be valid unless the holder has either successfully completed the basic training course, or is undertaking training on the road as part of that course.

Seat Belts. The Transport Act 1981 made the wearing of seat belts in the front seats of cars compulsory. Since the law came into force in 1983, it has helped to prevent 200 deaths and 7,000 serious injuries each year. The fitting of rear seat belts or child restraints has been mandatory in all new cars since October 1986.

Drinking and driving kills over 1,000 people each year and is still the biggest cause of road accident casualties. The 1981 Transport Act introduced evidential breath testing by means of breath-test machines in police stations. In 1987 there were 120,000 drink-drive convictions, of which half were over twice the legal limit.

The police are able to stop motorists at random and with reasonable cause can administer the breath test. On 1st February 1989, the Home Secretary announced that he would hold consultations about the widening of police powers.

Driving Licences. The new Road Traffic Bill provides for the introduction of a single driving licence which will be issued by the Secretary of State for Transport through the Driver Vehicle Licensing Centre. At present drivers of motor cars, heavy goods vehicles (HGV) and public service vehicles (PSV) require separate licences for each class of vehicle. The car licence is issued by the Secretary of State through the DVLC, while HGV and PSV licences are issued through independent Traffic Commissioners in nine traffic areas. In short there are three driver licensing systems in operation in Britain, each with its own legislation and special rules. The new system will be much simpler and will bring the UK into line with EC law, which requires all Member States to harmonise their licensing systems by issuing single licences, showing all driving entitlements.

Motorways are still the safest roads. Nevertheless a major package of safety measures was announced in April 1988. Mandatory 50 mph speed limits have now been implemented at all road works and contraflows, and signs reminding drivers of the 70 mph limit have been installed on the M1. The Government is continuing to encourage newly qualified drivers to take additional tuition in motorway driving.

2. BRITISH RAIL

Clapham Enquiry. After the appalling rail crash at Clapham Junction in December 1988, the Government set up a fully independent public inquiry chaired by Mr Anthony Hidden QC. This is in addition to BR's own inquiry. If staffing levels, resources or overcrowding are held by Mr Hidden to be relevant, they will be considered. The Government has contributed £250,000 to the disaster fund.

The Record. The maintenance of the highest standards of safety on Britain's railways is paramount. In fact railways remain a very safe form of transport. Until the Clapham disaster, only 11 people had been killed in accidents involving the collision or the derailment of passenger trains in the preceding four years. The rate of significant train accidents per train miles has been falling steadily for 20 years.

Overcrowding. There is no statutory limit on the number of passengers that can be carried on trains. The Railway Inspectorate considers that overcrowding poses no threat to the stability or the safe running of passenger trains – but it has been discussing with BR the potential problems of fire on crowded trains.

Overcrowding is undoubtedly a problem on some lines at certain times of day. The Government has set standards to regulate overcrowding, and has approved action to achieve them, including record investment. Following the recent Monopolies and Mergers Commission's report on Network SouthEast, BR has been asked to bring forward its plans to relieve overcrowding on individual lines to bring them up to standard.

3. LONDON UNDERGROUND

King's Cross Fire. Following the tragic fire in November 1987, a public inquiry was established, chaired by Mr Desmond Fennell QC. The report was published in December 1988. It concluded that the fire was started by a discarded match falling into accumulated debris, dirt and grease on the escalator tracks.

The report made 157 recommendations; the Government will ensure that all of them are followed up quickly and urgently. In particular it recommended a new approach to safety management and fire prevention, including the establishment of a specific Safety Audit.

Considerable expenditure will be needed to carry out the recommendations of the report. The plans announced by the Chancellor in his Autumn Statement in November 1988 provide in full for all the proposals put to Mr Channon to improve Underground safety. £266 million will be spent over the next three years.

The report clearly states that 'there is no evidence that the overall level of subsidy available to LRT was inadequate to finance necessary safety-regulated spending and maintain safety standards' (Chapter 19, p. 149).

Fighting Crime. The Government's concern about crime on the Underground was reflected in the Department of Transport's report of November 1986 on 'Crime on the London Underground'. £15 million has been made available to London Underground over the three years to 1989–90 to implement the report's recommendations. In addition, it was announced in December 1988 that a further 50 British Transport Police would be recruited to help in the fight against crime, bringing the total on the London Underground to 400. Pilot schemes are operating at 13 stations on the Northern and Central lines and at Oxford Circus involving train staff with radios, help-point booths, passenger alarms, closed circuit televisions, safe waiting areas, mirrors and improved lighting in passageways.

It is true that there was an increase in the levels of certain categories of crime in 1988: robberies rose to 1,075 in the ten months to October, compared with 677 in the same period in 1987. Pickpocketing, however, fell to 5,984 incidents in the ten months compared with 6,673 for the same period in 1987. These figures should be seen in the context of 800 million passenger journeys each year.

4. FERRIES

New Safety Measures. The Government has issued ten Consultative Documents on various safety measures recommended in the Sheen Report on the Zeebrugge Ferry Disaster, published in September 1987. 11 measures have now been embodied in Regulations; and one more is under preparation.

The regulations that have been introduced should ensure that the tragedy at Zeebrugge is not repeated. The Government has also launched a wide-ranging programme of research to improve the safety of roll on/roll off ferries.

The Merchant Shipping Act 1988 is designed to ensure the highest possible standards of maritime safety. The Act's provisions deal with matters arising from the Herald of Free Enterprise enquiry which required primary legislation.

The Act extends the tests which a ship will have to pass if it is not to be considered unfit, and makes it an indictable offence to operate an unfit vessel. It also places new duties on ship-owners to take all reasonable steps to ensure that ships are operated safely. The duties of ships' masters have been redefined, and a new offence has been created to enable charges to be brought against a master or crewman who, in failing to discharge his duties adequately, endangers the safe passage of the ship.

An independent Marine Accident Investigation Branch has been established, reporting directly to the Secretary of State for Transport. This body is headed by the Chief Inspector of Marine Accidents whose reports will be published.

5. AIR SERVICES

Near Misses. The number of near misses fell from 31 in 1978 to 11 in 1987. After taking increases in traffic into account, this represents a decrease from 9.1 to 2.1 air misses per 100,000 hours flown. It is a clear sign that air transport is safe and getting safer.

Lockerbie and Kegworth. There were two appalling air disasters in December 1988 and January 1989. On 21st December 1988, at Lockerbie in Scotland, a Pan Am Boeing 747 aircraft crashed killing 258 people; on 8th January 1989, near Kegworth, a British Midland Airways Boeing 737 aircraft crashed, killing 44 people. Mr Channon immediately ordered the Air Accident Investigation Branch of the Department of Transport to undertake investigations into the two crashes to determine their causes. It is now known that a bomb was responsible for the crash at Lockerbie.

Air Congestion. Demand for air transport has risen sharply in recent years. This was anticipated, and catered for, by both Governments and operators, and there is no overall shortage of capacity at airports. Europe's air traffic control systems can accommodate both normal traffic levels, and the abnormally high levels experienced on popular routes at peak periods. However, any problem in the system can cause disruptions. European countries depend upon each other's air traffic control systems; if industrial action or a technical fault occurs in one system, it affects the rest. Industrial disputes caused many of the problems that occurred in the summer of 1988.

Under pressure from the British Government, the 22 Members of Eurocontrol have endorsed a proposal for a central unit to co-ordinate the flow of air traffic throughout Europe. Flow management, as it is called, regulates the number of flights entering a particular country's airspace so that the safe capacity of the system is not exceeded. Congestion occurs when several countries plan different levels of flow management.

The CAA has already reported to Mr Channon on the maximum use of UK air space up to 1995. In July 1989, it will submit two further reports: one on air capacity in 2000 and beyond; the other on the distribution of traffic between London's airports. The CAA has also embarked on a large investment programme: over the next three years over £200 million will be spent – an increase of two-thirds in the programme. This will allow for the modernisation of air traffic control and will increase air space capacity over South-East England by at least 30 per cent by 1995. The Government has approved every investment proposal put to it in recent years.

The Government is not prepared to compromise on safety to ease congestion. If the CAA needs to control the flow of flights into and out of UK airspace, then it will do so with Government support.

Security at British airports is acknowledged to be among the best in the world. However, following the Lockerbie disaster, a complete review of airport security has taken place. In January 1989, Mr Channon met the National Aviation Security Committee to discuss the implications of the Lockerbie tragedy. In addition to immediate measures relating to cargo, misdirected baggage and cabin baggage, other long-term security measures were identified and have been pursued. The Government joined with the US in asking the Council of the International Civil Aviation Organisation to work urgently to improve standards of security at all airports.

Responding to further public concern about security, Mr Channon issued a direction under the Aviation Security Act 1982 to all UK airports. It requires that passes should only be issued to airport employees or to personnel working for firms which the airport manager is satisfied are reliable. Passes permitting unescorted access to restricted areas are not to be issued until the person concerned has worked either for the airport, or for the sponsoring firm, for at least six months.

BAA was also asked to report on ways of improving airport security. A paper was received by Mr Channon on 19th January 1989 setting out over 100 improvements which BAA either had made at its seven airports, or had in hand. Mr Channon asked BAA for a progress report on outstanding matters by the end of April.

(E) SHIPPING AND PORTS

Shipping Registration. The rate of decline of tonnage on the UK/Isle of Man register has been much less rapid over the last 18 months. Indeed in 1987 the size of the UK-owned merchant fleet stabilised at around 17 million tonnes after many years of decline.

British flag tonnage (including that of dependent territories) went up in 1988 by 1.6 million tonnes from 33.8 million to 35.4 million tonnes.

Britain has the world's ninth largest fleet; in the EC it comes second only to Greece. Britain also has the fifth largest container fleet, and the fourth largest fleet of cruise liners in the world. In 1987 the shipping industry made net overseas earnings of £1.3 billion.

Government Help for the Merchant Fleet. Under the Merchant Shipping Act 1988, the Government has provided assistance towards training Merchant Navy Officers (£3.5 million per year) and crew travel costs (£5 million a year). It is also establishing a Merchant Navy Reserve to serve on Merchant ships in time of war.

Resisting Protectionism. The Government is opposed to a policy of subsidy for the shipping industry, and is resisting the growing trend towards protectionism in international shipping, through the EC. The agreement reached by European Transport Ministers in December 1986 under pressure from the British Government, will permit EC registered vessels to offer services freely between Member States by the end of 1989. The same freedom will be allowed between EC Member States and third countries by the end of 1991, and cargo-sharing arrangements between Member States and outside countries will be abolished by January 1993.

Pilotage. The Pilotage Act 1987 abolished the pilotage authorities, transferring responsibility for pilotage to the harbour authorities. The previous system had remained largely unchanged since 1913, despite the great changes in the patterns of shipping and trade. Many factors had contributed to a fall in demand for pilotage, but the manner in which it was organised made it difficult to adapt working practices and to keep pilot numbers in line with needs. Costs were often needlessly high.

Not all harbour authorities are required to be responsible for pilotage. Those that are – known as Competent Harbour Authorities (CHAs) – have a duty to consider the pilotage services needed in their areas and to decide whether pilotage should be compulsory. They are then obliged to see that the services are provided. ‘Reasonable’ charges may be made by the CHAs for these services. Pilotage costs have fallen in a number of places since the 1987 Act – and will do so further. For example, in Harwich, which includes Felixstowe (the UK's largest container port), charges are already down an average 10 per cent. Another 10 per cent reduction is promised when the new system is in full operation.

The Pilotage Act also established a compensation scheme, funded by the harbour authorities, for surplus pilots following the reorganisation.

Privatisation of Ports. 22 ports, including Southampton and Grimsby, are owned by the now privatised Associated British Ports, which was established under the Transport Act 1981 as the successor to the British Transport Docks Board. The 33 ports which are either owned by local authorities or run as trusts, and are not yet constituted as companies, are regarded by the Government as candidates for privatisation. As Mr Channon has said:

‘Ports are, in essence, commercial operations, competing with one another for market share’ (Speech to the British Ports Federation, 9th March 1988).

(F) OPPOSITION POLICIES

1. LABOUR PARTY

Reimposing Controls. Central planning and bureaucracy were the hallmarks of Labour's transport policy at the 1987 General Election. Drawing on the policy document *Fresh Directions* (February 1987), the Labour Manifesto called for local transport plans in every area. These, it was explained in *Fresh Directions*, would ensure the elimination of ‘wasteful duplication’ and ‘destructive competition’. In reality, such central planning stifles innovation, encourages inefficiency and leads to passengers' needs being ignored.

The Manifesto, perhaps unsurprisingly, omitted many of the proposals contained in *Fresh Directions*. These included a National Transport Authority to draw up plans for the restructuring of the Department of Transport and to advise on plans for the integration of transport. As Mr Turvey, Director-General of the Freight Transport Association, aptly said:

‘You get the feeling Labour believes nothing is right with the existing world, and it can all be changed by more planning, more committees, more legislation and more government’ (12th February 1987).

The national road network, for which central Government is responsible, would clearly be totally fragmented by the proposal to place responsibility for all roads in the hands of local authorities. Left-wing authorities would be given ample scope to frustrate national needs.

Fresh Directions also proposed the phasing out of Vehicle Excise Duty, higher taxes on petrol and company cars, the repeal of the Transport Act 1985 which deregulated local buses, and the acquisition of controlling shares in both British Airways and BAA (for a detailed analysis of these commitments, see *The Campaign Guide 1987*, p. 232–4). Passing judgement on the document, Mr John Moore, then Secretary of State for Transport, said:

‘There is nothing fresh in *Fresh Directions* ... Instead it is a stale parade of the policies Labour has always had for transport: more regulations; more power for planners; and increased interference in transport by both central and local government – in short everything you can think of to stifle enterprise’ (Croydon, 20th February 1987).

Marking Time. Since the General Election, transport has not been one of Labour's priorities. In *Social Justice and Economic Efficiency* (June 1988), a mere three sentences explain that transport policy will be discussed at the second stage of Labour's policy review.

Exploiting Tragedy. In a cynical attempt to attract attention, Labour has recently accused the Government of allowing safety standards to slip, and of presiding over a growing transport crisis. The Labour Party, which cut capital spending on road construction by 36 per cent in real terms when it was last in Government, is now calling for ‘greater public investment in our road network,’ in the words of Mr John Prescott (18th November 1988). Spending on new roads is now over 50 per cent higher than it was under the last Labour Government, even after allowing for inflation.

Mr Prescott has also claimed – quite falsely – that ‘the Tories ensure that our railways are run down’ (ibid.). Investment in BR, which is at record levels, is higher in real terms than in any year between 1974 and 1979.

Equally irresponsibly, Mr Prescott maintained that ‘government pressure to cut costs’ was a factor in the King’s Cross tragedy. The Report into the King’s Cross Fire (Cm. 499) clearly stated that ‘there is no evidence that the overall level of subsidy available to LRT was inadequate to finance necessary safety-related spending and maintain safety standards’ (Chapter 19, p. 149).

2. THE SLD

At the 1987 General Election, ‘Alliance’ transport policy consisted mainly of the predictable demand for more investment. Indeed, its calls for a programme of renewal of the road, rail and port infrastructure, and for more investment in rail, bore a marked resemblance to Labour policy.

Any departure from this easy option produced confusion. They tried to suggest that they were modifying their earlier opposition to bus deregulation (they had voted against the Transport Act 1985) by claiming to support ‘comprehensive competitive tendering for a network of necessary bus services with local councils involved in planning and financing them’ (*Britain United*, p. 18). Competitive tendering falls short of total deregulation and would still result in inefficiency, waste, and cross-subsidy. Indeed, in *The Time Has Come*, it was suggested that ‘local authorities should subsidise bus and rail routes ... and we would ensure that they have the resources if they wish to do so’ (p. 115). In addition to general subsidies of this kind, it was also envisaged that free or cheap bus and rail passes for the ‘unwaged’ would be made available, without regard to the cost of such an expensive pledge.

Since the General Election the SLD (like Labour) has largely forgotten about transport. No mention was made of transport in *Voices and Choices for all* (January 1988), the SLD’s short-lived policy document. *A Democracy of Conscience* (January 1988) merely mentions transport as one of several areas needing more investment. No details are given.

The lack of any coherent policy on transport has been reflected in the lack of interest shown in parliamentary debates on the subject since the 1987 General Election.

Such contributions as there have been have again demonstrated little evidence of any policy beyond calls for further investment. SLD Spokesmen sound much like Labour. Mr Menzies Campbell, for example, has suggested that ‘the scale of the problem that we face, especially in the south east, requires massive investment’ through ‘central direction and public-led investment’ (*Hansard*, 7th February 1989, Col. 845).

3. THE SDP

To date the SDP has shown no interest in transport. There exists no SDP transport policy document, and since the 1987 General Election there has been no SDP contribution during any major parliamentary debate on this subject.

10. HEALTH AND SOCIAL SERVICES

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(A) AN EXPANDING HEALTH SERVICE

1. RESOURCES AT RECORD LEVELS

Higher Spending. Expenditure on the National Health Service has increased by 39 per cent ahead of inflation since this Government came to office. Total spending this year (1988–9) is £24 billion, compared with £7.7 billion when Labour left office. This means that the average family now pays around £32 a week in taxes to the NHS compared with just £11 a week in 1978–9. In 1989–90 £26 billion will be spent – £35 a week from the average family.

International Comparisons. It is true that the UK spends a lower proportion of its GDP on health services than most other Western countries. However, while the proportion of GDP which the Government devotes to health actually *fell* from 5 per cent to just under 4.8 per cent under the last Labour Government, under this Government it has increased to 5.4 per cent. Furthermore, as the Royal Commission on the National Health Service which was established by the last Labour Government concluded, ‘international comparisons do not suggest that greater expenditure automatically leads to better health’ (Cmnd. 7615, July 1979). Britain compares well with many of those countries which are

higher spenders. For example, we have lower perinatal mortality rates and higher male life expectancy than France and the United States.

The major disparity between spending on health care here and abroad lies in the level of expenditure on the private sector. In 1985 the United Kingdom spent just 0·8 per cent of its GDP on private health care. This was less than half the percentage of GDP spent in many other countries: France spent 1·7 per cent of GDP on private health care; West Germany spent 1·8 per cent; Australia 2 per cent; and Canada 2·1 per cent.

What Should be Spent on the NHS? The Royal Commission on the NHS concluded that ‘whatever the expenditure on health care, demand is likely to rise to meet and exceed it. *To believe that one can satisfy the demand for health care is illusory*, and that is something that all of us, patients and providers alike, must accept in our thinking about the NHS’ (ibid., emphasis added). The main criteria against which the NHS should be judged are the quantity and quality of the treatment provided. It is clear that the extra resources which this Government has devoted to health care, together with notable improvements in efficiency, have led to significant progress in the NHS.

2. HOSPITAL SERVICES

More Patients Treated. As Mr John Moore, then Secretary of State for Social Services, stressed:

‘The most important measure of health care is not what is being spent on health services or the number of beds, or even how many doctors and nurses there are. What matters to the patients is the quantity and quality of the treatment which the Health Service is able to provide. In recent years more resources and better value for money, combined with the hard work of dedicated staff, have resulted in substantial improvements in the level of care provided’ (London, 23rd September 1987).

There has been a significant increase in the number of patients treated. In 1987–8 some 8 million in-patient cases were treated, 23 per cent more than in 1978; 1,285,000 day cases were treated, over 600,000 (92 per cent) more; and there were some 43·5 million out-patient attendances, that is 4,000,000 (9·5 per cent) more.

More patients are able to benefit from medical advances:

- There are more patients with a successful kidney transplant – over 8,000 – than in any other country in Europe.
- 12,000 heart by-pass operations are carried out each year; that is ten for every three performed under Labour.
- 47,650 hip replacements were carried out in 1986; that is seven for every five performed under Labour.
- 59,000 cataract operations are carried out each year; that is 50 per cent more than in 1978.

- The treatment of premature babies has improved dramatically. Perinatal deaths (those in the first week) per 1,000 births have fallen by more than 40 per cent from 15.4 in 1978 to 8.9 in 1987.

It is possible to investigate, diagnose and treat conditions that would have been ignored or left dormant in the recent past. For example, nuclear magnetic resonance imaging provides greatly enhanced diagnostic capabilities; and lithotripters enable kidney stones to be treated without major surgery, reducing the patients' trauma and discomfort.

Reducing Waiting Lists. Under the last Labour Government waiting lists soared by 240,000 to a record 752,000 in England alone; by March 1988 they had fallen to 678,000. Waiting lists would be lower still if union action in 1982 – officially supported by the Labour Party – had not caused 130,000 in-patient operations to be cancelled. However, the waiting list figure gives a false impression of the time that most people have to wait for treatment. Half of all people going into hospital are admitted within 5 weeks of joining a waiting list, and only 2 per cent of people have to wait more than a year.

The challenge facing the NHS, therefore, is to reduce the long waits which a relatively small group of patients face. A special waiting list fund was set up in 1987–8 providing £25 million for about 350 projects; for 1988–9 the fund was raised to almost £40 million. Altogether 230,000 people have benefited from this initiative (see p. 292).

Increasing Numbers of Staff. As Mr Moore stressed:

‘The National Health Service is the largest employer in Britain, and probably in Europe. This country is very fortunate that these people show such a very high level of commitment. Their work is often demanding but always of vital importance to the community. We in the Government recognise the contribution which they make and we will continue to give them our support’ (London, 23rd September 1987).

The NHS has about one million staff. Under this Government more resources have been concentrated on direct patient care. Consequently, there have been significant increases in the number of front-line staff. In 1987 there were:

- 48,400 hospital doctors and dentists, nearly 6,000 (14 per cent) more than in 1978.
- 514,000 nurses and midwives, nearly 70,000 (15 per cent) more than in 1978.
- 46,900 doctors and dentists working in General Practice, 7,900 (20 per cent) more than in 1978 (1986 figures).

Medical Staffing. A consultation document, *Hospital Medical Staffing: Achieving a Balance*, was published in July 1986. It suggested a package of measures designed to achieve fundamental improvements in hospital medical staffing by:

- increasing the number of consultant posts by 100 by 1989 at a cost of £8.6 million;

- enabling junior doctors to gain promotion more rapidly;
- introducing a new intermediate level grade for the minority of doctors who will not reach consultant status but who want a secure career in hospital medicine.

Announcing the last 55 new consultant posts, the then Health Minister, Mr Tony Newton, said:

‘The package aims to solve some of the long-standing problems in the hospital medical structure which have caused, among other things, career blockages for junior hospital doctors. By increasing the number of consultants and bringing the number of junior doctors into line with these, both the quality of patient care and career prospects for doctors should be improved’ (DHSS Press Release, 23rd March 1988).

Reducing Junior Doctors' Hours of Work: The 1982 Initiative. In 1982 the Government introduced a three-stage initiative to reduce hours:

- i. health authorities were asked to set up professional working parties in each District to review juniors' rota commitments, with the aim of reducing them, where resources and the needs of patients permitted, to a duty no more onerous on average than one night and one weekend in three;
- ii. regular rotas more onerous than one in two were prohibited (without the specific approval of the Secretary of State);
- iii. health authorities were asked to review the arrangements for providing cover, in order to minimise the occasions on which already hard-pressed doctors were asked to stand in for absent colleagues on a temporary basis.

As a result of these measures, the number of doctors in England on rotas more onerous than one in three is estimated to have been cut by some 30 per cent, from 5,000 to 3,500 between 1983 and 1985. (This represents a decrease in the proportion of doctors working such rotas from about 20 per cent to about 14 per cent).

Hours of duty/hours of work. As a result of these measures, the average number of hours on duty fell from 91.3 in 1976 to 85.7 in 1986. Independent surveys showed that actual working hours were, on average, 58.3 in 1981 and 57 in 1985.

Further Action. Despite this progress, a survey conducted in 1987 identified a significant number of juniors whose contracted duty hours exceeded 104 per week. Representatives of all the interested parties met to discuss the results of this survey, and as a result a letter was sent in June 1988 asking Districts to consider further how to eliminate regular rota commitments which require a junior doctor to be on duty on average more than one night and one weekend in three; particular attention was to be paid to those doctors first ‘on-call’ in hard-pressed posts.

On 5th January 1989 Ministers asked for progress reports from the Regional Health Authorities – their full reports are not required until October 1989. Mr David Mellor, Minister for Health, said: ‘If progress is to be made, as it must, it can only be by careful

consideration of the situation in each district, given the many local variations which affect rotas. This exercise must be given a real priority in every district' (Department of Health Press Release, 5th January 1989).

The Secretary of State for Health, Mr Kenneth Clarke, also met representatives of the British Medical Association to discuss the problem of junior doctors' hours. A further meeting will be held with the profession to discuss the progress shown by Regions' reports and to consider what further action may be required.

Doctors' and Nurses' Pay: Labour and Conservative Records Compared. Doctors and nurses suffered from Labour's cuts and high inflation. Between 1973 and 1978 General Practitioners saw their pay fall in value by 16 per cent, consultants by 25 per cent and house officers by 16 per cent. In contrast, following the 1988 pay awards, General Practitioners were 35 per cent better off than in 1978, consultants were 41 per cent better off and house officers were 33 per cent better off.

After the implementation of the Halsbury Award in 1974, the last Labour Government allowed nurses' pay to fall in four years out of five, so that by 1979 nurses' pay had been cut by 21 per cent in real terms. However, this Government has acted consistently to improve nurses' pay. In 1983 the Government gave nurses the independent Pay Review Body for which they had long campaigned. Nurses have gained considerably from it. Nurses' pay is now 45 per cent higher than under Labour even after inflation.

The 1988 Pay Award – which the Government funded in full, to a total of £941 million – provided average increases for nurses of no less than 17.9 per cent. As a result, nurses are better off than ever before – 15 per cent better off than after the Halsbury Award.

The 1988 Award took account of changes to the clinical grading structure, which are intended to provide higher rewards for nurses with extra skills and responsibilities. Consequently, a staff nurse on the maximum of the basic grade obtained an increase of around 7 per cent to £9,200 – around £2,280 (33 per cent) more in real terms than in 1979. The maximum for a staff nurse with extra skills and responsibilities increased by 24 per cent to £10,650 – around £3,690 (53 per cent) more in real terms since 1979. There were also larger increases for nurses in London: the maximum for a ward sister on an acute ward became £15,800 in inner London, compared with £13,925 for a nurse outside London, which is around £6,800 (76 per cent) more in real terms than in 1979.

- Nine out of ten staff midwives received increases of 24 per cent or more.
- Three out of four staff nurses had increases of £1,900; making them 50 per cent better off than when Labour left office.

The 1989 pay award will mean a further increase of 6.8 per cent in 1989–90 – maintaining nurses' pay at its highest level ever in real terms.

No Excuse for Industrial Action. An overwhelming majority of nurses and midwives acknowledge that this is the best pay award they have ever received. Regrettably, NUPE

and COHSE activists sought to manufacture a dispute and a small minority of nurses, in a few hospitals, took industrial action.

Such action was totally unjustified. All the unions agreed to the establishment of an appeals system for nurses dissatisfied about their grading – yet NUPE and COHSE tried to provoke industrial action even before appeals had been heard. And the new grading structure itself – with the clear implication that nurses would receive a wide variation of pay rises – was also agreed by the unions, after two years of negotiations.

The Secretary of State, Mr Clarke, refused to meet those unions who were trying to create disruptions. He did, however, meet representatives of the Royal College of Nursing which has forsworn industrial action. As a result of this meeting Mr Clarke agreed with the RCN a new ‘sifting’ procedure which would enable the strongest appeals against regrading to be accelerated and processed by general managers.

Responsible nurses have recognised the value of the award. The RCN's deputy general secretary, Gillian Sanford, for example, said:

‘The deal is a good one. It will deliver a record average increase for nurses, unprecedented levels of central government funding and for many, many thousands of nurses increases worth 20 to 30 per cent’ (Letter to *The Guardian*, 9th November 1988).

Education of Nurses. The Government has accepted the broad thrust of the ‘Project 2000’ proposals on nurse-education put forward by the UK Central Council for Nursing, Midwifery and Health Visiting. In particular the Government has accepted the proposals that:

- nurse training should in future consist of a common 18-month foundation programme plus a further 18 months spent in one of four specialist branch programmes – general nursing, children's nursing, nursing of mentally ill people or nursing of mentally handicapped people;
- trainees should have student status with non-means tested bursaries instead of salaries;
- nursing education should be more closely linked with further and higher education;
- the amount of time students spend on formal duty rosters should be substantially reduced although their training would remain practical and patient-oriented.

Hospital Building Programme. Planned spending on hospital building schemes in 1988–9 is £1,200 million, some 28 per cent more than in 1978–9 even after inflation. Under Labour capital spending was slashed – by 1979 it was down by nearly one-third.

As Mr Moore pointed out:

‘How can our doctors and nurses be expected to provide the highest quality treatment when all too often they are working in hospitals which were built in the early decades of

this century or even in the last century? This Government is putting that right with the biggest sustained hospital building programme in Health Service history. We are building where Labour failed to build. We are building a Health Service which is fit for the twenty-first century' (18th September 1987).

Since 1979 more than 300 major hospital building schemes, each costing at least £1 million, have been started and completed. Over 500 more schemes are in the pipeline, including 133 schemes which are currently under construction. All in all, the building programme is worth some £4 billion.

Value for Money. The Government has introduced general management in the NHS on the advice of the NHS management inquiry team under Sir Roy Griffiths in 1984. There is already clear evidence that the general managers who have been appointed are providing energetic and innovative leadership, with speedier and more incisive decision-making. Health authorities are continuing to improve efficiency; their cost improvement programmes have yielded savings worth £900 million up to 1988–9. The competitive tendering exercise alone has resulted in savings of more than £100 million.

The Government is concerned to produce further improvements in efficiency. Performance indicators, which were introduced by the Government in 1984, help managers to compare aspects of their services with other health authorities and hospitals. They show that there are significant variations in performance. For example, some Districts treat only 25 patients a year in each surgical bed while others manage 53. The average cost of in-patient treatment varies from £456 (Scarborough) to £1304 (Hampstead).

In addition a series of experiments are taking place as part of the Resource Management Initiative. This seeks to involve professional staff, particularly doctors and nurses, in the management of resources. It provides them with timely, relevant and accurate information on the costs of the operations they perform and the treatment they prescribe (see also p. 291).

3. PRIMARY HEALTH CARE SERVICES

Progress since 1979. As Mr Newton has pointed out:

'It is the acute hospital services ... which have been the main focus of political discussion and debate. Yet the primary health services are at the front line in the Health Service. For most people, most of the time, it is they and not the local hospital which is the point of contact with the NHS' (Conservative Medical Society, 23rd June 1987).

Since 1978–9 spending on the Family Practitioner Services has risen 43 per cent ahead of inflation. During this period there have been significant improvements in services. For example:

- there are now 29,800 family doctors, an increase of 18 per cent (4,500) since 1978 – compared with an increase of only 4 per cent under the last Labour Government between 1974 and 1978.
- the average list size per family doctor has fallen by 13 per cent compared with a fall of just 3 per cent under Labour.
- there are now 17,440 dentists, an increase of 27 per cent (3,700) since 1978.

Proposals for Reform. The Government's White Paper *Promoting Better Health* (Cm. 249) was published in November 1987. The main objectives which it set out were:

- to make the primary care services more responsive to the needs and wishes of the consumer and to raise the quality and quantity of the services available;
- to promote health and prevent illness;
- to improve value for money;
- to increase fair and open competition.

The proposals put forward in the White Paper to achieve these objectives included:

- the setting of targets for family doctors to achieve higher levels of vaccination, immunisation and cervical cytology screening;
- more emphasis on health promotion in general practice;
- a greater role in health education for pharmacists;
- regular health checks for particular groups, such as the under-5s and elderly people;
- a new contract for dentists which will encourage prevention;
- an extension of the primary care service to include chiropodists, physiotherapists and others;
- action to ensure that the skills of community nurses are better used.

Health and Medicines Act 1988. The Act implemented those parts of the Government's primary health care strategy which required legislation – and introduced other major changes by, for example, giving health authorities new powers to generate additional income for patient care.

The Act also removed the bar on charges for NHS dental examinations and sight tests. It is reasonable that those who can afford a charge should pay around £3 for a dental check-up and about £10 for a sight test. Almost two-fifths of the population will not have to pay these charges:

Dental Check-ups. Those currently exempt from charges for dental treatment (young people up to the age of 18, students under 19, pregnant women and nursing mothers, and those on low incomes (i.e. those in receipt of Family Credit or Income Support) will still not have to pay for a check-up. Another estimated 100,000 people just above the level of benefit entitlement will receive some help towards the cost of the charge. Altogether 21 million – or more than 38 per cent – of the population will be either totally exempt or pay a reduced charge.

Sight Tests. Children under 16, the blind and partially-sighted, students under 19, those on low incomes, glaucoma sufferers (and close relations) and diabetics referred by a doctor, will all be exempt. Together these groups represent over 20 million people – or almost 37 per cent of the population.

More Resources for Preventative Medicine. The charges paid by those who can afford to do so will raise about £140 million of the £600 million which the Government is adding to the primary health care budget over the next three years – an increase of 11 per cent above inflation. It will help to fund some of the developments outlined above.

Opponents of the charges have argued that they will deter people from visiting the dentist or optician. However:

- the charges are modest (about £3 twice a year for a dental check-up, £10 every two or three years for a sight test);
- those who might have been likely, on this argument, to have been deterred, the less well-off, are exempt;
- charges for dental treatment have increased every year since 1976, and the number of courses of treatment have also increased each year.

(For Labour's record on charges, see p. 297).

4. HEALTH PROMOTION

The Government strongly supports the strategy of the World Health Organisation published in 1980. This places greater emphasis on disease prevention and health promotion, on the importance of a healthy environment and on the need for educating people about healthy life styles.

Improvements in Health. The improvements in the health service in recent years have been accompanied by an overall improvement in the health of the nation. Although the causes of changes in mortality are complex – they include changes in the standard of living and health habits – the development of health care and the promotion of better health under this Government provide part of the explanation.

Perinatal mortality fell from 15·4 per 1,000 births in 1978 to 8·9 per 1,000 births in 1987. The death rate for all age groups also fell between 1978 and 1986 – for children aged under 1 it fell by 27·5 per cent, for those aged 1–4 by 35 per cent and for those aged 5–9 by 33 per cent. The death rate of adults aged 25–34 fell by 17·5 per cent, and of those aged 55–84 by nearly 10 per cent.

Changes in Standard Mortality Ratios 1979–86

Cause of Death	Age Group	Percentage Change 1978–86
Perinatal Deaths	up to 1	–38
Tuberculosis	5–64	–50

Changes in Standard Mortality Ratios 1979–86

Cause of Death	Age Group	Percentage Change 1978–86
Cervical Cancer	5–64	–7
Chronic Rheumatic Heart Disease	5–44	–76
Respiratory Diseases	1–14	–58

(Source: Department of Health)

Health Education. The Government's campaign to promote good health is now being pursued both within the NHS and more widely, following the decision to reconstitute the Health Education Council (HEC) as a Special Health Authority from 1st April 1987. As an integral part of the NHS, the new Health Education Authority is able to participate with other health authorities in planning policies and priorities, thereby ensuring that the needs of health education and promotion are properly recognised. There has been a substantial increase in the number of health education officers employed by Health Authorities from 250 in 1979 to more than 600 today.

Smoking. The Royal College of Physicians estimates that smoking accounts for not less than 100,000 deaths each year and leads to the loss of 50 million working days each year. The cost to the NHS is around £400 million a year.

Voluntary agreements with the tobacco industry on cigarette advertising and promotion and health warnings were concluded in 1971, 1977, 1980, 1982 and 1986. The current agreement runs until at least 31st October 1989 and commits the industry to freezing the amount it spends on poster advertising; to excluding cigarette advertising from cinemas and certain magazines; to using six new and stronger health warnings and increasing their size; and to establishing effective monitoring agreements.

Other measures taken by the Government include:

- a £2 million anti-smoking campaign by the Health Education Council during 1986–7;
- increased grants to Action on Smoking and Health (up from £59,000 in 1978–9 to £200,000 in 1987–8);
- voluntary agreements on sports sponsorship, on the reduction of tar in cigarettes and on research into the effects of smoking.

Since the first voluntary agreement was reached in 1971, the proportion of people who smoke cigarettes has fallen considerably (in 1972, 46 per cent of adults smoked; by 1978 it had fallen to 40 per cent; by 1986 it was down to 33 per cent). The rate of decline in Britain has been among the fastest in the world.

Coronary Heart Disease. This is the major cause of mortality in England and Wales, accounting for some 160,000 deaths each year. And some 25 million working days are lost each year through illness directly attributable to heart disease.

'Look After Your Heart' – the first major heart disease prevention campaign in England – was launched in April 1987 with the aim, in its initial stages, of raising public awareness of the major risk factors associated with coronary heart disease and how they might be avoided. It followed previous campaigns such as 'Look After Yourself' funded by the Health Education Council.

The campaign aims to bring together and give greater impact to the many local coronary heart disease programmes. Community activity has been stimulated and supported in 172 health authorities and 65 local authorities, with 'Look After Your Heart' community grants funding some 118 projects to the extent of £260,000.

The campaign has been notably successful in securing the active co-operation of industry and commerce. One way this has been done has been through a scheme of 'healthy living' contracts, in which employers and organisations undertake to support principles underlying the campaign by a series of practical innovations which can include, for example, providing no-smoking areas and healthy menus in public restaurants and works canteens, displaying and disseminating campaign material to staff and the public, and introducing 'Look After Yourself' courses in exercise, nutrition and stress management. During the first year some 75 companies, employing almost 2 million people, joined the campaign.

The Department of Health and the Health Education Authority are consulting widely about the future of the 'Look After Your Heart' programme. The results from the campaign's first tracking survey show that there has been a greater impact on socio-economic groups C2, D and E (the groups at which the campaign is primarily aimed) than other socio-economic groups, and that the already high levels of awareness and knowledge of coronary heart disease risk factors have increased appreciably.

Alcohol Misuse. In 1987–8 the Government gave grants to various voluntary bodies concerned with this problem, including £520,000 to Alcohol Concern, the national agency on alcohol misuse. In July 1987 the Government launched a new all-year campaign against drunken driving. On 18th September 1987 an interdepartmental ministerial group was set up to review and develop the Government's strategy to combat the misuse of alcohol. The HEA spends about £500,000 a year on the development of local education and the production of a model workplace policy for the NHS.

Drug Misuse. The Government has taken a number of measures to encourage both prevention and the improvement of treatment and rehabilitation.

Since 1985 about £9 million has been spent on national information campaigns against drug misuse, directed at young people. In 1987 the drug prevention campaign was run in tandem with the anti-injecting campaign to warn of the dangers of spreading the AIDS virus through sharing injecting equipment. It is mainly targeted on young people and has used television and radio commercials, youth press and hoarding advertisements. As Mrs Edwina Currie, then junior Health Minister, said: 'The drug prevention campaign seems

to have consolidated the negative feelings most young people have towards using illicit drugs' (Home Office seminar on drug misuse, 23rd June 1988).

A number of other measures are also being taken in the fight against drug misuse.

- Grant-aid, totalling £521,000 in 1987–8, was made available to voluntary bodies.
- £17 million is being made available between 1984 and 1990 under the central funding initiative for 188 local projects providing services for drug users.
- £6.5 million is being made available in 1988–9 to provide help to health authorities with the continued development of services for drug addicts.

Immunisation. This is the key to the prevention of much avoidable illness in children. Immunisation rates have improved since 1978 after falling during the previous five years. The introduction of a new combined measles, mumps and german measles vaccine (MMR) in October 1988 should help to ensure that at least 90 per cent of children aged 1–2 years are vaccinated.

Cervical Cancer Screening. The Government attaches a very high priority to adequate cervical cancer screening. All District Health Authorities were asked to have computerised call and recall systems in place by April 1988. The task of implementation was completed on time and involved the provision of 750 VDU terminals, an investment of £10 million and the computerisation of 35 million records.

The Government originally asked health authorities to include all women aged between 35 and 64. In February 1987 the age was extended to include all women in the 20–34 age groups as well.

Screening has helped to reduce the number of deaths from cervical cancer by 14 per cent in the last decade. The improvements which have now been made will ensure more systematic screening and should further reduce mortality from cervical cancer which causes about 2,000 deaths a year. The UK is one of the first countries in the world to implement such a nationwide programme.

Breast Cancer Screening. In July 1985 a Working Group was appointed under the Chairmanship of Sir Patrick Forrest to consider policy on breast cancer screening. On 25th February 1987 the Government published the Forrest Report and accepted its proposals. The intention is to introduce triennial screening for all women aged between 50 and 64.

Each of the 14 Regional Health Authorities was asked to have at least one centre set up by April 1988. In fact some 17 centres had already been announced by this date and the Government plans to have about 100 centres operating by April 1990. The Government expects to provide about £55 million nation-wide to set up and run the service. The programme also places this country well ahead of its partners in the European Community.

The programme is being confined to women aged between 50 and 64 because the evidence is not conclusive that present methods of screening are effective for younger women. Furthermore, the incidence of breast cancer in the 50–64 age group is seven times as high, and the death rate twelve times as high, as in the 30–34 age group.

AIDS. In the absence of medical defences, public health education is the main weapon in the fight to limit the spread of infection. The aim of the Government's campaign has been to raise and maintain public awareness about the disease, how infection is transmitted and how the risk of infection can be reduced. A national campaign costing £2.5 million began in March 1986; in the autumn of that year it was decided to expand the campaign and £20 million was allocated to it. The campaign has involved national press and television advertising; a general poster campaign at 1,500 sites throughout Britain; a campaign directed at young people, using magazines, radio and cinema; the distribution of a leaflet to all 23.5 million households in Britain; the publication of a booklet sent to all pharmacies for free distribution to members of the public; and the establishment of the National AIDS Helpline, a 24-hour, free confidential telephone service manned by trained advisers to help people worried about the disease and/or drugs. The service includes advisers from six ethnic minority communities and provides taped information about AIDS in the main Asian languages.

The Government has provided the Medical Research Council with an additional £14.5 million over three years for a programme of research aimed at developing a vaccine to prevent HIV infection and new anti-viral drugs to treat people already infected. Altogether the MRC plans to spend £31 million on this programme up to 1991–2.

A further grant of £3 million to the Medical Research Council for general AIDS research has been made. The Council's programme, which will complement research initiatives taken by pharmaceutical companies, is part of an international research effort, building on work already done, especially in the United States, and in turn contributing to the current international body of research information.

Surveillance. AIDS cases and positive results from tests for HIV are reported on a voluntary and confidential basis to the Communicable Disease Surveillance Centre. This information produces valuable data about the spread of HIV infection (HIV is the virus that causes AIDS.) However this data reveals relatively little about the prevalence of HIV infection in the general population, as opposed to specific high-risk groups.

An expert group, under the chairmanship of the Director of the Public Health Laboratory Service, examined ways in which surveillance could be improved. Following consultations on its report, the Secretary of State for Health, Mr Clarke, announced on 23rd November 1988 that he was inviting the Medical Research Council to bring forward within three months proposals for a programme of anonymous screening of blood samples – a course favoured by a substantial body of scientific opinion. Anonymous screening involves the testing, under conditions of complete anonymity, for HIV infection of blood from patients who have given it, voluntarily, for other tests, but who have not specifically consented to an HIV test. Mr Clarke said:

‘The Government sees no legal obstacle to such testing. From the layman's point of view, we also see no ethical objection to the testing for scientific purposes of blood samples taken properly in the first place for another purpose from a patient no longer identifiable’ (Press Release, 23rd November 1988).

About three-quarters of all cases of AIDS in Britain (by the end of 1988 there were 1,982) have been reported in London and South-East England, and a number of London hospitals have acquired expertise in treating AIDS patients. Consequently, the Government has allocated extra funding to the relevant health authorities to contribute towards the cost of developing an effective service without damaging other existing care and treatment programmes. An extra £22.5 million was allocated in 1987–8. In 1988–9 more than £58 million has been made available to RHAs for this purpose; in 1989–90, it will rise to £68 million. An additional £14 million will be available in 1989–90 to support local initiatives to prevent the spread of AIDS among particular target groups – homosexual and bisexual men, drug misusers, prostitutes, and people who attend STD clinics.

Total spending on AIDS in 1989–90 will amount to £130 million – twice as much as in 1988–9.

To complement statutory provision, a number of voluntary agencies provide care and support for those infected with HIV or who have AIDS, together with their carers. They also provide information and educational material for the general public. One central agency in this field is the Terrence Higgins Trust (named after the first person in Britain to die of AIDS) which received a Government grant of £300,000 for the year 1987–88. The London Lighthouse project has received grants of £600,000; the project provides counselling and educational services and has opened a hospice for AIDS sufferers. Other organisations making a valuable contribution by providing a range of material aimed at various groups and by providing personal advice by telephone include the Standing Conference on Drug Abuse (SCODA), the Haemophilia Society, and in Scotland the Scottish AIDS Monitor.

In addition, the National AIDS Trust, an independent charitable trust, has been set up with Government support to provide funding to voluntary bodies, co-ordinate and pool their activities, and encourage public support and fund-raising for AIDS work.

5. HUMAN FERTILISATION AND EMBRYOLOGY

In 1982, the Government set up a Committee of Inquiry into Human Fertilisation and Embryology. Its report, published in 1984, concluded that the practice of certain infertility treatments, which raised fundamental ethical questions, and research involving human embryos, should be permitted, but subject to statutory control by an independent body. The report also made wide-ranging recommendations about surrogacy, the storage and disposal of human embryos and gametes (i.e. eggs and/or sperm), the status of children born following gamete or embryo donation, and the development of infertility services generally.

Consultation on the Warnock Report revealed a diversity of strongly held views. However, there was agreement on certain matters. As a result, in 1985 the Government introduced the Surrogacy Arrangements Act to prohibit the operation of commercial surrogacy agencies.

In December 1986 a consultation document *Legislation on Human Infertility Services and Embryo Research* (Cm. 46) was published to allow for more detailed consultation. The consultation period ended in June 1987. A White Paper was published in November 1987, *Human Fertilisation and Embryology: A Framework for Legislation* (Cm. 259). The main points of the White Paper are as follows:

- An independent Statutory Licensing Authority should be established.
- Alternative draft clauses should be made available to Parliament to prohibit or permit embryo research.
- Certain areas of research such as cloning should be prohibited even if Parliament accepts research in general.
- Storage of human gametes (i.e. eggs and/or sperm) or embryos should only be permitted under licence from the SLA and subject to certain conditions regarding maximum storage times.
- The transfer of frozen gametes or embryos after a husband's death should only be possible where both partners had previously given their consent.
- A licence holder supplying a human embryo to, or receiving a human embryo from, another person who does not hold an appropriate licence should be made guilty of an offence unless he had authorisation from the SLA.
- Legislation should contain no provision for licensing non-commercial surrogacy services and should make it clear that any contract drawn up as part of a surrogacy arrangement will be unenforceable. However, the Government does not consider that it would necessarily be in the child's best interests to make all surrogacy a criminal activity.

The Government recognises the particular difficulties of framing legislation on these sensitive issues against a background of fast-moving medical and scientific development. It made time available for both Houses of Parliament to debate the White Paper early in 1988, and will consider the points made in those debates, as well as in the wider public debate, when translating the proposals made in the White Paper into a Bill.

6. PRIVATE HEALTH CARE

The Conservative Approach. The Government believes that people who have paid through tax and National Insurance contributions to support the NHS should be able to spend their money as freely on health care as on any other service. The private sector poses no threat to the NHS. On the contrary, a thriving private health sector strengthens the NHS by relieving some of the pressure on it and by providing an alternative way of developing good practice and improved forms of treatment.

Size of the Private Sector. The number of people covered by private medical insurance has almost doubled since the end of 1978 from 2.75 million to 5.25 million – 8 per cent of the UK population – by the end of 1985. There are about 8,600 beds in 200 private acute hospitals and 40,000 beds in some 1,600 private nursing homes. In addition there are about 3,000 private beds in NHS hospitals which earned the NHS nearly £50 million in England alone in 1986–7. The Health and Medicines Act gives health authorities greater flexibility in setting charges for private patients; up until now charges have only covered the cost of the services provided.

Public/Private Sector Co-operation. NHS patients have been cared for in private homes and hospitals under contracts with the NHS since the service began. And the NHS has been supplying services to the private sector for just as long. In 1986 there were 378 separate contractual arrangements by 121 District Health Authorities for patients receiving treatment with private institutions. Altogether the private sector treated 26,000 NHS in-patient cases and 65,000 NHS out-patients. For example, BUPA paid £1 million to instal a lithotripter, a machine for smashing kidney stones without the need for major surgery, in St. Thomas's Hospital in Lambeth. This is used to treat about 1,000 patients each year, of whom 75 per cent are from the NHS. NHS patients also represent half the 2,000 who annually use the whole body scanner in BUPA's London medical centre. In Barking, Brentwood and Havering Health Authority, private sector heart screening is taking place out of hours on NHS facilities and the Authority receives 20 per cent of the gross income.

The Government encourages health authorities to enter into contractual arrangements with private health care providers wherever this partnership provides a cost-effective way of providing NHS services. In 1987–8 some £1.4 million was used from the waiting list fund to finance 21 projects involving the private sector to treat an additional 2,695 waiting list cases.

The Government's proposals for reforming the Health Service will mean radical changes in the relationship between the NHS and the private sector.

(B) WORKING FOR PATIENTS: PROPOSALS FOR REFORM

1. BACKGROUND TO THE REVIEW

The NHS Review. The Conservative Government's policies, which have created a strong and growing economy, have made it possible to devote more resources to the NHS than ever before. As a result, many more patients have received the treatment they needed.

However, no matter how large the resources devoted to it, the NHS cannot be absolved from the requirement to spend the huge sums of taxpayers' money it receives in the most

efficient and effective way possible. Mr Clarke made this clear when he announced an enormous increase in funding for the health service for 1989–90:

‘No-one in the NHS should believe that the new funds can be used to avoid difficult decisions or to relax in the search for greater efficiency and cost improvement’ (*The Independent*, 2nd November 1989).

Yet no one could claim that at the moment the NHS *does* spend the taxpayers' money as efficiently as it could. There are wide variations between areas in the quality of care provided, the standard of facilities, and the cost to the taxpayer of providing treatment. For example, one District Health Authority (DHA) employs 10 ancillary staff per 1,000 in-patients, while another has 40; and the average length of stay in an acute hospital ranges from 3 days in one DHA to 11 in another. Waiting times also vary greatly: one elderly patient may have to wait for more than a year for a hip replacement, while another in a nearby District may be treated in a matter of weeks.

It must also be remembered that the very speed of medical advance means that – however much is paid in taxes for the NHS – resources can never keep up with the ability of the medical profession to provide new treatment. Again, therefore, it is vital that resources should be deployed as effectively as possible.

The White Paper: Working for Patients. The outcome of the Government's review of the NHS was published on 31st January 1989 in a White Paper, *Working for Patients* (Cm. 555).

Mr Clarke explained the purpose of the review to Parliament:

‘We need constantly to improve and strengthen the NHS so that it can provide ever better care to those who rely on it. At the moment there are wide variations in performance across the country. *We want to maintain the best of the Health Service, and bring the rest of it up to that very high standard*’ (*Hansard*, 31st January 1989, Col. 165 – emphasis added).

Mr Clarke went on to outline the two main themes of the Government's proposals:

‘All of our proposals share a common purpose – to make the Health Service a place where patients come first and where decisions are increasingly taken at a local level by those most directly involved in delivering and managing care’ (*ibid.*).

Putting Patients First. Conservatives believe that the needs of patients should come first. That is why, under the Government's proposals:

- there will be much more choice for patients (for example, of hospital and of GP);
- patients in hospitals will be able to expect a much higher standard of comfort and facilities, and, again, more choice;
- a number of proposals will help to cut waiting lists and waiting times;

- many more decisions will be taken at a local level, where those who provide care can respond most directly to patients' needs, and offer the services that patients actually want.

2. STRENGTHENING THE HEALTH SERVICE: THE GOVERNMENT'S PROPOSALS

The Proposals: Key Points

- Hospitals will be able to apply for a new self-governing status, and become NHS Hospital Trusts. *They will remain part of the NHS.*
- All NHS hospitals – including Hospital Trusts – will be free to offer their services outside their District, and to treat patients from the private sector.
- Decisions will be taken nearer to the level at which care is provided – to make local services more responsive to patients' needs. Management bodies will be streamlined.
- GPs' pay will be more closely related to the number of patients they attract (and patients will have more freedom to choose a GP); the larger GP practices will be able to manage their own budgets for hospital services.
- 100 additional new consultants will be appointed.
- The quality of care and value for money in the NHS will be more closely, and regularly, scrutinised.
- There will be a new tax relief for retired people who want to make private provision for their health care.

Funding the Hospital Service: Away from RAWP. The new principle that will determine where resources will be directed in the health service is that money should follow the patient, to where the care is best provided. This principle will be applied throughout the NHS:

- the complex – and controversial – RAWP (Resource Allocation Working Party) formula, which governs the distribution of resources to the Regions, will be replaced;
- the new system will be based on population, weighted for age and health, and the relative cost of providing services (e.g. higher costs in London will be taken into account);
- the money required to pay for patients' treatment will be able to move across administrative boundaries, so that those hospitals best able to meet patients' needs will receive the money to do so.

RAWP has been successful in ensuring a more equitable distribution of resources around the country, but it has proved slow to compensate regions which take on patients from other regions, and is not flexible enough to give more resources to those hospitals which treat more patients.

Regional Health Authorities will start to receive their funds on this new basis in 1990, and Districts in 1991. The London Regions will receive a three per cent supplement per head of population to reflect their additional costs.

Streamlining Management in the NHS. The NHS is one of the largest employers in Europe, with over a million employees, and a budget of £26 billion. It is vitally important that it is well-managed, for, in **Mr Clarke's** words, 'An NHS that is run better is an NHS that can care better' (*Hansard*, 31st January 1989, Col. 169).

The Government's reforms will abolish much wasteful bureaucracy, and management responsibility will be devolved to the local level. Ministers want all hospitals to have a greater say in running their own affairs. It is also unnecessary for Ministers to be involved in the day-to-day management of the NHS (at present, the Secretary of State chairs the NHS Management Board). The White Paper proposes:

- a new NHS Management Executive, chaired by the Chief Executive, which will be responsible for taking all operational decisions;
- an NHS Policy Board, chaired by the Secretary of State;
- a new role for health authorities, with a prime responsibility to ensure a comprehensive range of high quality services in their area.

Health authorities will, in future, have to choose the best combination of services for their area, and to finance them. To enable them to carry out this more complex task, health authorities will require greater management expertise than they have possessed hitherto. RHAs and DHAs will therefore be reconstituted, with 11 members, instead of 16–19 as at present; the 11 will consist of 5 executive (e.g. general manager and finance director) and 5 non-executive members, plus a non-executive Chairman. They will be appointed because of the personal skills they have to offer, and not as representatives of particular interest groups. Local authorities will lose their right to appoint members of DHAs. This does not mean that there will be no Conservative councillors on DHAs; but those who are members will be there because of the contribution they can make to effective management. The management of Family Practitioner Committees (FPCs) will also be streamlined, and they will be made accountable to RHAs.

Hospitals – Under New Management. All hospitals will be given a much greater say in running their own affairs. They will be paid for the work they do.

Since hospitals will be able to accept patients from any District, DHAs will be able to buy the best – and best value – services for their residents from hospitals anywhere, including Self-Governing Hospitals, and private sector hospitals.

Self-Governing Hospitals. Individual hospitals will be able to apply to run themselves entirely; the initiative to become self governing could come from the senior professionals, the managers, or a group such as the League of Friends. Self-Governing Hospitals:

- will be known as NHS Hospital Trusts;
- will be part of the NHS – run by NHS staff and providing a free service;
- will be able to determine staff pay and conditions locally;
- will be able to borrow within agreed limits;
- will earn their revenue from providing services to health authorities, and in some cases directly to GP practices.

The more successful NHS Hospital Trusts are, the larger their income will be. This incentive will ensure that they provide the services that patients want; and they will encourage other hospitals.

Labour's Lies. Labour has alleged that NHS Hospital Trusts will really be 'privatised'. This tired scare story is spread by Labour simply in order to hide the pitiful inadequacy of their own record on the NHS, and total lack of new policies. In fact, far from 'opting out' of the NHS, the new Self-Governing Hospitals:

- will continue to receive the bulk of their revenue from publicly-funded sources;
- will be required to maintain *all* core services necessary for their area including accident and emergency cover, where there is no suitable alternative local provision;
- will not turn away any patient who requires urgent treatment.

Attaining Self-Governing Status. The major acute hospitals, of which there are more than 320, are initially the most likely to become NHS Hospital Trusts. They each have annual budgets of between £10 million and £50 million, and at least 250 beds. The first of them will attain the new status in April 1991; a number, including Guy's in London and the Freeman in Newcastle, have already been reported to be interested in doing so.

Reducing Waiting Times. All of the Government's reforms, by encouraging efficiency and allowing money to follow the patient, will help to reduce waiting times further. These reforms, however, will be introduced over the next two or three years, following legislation. Action is being taken to secure progress as quickly as possible by:

- appointing 100 additional consultants – over and above the two per cent annual expansion already planned;
- ensuring that existing consultants' contracts are more effectively managed, and that the best use is made of their time;
- introducing tax relief for retired people aged over 60 who take out private medical insurance. This will reduce pressure on the NHS from the section of the population most likely to need non-emergency surgery;
- giving GPs modern information systems so that they can identify where a patient would receive suitable treatment most quickly;
- spending another £40 million through the Waiting List Initiative in 1989–90.

The increase in the numbers of consultants will also help to reduce the long hours worked by junior doctors.

Better Care. More attention should be paid to the needs of patients while they are in a hospital. Times have changed considerably since the early days of the NHS, which was founded at a time when people were used to queueing even for basic commodities. People now have higher expectations. Conservatives therefore believe that patients have a right to expect that every hospital:

- will provide reliable individual appointment times;
- should have attractive waiting areas with modern facilities for parents and children;
- should provide sensitive counselling, rapid notification of the results of tests, and clear explanations to patients;
- should offer patients the chance to pay for optional extras, such as a wider choice of meals, a telephone, TV or single room.

The best hospitals already offer patients these services.

A Better Service from the Family Doctor. In order to ensure that patients come first throughout the NHS, *Working for Patients* proposes changes in the way GP practices are run. At the moment GPs have no incentive to offer their patients a choice – of hospitals, say – because, until now, referring a patient to a hospital in a neighbouring District could have created a financial difficulty for that District. Furthermore, GPs have no incentive to offer a better service to their patients because their pay is only partially linked to the size of their list.

Working for Patients proposes that:

- GPs' pay should be more closely linked to the size of their list of registered patients; the proportion of pay arising out of capitation fees will rise from 46 per cent to at least 60 per cent;
- patients will find it easier to change their GP than at present.

GP Budgets. Practices which have more than 11,000 patients – twice the national average – will be able to apply to manage their own NHS budget, with which to buy hospital services for their patients. They would also have more control over expenditure on such items as staff, premises and drugs – enabling them to plan a better service for their patients. Any savings they make will be ploughed back into the practice for the benefit of patients.

GPs in these practices will play the role of 'brokers' between hospital and patient: this will provide an additional spur to hospitals to offer a choice of high quality services to patients.

GPs' budgets will be weighted according to the profile of patients on their registered list. An elderly patient will entitle the practice to considerably greater resources than a healthy teen-ager, so there will be no incentive – as some have alleged – for a doctor to turn away elderly or infirm patients on the grounds that they are 'too expensive'. In fact, they will

want to *attract* more patients, because the more patients they have, the higher will be their pay.

GP Drug Budgets. It is vital that all patients should continue to receive the medicines they need. But some doctors seriously over-prescribe drugs: the drugs bill is twice as high in some areas, per head of population, than in other similar areas. Drugs account for the largest element of expenditure in the Family Practitioner Service; in 1987–8 they cost £1.9 billion – more than the cost of paying the GPs who wrote the prescriptions.

In order to reduce over-subscribing, which wastes resources that could be put to better use in the health service and can damage health, GPs will receive ‘indicative’ budgets for drugs from their FPC. They will give them a guideline on prescribing; if they exceed the notional limit, they will have to explain why. But no one will interfere with the doctor's right to prescribe what he thinks necessary for a particular patient.

Quality Control. All these reforms will help to sustain and improve the quality of care in the Health Service. In order to help patients receive consistently high quality care, both consultants and GPs will be encouraged to take part in what is known as ‘medical audit’ – a review of medical work by other professionals to ensure that one of the main aims of the Government's reforms is met: that standards everywhere in the NHS should match the very highest.

Labour: Opposed to Modernisation. Labour's reaction to the White Paper has been entirely predictable. They have accused the Government of wanting to ‘privatise’ the NHS. This is completely unfounded. *Working for Patients* emphasises that the original principle on which the NHS was founded – that it should be available to all, regardless of income, and financed mainly out of general taxation – will continue to guide the Health Service into the 1990s.

In fact, Labour is simply opposed to any change in the NHS. Instead of wanting a more modern and efficient health service, which is better able to give patients the care they need, Labour prefers to keep the NHS in thrall to the health unions.

No Proposals. Labour has no serious proposals of its own, except to increase the NHS bureaucracy still further by appointing a NHS Inspectorate (*Questions of Health*, November 1988). Its only other idea is to spend more money on the NHS – even though the last Labour Government *cut* spending on the NHS. In fact the Conservative Government has already announced spending plans for next year which exceed Labour's proposals.

(C) DEVELOPING THE SOCIAL SERVICES

1. COMMUNITY CARE

Most people who are ill or frail would prefer to stay in or near their own homes, rather than live in a hospital or institution. That is why the Government is concerned to increase care in the community.

- In 1983 District Health Authorities were given the power to make continuing annual payments to local authorities and voluntary organisations for people moving into community care.
- In 1983 the maximum period for joint finance, which the NHS can use to meet the cost of transfers into community care until savings are realised on the hospital side, was increased from 7 to 13 years.
- In 1984 health authorities were given the power to use joint finance payments for the education and housing of disabled people.
- 28 pilot projects were provided with central funding for 3 year periods between 1984 and 1988. In the period of central funding over 900 long-stay patients were expected to be transferred from hospitals to community care. The Personal Social Services Research Unit at Kent University was commissioned to make an assessment of the programme and to make the results widely available.

A significant expansion in the availability of social services has taken place. And spending has increased by nearly 40 per cent more than inflation since 1979 – up from £1 billion to £3.2 billion.

	Thousands		Percentage Increase
	1978	1987	
Places in homes for			
– mentally ill	5.6	9.2	63
– mentally handicapped	15.2	26.5	75
– elderly and younger physically handicapped	179.5	254.3*	42
Home Helps	46.7	59.7*	28
Field Social Workers	22.2	27.1*	22

*Provisional

(Source: Department of Health)

There has also been a significant improvement in community health services. For example, a majority of District Health Authorities now provide a full range of services for mentally ill people including day hospitals (which have increased from 315 in 1978 to 480 in 1985) and community psychiatric nurses (up 133 per cent since 1979).

Residential Care of the Elderly. Over the last ten years health authorities, local authorities and the Department of Social Security have been increasingly involved in the support of private residential and nursing homes for the elderly. There are now many more retired people (over a million more than in 1979), and many of them require specialised care which would not be available to them in their own homes.

The Government has always made extra money available, on top of their basic pension, to those elderly people who lack the resources to pay for their own support in either residential care or a nursing home. In December 1980, there were 13,000 claimants of special supplementary benefit allowances, costing the taxpayer £18 million; by May 1988, there were no fewer than 147,000 claimants of special Income Support rates, at a total cost of £878 million (*The Sunday Telegraph*, 29th January 1989).

This money is designed, not to fund residential and nursing homes, but to enable less well-off residents to live in them. The Government expects these homes to charge reasonable fees in return for a high level of care; income support will only be paid to residents in homes registered with the appropriate local authority. The Government cannot make an open-ended commitment to underwrite completely the costs of these homes.

Income Support Rates in 1989–90. Currently two out of three people claiming benefit in homes are able to meet their fees in full from their income and benefit; top-up income from relatives is ignored in the calculation of residents' benefit entitlement. In 1989–90:

- The maximum standard Income Support rate applying to residential care homes will be £140 (£163 in London), up 25 per cent since April 1985 when the current, national system was first introduced.
- The maximum standard rate in respect of nursing homes will be £190 (£213 in London), up by £50 in four years.

There are extra allowances for the disabled, the mentally handicapped and those suffering from a terminal illness, plus scope for personal allowances. **Mr Scott** has explained the new Income Support rates:

‘We have been able to respond to the evidence of increased fees which homes are having to charge by raising significantly the maximum amounts payable under Income Support towards those fees. And we have managed to secure these improvements against a background of steadily rising numbers of people in homes claiming benefit. As before, we have increased the limits selectively so as to direct help to where the need is greatest’ (Department of Social Security Press Release, 27th October 1988).

The Griffiths Report. Following reports from the Audit Commission and the National Audit Office in December 1986 the Government asked Sir Roy Griffiths to undertake a review of community care. His report *Community Care: An Agenda for Action* was published in March 1988 and is now being considered by the Government. It recommended a number of steps to improve the system.

- A Minister of State should clearly be seen by the public as responsible for community care.
- Local social services authorities should, within the resources available, assess the needs of their locality and develop plans, in consultation with health authorities,

- and voluntary and private sector bodies. They should act increasingly as organisers and purchasers of services rather than as direct providers.
- Local authorities should also assess the need for residential care and, if they judge it appropriate, meet the costs of caring for people who cannot pay for themselves, in residential (including nursing) homes, above a basic level of support.
 - The payment of grants to social services authorities should be conditional on the development of adequate management systems, and should ensure that objectives are in line with Government policy.

2. PROTECTING CHILDREN

The Children Bill reforms and consolidates the existing law on child care and family services. It incorporates most of the proposals set out in the Government's 1987 White Paper *The Law on Child Care and Family Services* (Cm. 62), and gives effect to changes which the Cleveland cases in early 1987 had shown to be necessary. In particular, the Bill will:

- reform the law on child care proceedings and emergency protection of children, enabling local authorities to help children in need more effectively;
- provide a better balance between the rights of parents and children;
- strengthen the courts' powers to protect children from abuse or neglect;
- replace the present, fragmented private law with a single regulatory regime (no fewer than seven Acts of Parliament will be replaced).

The Bill's most important provisions improve the law relating to care and supervision orders, and the emergency protection of children – two of the most difficult areas, where the right balance must be struck between the welfare of the child, the rights of parents and the well-being of the family as a whole. The Bill provides for:

- *care orders*, placing the child in the care of a local authority;
- *supervision orders*, placing the child under the supervision of a local authority or a probation officer.

Clearly defined grounds for the grant of an order are set out on the face of the Bill. The child must have suffered significant harm or be likely to suffer it; and the harm (or likelihood of it) must be attributable to the standard of care given to the child, or the child's being beyond parental control. 'Harm' is defined to include sexual abuse, and the impairment of health or development.

In effect, only a local authority social services department or the NSPCC will be able to bring care proceedings; LEAs and the police will no longer be able to do so. Wherever possible parents will be allowed reasonable access to children in care.

Emergency Protection of Children. One of the most important changes will be the replacement of the existing 28-day place of safety order with a new 8-day emergency protection order (EPO). A local authority social worker or NSPCC officer will usually be

the applicant for an EPO; the court may make the order only if it is satisfied that the child is likely to suffer significant harm if it is not taken into care. The courts will have power to grant one seven-day extension of an EPO. Parents will have the right to challenge an EPO after 72 hours, if they were not present when the initial application was made. Previously, parents could not challenge a place of safety order until it had expired (after 28 days).

3. THE VOLUNTARY EFFORT

The statutory and voluntary sectors have worked together on a number of projects. This has often proved to be the best means of directing resources to those who need them most. In recognition of the role of the voluntary sector, voluntary organisations have had three seats on every joint consultative committee of health and social services since 1984.

The Government has introduced a range of measures to encourage charitable giving (see p. 69) – which have helped to double the amount donated to charities.

Government grants to charities have increased by 75 per cent ahead of inflation since 1979 and now exceed £250 million a year. For example, grants under section 64 of the Health Services and Public Health Act 1968 include some £220,000 for MENCAP and £75,000 for the Crossroads Care Attendant Schemes.

(D) OPPOSITION POLICIES

1. LABOUR PARTY

A Rash of Promises. Labour's 1987 election Manifesto on health contained a series of promises to give everybody everything they wanted – at once. It had no regard to the cost of these promises, or their practicality. They promised:

- to cut hospital waiting-lists (already then lower than when Labour left office);
- to repair and build hospitals (despite the fact that they *cut* the hospital building programme *by a third*);
- 'to begin to reduce [prescription charges] with the purpose of securing their eventual abolition' (*Britain Will Win*, p. 8);
- 'to ensure that nurses get proper and justified pay increases' (*ibid.*) – though the last Labour Government *cut* nurses' real pay 4 years out of 5, and by 20 per cent overall;
- to end competitive tendering in the NHS, phase out pay beds and remove public subsidies to private health – an expensive and vindictive attack on efficiency and choice in the health service.

Labour's Election Campaign. Labour Spokesmen seemed uncertain how much their proposals would cost, though Mr Kinnock evidently believed that a three per cent real

terms increase would suffice (Press Conference, 4th June 1987). Other Labour politicians kept away from the figures and ran scare stories instead – some of them quite risible. Mr Michael Meacher, then Labour Spokesman on Social Services, for example, said:

‘I can reveal that ... under a Tory third term, doctors would be instructed to prioritise patients according to their economic value’ (ibid.).

Mr Hattersley also made totally baseless charges:

‘who can doubt that another term of Thatcherism would produce the privatisation of Britain's hospitals?’ (Oxford, 16th April 1987).

Mr Frank Dobson predicted:

‘We'll see a health divide, in which pensioners who landed on the Normandy beaches on D-Day would have to give up their places in the queue for a hip replacement to a merchant banker – always presuming the banker didn't go private’ (Press Release, 9th May 1987).

Admission of Failure. The Labour Chairman of the Select Committee on Social Services, Mr Frank Field, has castigated his Party for its wholly negative approach:

‘Mrs Thatcher has managed to turn the tables on the Labour Party over the NHS. Labour cried ‘crisis’ once too often. ... To have reacted without any alternative has allowed the Prime Minister to begin determining the next stage of the debate ... [Labour has] almost no proposals’ (Quoted in *The Times*, 12th February 1988).

Still No New Proposals. Labour still has no clear policies on the health service, except for a proposal to increase NHS bureaucracy by establishing a NHS Inspectorate (*Questions of Health*, November 1988). They cannot make up their minds on how much should be spent on the NHS. The estimates range from the modest £200 million demanded by Harriet Harman, Labour's health spokesman (*Hansard*, 26th November 1987, Col. 469), to Mr John Smith's £1.3 billion (*Hansard*, 14th January 1988, Col. 476), to Mr Kinnock's £2 billion (*Hansard*, 23rd February 1988, Col. 144). Such pledges count for nothing in any event: when Labour was last in office they cut NHS spending by 3 per cent in real terms in 1976–7. The Government has provided an extra £2.2 billion for 1989–90.

Labour and Charges. Nothing reveals Labour's intellectual poverty and hypocrisy as clearly as their policy on charges. Labour's Policy Review – *Social Justice and Economic Efficiency* – reiterates the Manifesto commitment to abolish charges: ‘Charges have no place in health care’ (p. 30). The abolition of charges would, however, immediately use up about half of Mr John Smith's £1.3 billion ‘promise’ to the NHS. Yet the abolition of charges would do nothing to help those in need – such as pensioners, children (under 16), and people who receive Income Support or Family Credit, who do not have to pay for prescriptions anyway. And Labour seem to forget that:

- Their manifestos in February and October 1974 promised to abolish prescription charges – but they were not only retained but *increased*.
- The only occasion on which Labour did abolish charges (in 1965), they had to reintroduce them 3 years later – at a 25 per cent higher rate.
- It was a Labour Government which first took the power to levy prescription charges (in 1949).

Worthless Promises. Even if it had the political will, Labour would not be able to provide for the expansion of the health service. Its economic policies would destroy the wealth without which expansion cannot take place. They might well have cut the NHS again – just as they did in the 1970s.

2. THE SLD

‘The Alliance for Health’. In its policy document of that name, published in April 1987, the ‘Alliance’ promised to increase spending on the NHS by 2 per cent a year in real terms – an unimpressive pledge when set against real annual growth of almost 3 per cent under the Conservatives. Like Labour, however, the ‘Alliance’ were always prone to plucking figures out of the air as a substitute for a properly thought-out health policy. Their desperation to ‘outbid’ the Government reached an absurd climax in their election Manifesto, which stated:

‘We will back the National Health Service by increasing its budget so that by year five it will be £1 billion per annum higher than that planned by the Conservatives’ (p. 9).

More Red Tape – Less Help for Patients. In the unlikely event that their economic policies had allowed them to fulfil that pledge, any extra resources would have been swallowed up by the increased bureaucracy which the ‘Alliance’ favoured. It was more concerned about bringing health authorities ‘under democratic control’ (ibid., p. 10) than in improving direct patient care.

Private Medicine. While the ‘Alliance’ Manifesto paid lip-service to ‘the right of individuals to use their own resources to obtain private medical care’, in reality even the two parties were split on this issue. Dr David Owen, for example, retained the view he had held as a Labour health minister in the 1970s – implacable opposition to private health. However, in 1985 an SDP policy document opposed banning the private sector and Mr Charles Kennedy, then SDP Health Spokesman, said: ‘I think it would be quite wrong for the next government of this country to fritter away precious legislative time on attacking, for example, the private health sector’ (Press Release, 22nd October 1986).

Recent Policy Confusions. The SLD has proved reluctant to commit itself to any new policies. While they are satisfied, therefore, with *Taking the Temperature* (a ‘consultative document’ issued in October 1988), they shy away from prescribing any medicine. Indeed the SLD Health Spokesman, **Mr Ronnie Fearn MP**, is on record as believing that the NHS ‘does not need a review into methods of funding or indeed into its basic organisation’ (*Priorities for the National Health Service*, July 1988). *Taking the*

Temperature does however propose to punish some industries: it proposes ‘selective charges on industries whose products lead to ill-health and a greater usage of health services’ – a bureaucratic nightmare in the making. The document equivocates over the private sector; health care, it says, ‘should not *necessarily* be delivered exclusively by a monopolistic public sector’ (*The Independent*, 25th October 1988 – emphasis added).

Funding the NHS. The SLD is, as ever, all in favour of more spending. Mr Ronnie Fearn called (July 1988) for £1.9 billion more to be followed by annual increases of 2 per cent. Conservative economic policies have, of course, enabled the Government to make an even greater commitment – a 4.5 per cent increase in real terms for 1989–90. Mr Fearn also demanded £100 million for AIDS care – 30 per cent less than the Government is set to provide next year.

3. THE SDP

Heading in the Right Direction. Dr David Owen's party, like its leader, has shed some of its left-wing views on the health service. At its party conference in September 1988, the SDP rejected a proposal to phase out pay beds from the NHS. And **Dr Owen** himself has turned away from his former opposition to the idea: he has espoused the ‘internal market’ (*The Daily Telegraph*, 13th June 1988), and called for NHS patients to be allowed to receive treatment in a private hospital when it can be done more cheaply than in the NHS.

Of course, the SDP cannot resist the temptation to promise increased resources to the NHS – in their case, an extra 1 to 1.5 per cent of GDP (an extra £4 to £6 billion). The Government has already raised the proportion of GDP spent on the NHS to 5.4 per cent from the 4.8 per cent spent on it by the Labour Government of which Dr Owen was a member.

11. SOCIAL SECURITY

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(A) THE CONSERVATIVE COMMITMENT

The social security budget is the largest item of Government spending; in 1989–90 it will account for over 30 per cent of all public spending. Planned spending for 1989–90 is £51 billion – some £3.4 billion more than in 1988–9.

Social Security Expenditure 1978–89

Total Spending Percentage of Public Expenditure

1978–9	£16.4 billion	25
1983–4	£35.2 billion	30
1988–9	£47.6 billion	31

(Source: *Hansard*, 19th December 1988, WA, Col. 119)

Ten years of Conservative government have brought substantial improvements to our welfare system.

- Total spending on social security has risen over 30 per cent ahead of inflation.
- Social security benefits have been reformed to focus more help on those in greatest need; to encourage people to be more independent; and to make the benefits system easier to understand and administer.
- Britain's spending on all programmes for elderly people is the third highest in the European Community as a proportion of national income.
- Pensioners' average total incomes increased by 23 per cent ahead of inflation between 1979 and 1986.
- A number of measures have been taken to encourage the spread of occupational and personal pensions and to give people more choice in providing for their retirement.
- Spending on benefits for long-term sick and disabled people has risen by 90 per cent over and above inflation.

Indeed, pensions and all the main benefits have risen substantially since 1978.

Pensions and other main Benefits 1978–89 (weekly rates)

	Nov. 1978	Nov. 1979	Nov. 1983	April 1987*	April 1989
	£	£	£	£	£
<i>Retirement & Widow's Pension</i>					
Single	19.50	23.30	34.05	39.50	43.60
Married Couple	31.20	37.30	54.50	63.25	69.80
<i>Invalidity Pension</i>					

Pensions and other main Benefits 1978–89 (weekly rates)

	Nov. 1978	Nov. 1979	Nov. 1983	April 1987*	April 1989
	£	£	£	£	£
Single	19·50	23·30	32·60	39·50	43·60
Married Couple	31·20	37·30	52·15	63·25	69·80
<i>Unemployment Benefit</i>					
Single	15·75	18·50	27·05	31·45	34·70
Married Couple	25·50	29·29	43·75	50·85	56·10

*Social Security Uprating changed to April in order to coincide with tax changes.

(Source: Department of Social Security)

(B) THE SOCIAL SECURITY REFORMS

1. THE AIMS

The social security reforms, implemented in April 1988, gave effect to the Social Security Act 1986 (for details, see *The Campaign Guide 1987*, pp. 298–303). The reforms fulfil three major objectives.

Simplifying the System. The new benefits are much easier to understand than the old ones – which makes it easier for people to find out what benefits they can claim. And the system is now simpler for Social Security staff to administer so there should be fewer mistakes and a faster service. Already the processing of Income Support claims has been reduced to five days on average; it often took eleven days to deal with the old supplementary benefits.

Targeting on the Needy. The new system focuses more help on those with the greatest needs, particularly low-income families and disabled people.

Helping People to be Independent. The reforms have ended the absurd position in which someone who received a pay rise could actually lose more in tax and benefits than he would gain from his increase. Far fewer families now find that they are better off on the dole than they would be in a job.

2. INCOME SUPPORT

How it Works. Income Support (together with the Social Fund) has replaced the old Supplementary Benefits scheme. The structure of weekly benefits has been simplified into a system of personal allowances which depend on age and marital status, topped up by premiums for groups with special needs, such as pensioners, families, single parents

and sick and disabled people. There is no longer any need for claimants to answer personal questions about their laundry and dietary needs, for example.

Spending allocated for Income Support in 1988–9 was £420 million more than would have been available under the old Supplementary Benefit system. The sum included an extra £100 million for families, and an extra £60 million for people on the new Disability Premium. £200 million was also provided for transitional protection to ensure that no one's weekly cash income fell as a result of the switch to Income Support.

Eligibility. People are eligible for Income Support even if they have up to £6,000 in savings – double the limit under the old Supplementary Benefit system. This represents a substantial improvement for people on low incomes who have only relatively modest amounts of savings.

3. THE SOCIAL FUND

The Social Fund provides loans to people on Income Support. It replaces the single payments made under the Supplementary Benefit scheme. The loans are made to people who have difficulty budgeting for essential items, such as a cooker. These loans are interest free; regular deductions are made from weekly benefit to recover the loan. The amount of this deduction can be varied to suit a claimant's other weekly outgoings.

The Government believes that it is fair to expect people on Income Support to budget for one-off items, like other people whose incomes may only be a little higher. A discretionary scheme such as the Social Fund can meet exceptional needs more flexibly than the more inflexible single payments scheme. Single payments were in any case very unfairly distributed between Supplementary Benefit claimants: in one year, *80 per cent of the money went to less than one in ten of the claimants*. The cost of the old system also got out of control: it increased *fivefold* (after taking account of inflation) during the five years to 1985–6. Over the same period, the number of Supplementary Benefit claimants increased by just three-fifths. It had, therefore, become much more than a system of exceptional payments.

A number of other loans and grants are available from the Social Fund:

- A grant of £85 towards maternity expenses is paid to people receiving Income Support and Family Credit.
- People on either Income Support, Family Credit or Housing Benefit, who are meeting the costs of a funeral, are also eligible for a grant to cover all reasonable expenditure in full (where possible, the grants will be recovered from the deceased person's estate). These new grants replaced grants of £25 and £30 respectively which used to go to everyone regardless of need. They therefore provide more realistic help for those most in need instead of a derisory amount for everyone.
- It is also possible for people to obtain a loan to help them to cope with a financial crisis resulting from emergencies such as fires or floods. It is not necessary for

- people to be on benefit in order to be eligible for help, but their own resources must be insufficient to meet the immediate need.
- Community Care Grants are payable to people on Income Support. These are provided to help someone moving from a long-stay hospital to set up a home in the community, for example, or to enable a frail pensioner to move nearer to relatives.

Appeals Procedure. If an applicant for a maternity or funeral payment is dissatisfied with the decision reached in his case, he has the same right of appeal to a tribunal as other social security claimants. As regards other parts of the Fund, there is a special system of review. First, decisions are reviewed in the local office by senior staff. If the matter is not resolved, a further review conducted by an inspector independent of the local benefit office takes place. The inspector is accountable for his work to an independent Social Fund Commissioner.

4. FAMILY CREDIT*

see also p. 310.

Family Credit – which is paid to working families on low incomes – represents a major improvement on the old Family Income Supplement (FIS). More generous rates and easier entitlement mean that *twice* as many families are entitled to Family Credit as used to receive FIS. Family Credit has an annual budget of over £400 million, compared with less than £200 million for FIS and associated free school meals and milk.

School Meals. Unlike those previously in receipt of FIS, families on Family Credit are not entitled to free school meals. Instead, the Family Credit children's rate includes £2.55 a week in extra cash help (slightly more than the average daily charge for school meals). This helps place these families on the same basis as other working families.

Cash help for school meals is better because it goes to every child automatically; under the old FIS, about 70 per cent of children failed to take up the free school meals to which they were entitled. Only 210,000 children in FIS families actually took free meals, plus a further 340,000 under LEA discretionary schemes. The Government estimates that cash help through Family Credit will reach over 650,000 children of school age.

The Unemployment and Poverty Traps. Family Credit is expressly designed to avoid the worst effects of both these traps (the *unemployment trap* makes people better off when out of work; the *poverty trap* occurs when people lose benefit as their income increases and they have to pay extra tax and NI contributions). Like Housing Benefit, Family Credit is now calculated on net, not gross, income; this means that benefit is tapered away far more gradually than under FIS. This makes Family Credit a major incentive for heads of families to seek and find employment.

Low Paid Single Parents. The Family Credit rules make special provision for single parents. The amount of One-Parent Benefit available from April 1989 (£5.20) is ignored in calculating the amount of Family Credit payable.

5. HOUSING BENEFIT

Under the old system, expenditure on Housing Benefit increased from £1.24 billion in 1978–9 to £5.2 billion in 1987–8. What is more, the benefit was going to no fewer than 7 million households; this meant that two out of every three households were helping to pay the rent and/or rates of the third.

The changes to Housing Benefit made in April 1988 were designed to place the Benefit on a more sensible basis by limiting its scope while giving *more* help to many poorer claimants particularly those paying unavoidably high rents; and full protection against future rent rises for those on Income Support.

Following the changes, Housing Benefit now goes to around one million fewer people. The new system is simpler for people to understand and for local authorities to run. It is also fairer and provides better incentives to work.

Those with incomes above the Income Support levels now have their Housing Benefit fixed by reference to two new ‘tapers’: 20 per cent for rates and 65 per cent for rents, compared with 13 per cent and 33 per cent respectively under the old system. These tapers ensure that as income rises so the level of Housing Benefit is progressively reduced. For each extra £1 of income over the limit for receiving Housing Benefit in full (the ‘applicable amount’) 65 pence is deducted from the rent rebate element of Housing Benefit and 20 pence from the rate rebate element. However, the new tapers are applied to net, instead of gross, income. This means that for someone paying tax and National Insurance, the actual effect of the rates taper remains much the same as before. The rent taper, on the other hand, is somewhat steeper – a change which reflects the Government’s aim of reducing the level of income at which people cease to be entitled to Housing Benefit.

Targeting Help. Nobody who has more than £8,000 in savings can now receive Housing Benefit. As far as benefits designed for those in need are concerned, it is reasonable to expect people to use their own money before turning for help to taxpayers many of whom have no savings and only modest incomes. Savings of less than £3,000 are now ignored when calculating Housing Benefit; this gives more help to people with relatively small amounts of savings (under the old system, income from savings, however small, was taken into account when calculating benefit). Between £3,000 and £8,000, the benefit is tapered off by assuming that each extra £250 of savings provides £1 a week in income.

Helping to Make Local Government Accountable. The final major feature of the new system is that everyone now has to pay at least 20 per cent of their rates – the principal aim being to increase the accountability of local government. People receiving Income Support are compensated through their benefit rates for the average amount which people

are expected to pay towards their rates (eventually their Community Charge). In 1989–90, this compensation will be: £1·15 a week for individuals under 25; £1·30 a week for individuals over 25; and £2·30 a week for couples.

(C) ELDERLY PEOPLE AND PENSIONS

1. HIGHER INCOMES

As Mr John Moore, Secretary of State for Social Security, has said:

‘The traditional picture of old age as a time of financial difficulty is fast breaking down. It is still a reality for some but with real earnings rising and inflation well below levels during the late 1970s, those in work are able to put more aside for their retirement. The general improvement in living standards, and the phenomenal expansion of share and home ownership we have seen in recent years, have by no means been confined to the working population’ (Speech to the ‘Age Concern’ Summer Conference, 26th July 1988).

In 1986, pensioners' average total net income was £90 a week, an increase of 23 per cent ahead of inflation since 1979. This increase was twice that gained by the population as a whole, and five times greater than the increase under the last Labour Government.

Protecting Pensioners from Inflation. Pensioners have been major beneficiaries of the Government's anti-inflation policy. Under the last Labour Government prices rose by 110 per cent, with inflation averaging over 15 per cent a year. By contrast, this Government has kept inflation in single figures for seven years. As a result the value of investments and fixed incomes, such as occupational pensions, has been more secure.

More Savings. On average, one in every seven pounds of pensioners' incomes now comes from savings. Their income from savings increased by 64 per cent ahead of inflation between 1979 and 1986. This contrasts sharply with the serious erosion of pensioners' savings brought about by the last Labour Government's inflationary policies. Between 1974 and 1979, pensioners' incomes from savings actually *fell* by 16 per cent in real terms.

The income which pensioners draw from occupational pensions is particularly important; on average, one in every five pounds of pensioners' incomes now comes from this source. In the seven years to 1986 this income increased on average by 57 per cent ahead of inflation. By contrast, income from occupational pensions increased by a meagre 13 per cent when Labour was last in office.

This Government has taken a number of measures to encourage the spread of occupational and personal pensions to enable more people to live comfortably and independently when they retire (see pp. 306–7).

2. MORE HELP FROM THE GOVERNMENT

The Basic State Pension. This Government has kept its pledge to maintain the value of the basic state pension. In 1989–90 single pensioners will receive £43·60 a week compared with £19·50 a week when the Government took office. Couples will receive £69·80 a week compared with £31·20 a week in 1979. In November 1988, Mr Moore gave a categorical pledge to the House of Commons: ‘We will not means test the basic State Pension’ (*Hansard*, 24th November 1988, Col. 245).

The state retirement pension is intended to provide a basic income. If pensioners do not receive sufficient extra income for their needs from other sources, such as savings, they are entitled to other benefits.

Extent of the Extra Help. Overall Government spending on benefits and pensions for elderly people increased by 24 per cent ahead of inflation between 1978–9 and 1988–9. This includes provision for one million extra pensioners.

The major increase in resources available for social security has only been possible because of the success of the Government's economic policies. That success meant that, in the period 1979–86 alone pensioners' average income from state benefits increased by 19 per cent ahead of inflation, compared with an increase of just 12 per cent under the last Labour Government. Spending on all programmes for elderly people in Britain is the third highest in the European Community as a proportion of GDP.

Helping the Most Needy. On 24th November 1988, Mr Moore announced extra help for older and poorer pensioners under the terms of the Income Support scheme. From October 1989 there will be new premiums for pensioners aged 75 and over, for pensioners aged 80 and over, and for disabled pensioners. On top of the increases already planned for April 1989, there will be an extra £2·50 a week for the single pensioners' premiums and an extra £3·50 for couples. In all, 2·6 million pensioners will be better off – half of them benefiting directly from the revised premiums and the other half from the more generous ‘applicable amounts’ in the Housing Benefit Scheme. By 1990–1 this extra help for pensioners will amount to an additional £200 million a year.

Revised Income Support Levels for Pensioners

	£ per week					
	Age 60–74		Age 75–79		Age 80 plus or Disabled	
	Single	Couple	Single	Couple	Single	Couple
Apr. 1988	44·05	67·70	44·05	67·70	46·45	70·05
Apr. 1989	46·10	71·85	46·10	71·85	48·60	74·30
Oct. 1989	46·10	71·85	48·60	75·35	51·10	77·80

(Source: Department of Social Security)

Housing Benefit. Pensioners are fully entitled to claim this assistance for rent and rates costs (see Section B).

Overall, about half of those pensioners who received the old Supplementary Benefit and/or Housing Benefit gained or were unaffected by the social security reforms. Those who did lose were generally those who are relatively better off (i.e. with savings in excess of £8,000).

Exceptionally Cold Weather Payments. In order to help target resources where they are most needed, the Government has extended the scope of its assistance to pensioners (and families) on Income Support in times of severely cold weather.

The old heating additions – worth £417 million in 1987–8 – were built into the new Income Support structure; families and pensioners directly benefit by virtue of their special Income Support premiums. Cold Weather Payments cater for *exceptional* heating costs when the temperature plunges below 0°C for any consecutive seven day period. Eligibility has been linked to the new Income Support scheme, so every pensioner on Income Support will qualify for the payment which remains at £5 per claimant per relevant week. Once a successful claim is made, the local DSS Office will automatically make additional £5 payments in respect of further periods of severely cold weather.

3. ENCOURAGING PRIVATE PENSION PROVISION

Conservatives believe that people should be encouraged to make provision for themselves when they are able to do so. Through the Social Security Acts 1985 and 1986 (see *The Campaign Guide 1987*, pp. 299–300) the Government has encouraged the spread of occupational and personal pensions, building on the policies which have helped extend ownership far more widely.

Occupational Pensions. These schemes currently include only half the work-force (some 11 million people). The 1986 Act aims to encourage the extension of these schemes to people in the remaining half of the work-force.

It is now possible to set up ‘money purchase’ schemes which grow according to the performance of the investment made with the contributions. Such pensions are available in addition to those schemes which guarantee a pension based on the employee's salary. As long as they undertake to put a certain level of contribution into the scheme, employers will still be able to contract out of the State Earnings Related Pensions Scheme (SERPS).

A special financial incentive is also being provided for new contracted-out schemes for a period of up to five years. An extra rebate is now paid into the scheme equal to 2 per cent of earnings.

In addition people who change jobs after two years – rather than five years as now – will have their pension rights safeguarded. Every member of an occupational scheme now also has the right to add to it, up to the limit for tax relief.

Personal Pensions. Nearly every employee who pays National Insurance contributions can now opt for a personal pension as an alternative to participation in SERPS or to an occupational scheme. The value of a personal pension will depend on the investment and growth of the contributions made to it.

An individual's personal pension is owned by him, and he has the right to full and regular information about the way his investment is performing. When he retires he will use the fund to purchase an annuity – a regular pension income – from an insurance company. Such annuities have to make provision for pensions at half rate for widows and widowers.

The difference between the full National Insurance contributions and the lower rate for people not in SERPS is paid as a rebate directly into the personal pension scheme. Furthermore, for people who had not been in an employer's scheme for more than two years, the Government is adding (until 1992–3) the same 2 per cent special financial incentive provided for new occupational schemes. Thus an individual with an annual salary of £7,800 is eligible for at least £490 towards his personal pension scheme in 1988–9 (this includes the National Insurance rebate, the 2 per cent financial incentive and tax relief). By the end of February 1989 over 300,000 new personal pension plans had been set up.

Equality. The Social Security Bill, now before Parliament, includes provisions to implement the European Community Directive designed to secure equal treatment for men and women in occupational pension schemes.

The Directive seeks to ensure that members of one sex are not treated less favourably than members of the other sex as regards the conditions of access to schemes and the benefits ultimately received. Where such unfavourable treatment exists – a different qualifying age for men and women, for example – the Bill provides for it to be overridden and for the more favourable treatment to be accorded to the other sex.

(D) DISABLED PEOPLE*

The benefit figures given here indicate the amounts which will be paid after April 1989.

1. THE CONSERVATIVE RECORD

Total expenditure on benefits for the long-term sick and disabled people in 1988–9 amounted to some £7.3 billion pounds.

Spending on the long-term sick and disabled 1978–89

	Cash £bn.	Constant 88–9 Prices – £1 bn.	Percentage Increase in real terms
1978–9	1.8	3.8	
1988–9	7.3	7.3	90

(Source: Department of Social Security)

Mobility Allowance is paid to some 530,000 people at the rate of £24.40 a week compared with a rate of £10 a week in 1979. Total spending on the benefit has increased by about six times in real terms and it has been made non-taxable. During 1989, legislation will be introduced to raise the upper age limit from 75 to 80 (this is an interim measure pending a full review).

Severe Disablement Allowance is paid to some 265,000 people at the rate of £26.20 a week. It was introduced in 1984 to replace the non-contributory invalidity pension. This did away with the greatly resented ‘household duties’ test.

Invalid Care Allowance is paid to some 100,000 people at the rate of £26.20 a week compared with a rate of £11.70 in 1979. It has been extended twice – to non-relatives in 1981 and to 70,000 married women in 1984. The level of earnings at which benefit entitlement is affected has doubled.

Attendance Allowance is paid to over 700,000 people. The higher rate for those who need constant attendance is paid at the rate of £34.90 a week, compared with £15.60 a week in 1979. The lower rate for those who need care either during the day or the night is paid at the rate of £23.30 a week compared with £10.40 a week in 1979.

Invalidity Benefit is paid to around 1.1 million people at the rate of £43.60 a week, compared with £19.50 in 1979. The invalidity trap which denied the long-term rate to 55,000 sick and disabled people under the old Supplementary Benefit scheme was abolished in 1983.

Estimated Average Number Receiving the Main Disability Benefits at any One Time

	Thousands		Per Cent Increase
	1978–9	1988–9	
Attendance Allowance	265	760	187
Non-contributory invalidity pensions (replaced by Severe Disablement Allowance in 1984)	150	265	77
Mobility Allowance	95	530	458
Invalidity Benefit	600	1,130	88

Estimated Average Number Receiving the Main Disability Benefits at any One Time

	Thousands		Per Cent Increase
	1978–9	1988–9	
Invalid Care Allowance	6	100	1,567

(Source: Department of Social Security)

The 1988 Social Security Reforms. Several major improvements for disabled people have been introduced. The Disability Premium, which goes to around 270,000 people on Income Support, adds £13·70 for a single person and £19·50 for a couple to the personal allowances. Around 7,000 people are eligible to receive the Severe Disability Premium of £26·20 in addition to the Disability Premium. This compares with 4,500 people who used to receive domestic assistance additions averaging £6·35 a week under the old Supplementary Benefit scheme.

Disabled people are able to claim these benefits – all part of the Income Support structure – more swiftly than assistance under the old Supplementary Benefit Scheme. Those receiving a qualifying disability benefit – Attendance Allowance, Mobility Allowance, Severe Disablement Allowance or Invalidity Benefit – are eligible at once; and those incapable of work are entitled to claim them after six months rather than after a year.

The first £15 of earnings is disregarded for those receiving a Disability Premium. Mobility Allowance and Attendance Allowance are also ignored when calculating entitlement to Income Support.

The Government, in conjunction with the Disability Income Group, has set up the Independent Living Fund which provides grants to help very severely disabled people to continue to live independently in their own homes. It is through the Fund that assistance is now given – in a much more flexible form – to meet the individual needs of the small group of people who, under the old Supplementary Benefit scheme, would have been eligible for large amounts of domestic assistance additions.

Improving Living Standards. After meeting their housing costs, one-third of sick and disabled people were on incomes below half average earnings in 1981. By 1985 this figure had fallen to one-fifth.

2. HELPING DISABLED PEOPLE LEAD FULLER LIVES

The Government has an impressive record of practical measures to help disabled people:

- *The Disabled Persons (Services, Consultation and Representation) Act 1986* aims to improve the co-ordination of services for disabled people. It gives them a right

- to appoint a representative to act on their behalf and introduces new procedures for the assessment of their needs.
- *Employment.* A Code of Good Practice was introduced in 1984. In 1987, 83,600 disabled people were placed in work by the Manpower Services Commission and over 17,000 people entered sheltered employment.
 - *Access to Public Buildings.* New building regulations introduced in 1985 require provision for access by disabled people to certain kinds of new accommodation.
 - *Support to Voluntary Organisations.* The Department of Health awards some £4 million each year to disability organisations.
 - *The Disablement Services Authority* was formed on 1st July 1987 to run and improve the artificial limb and appliance service and to plan its integration into the mainstream of the NHS on 1st April 1991.

When the Surveys on the Disabled, now being carried out by the Office of Population Censuses and Surveys, are fully complete, the Government will be able to find ways of targeting existing benefits more efficiently in order to provide additional assistance if needed. The first Report, published on the 28th September 1988, revealed that some 6 million British adults suffer from one or more disability. The second Report, published on the 15th November 1988, discussed the financial consequences of disability. The final Reports will be published during the first half of 1989.

(E) SUPPORT FOR THE FAMILY

1. HOW THE REFORMS HAVE HELPED LOW-INCOME FAMILIES

The Government has acted consistently to improve benefits for low-income families. In particular they were major beneficiaries of the social security reforms introduced in 1988.

As a result of the reforms £200 million extra net was provided for low-income families after taking account of housing costs. Altogether two out of three families on Income Support, Family Credit and/or Housing Benefit have either gained, or were left no worse off as a result of the reforms. One in four of these families gained £5 a week or more.

The Income Support levels for 1989–90 include a Family Premium of £6·50, plus additions for children which range from £11·75 to £27·40, depending on age. Single parents also receive a Single Parent Premium of £3·90. In addition, a Disabled Child's Premium of £6·50 is paid for each child who is blind or who is receiving Attendance Allowance or Mobility Allowance; such payments are added to the personal allowances.

After two years of unemployment all couples are allowed to have £15 of part-time earnings disregarded for benefit purposes, giving greater incentive for a long-term unemployed couple to regain contact with the world of work. Single parents are allowed the £15 disregard immediately.

The reforms helped to place families whose breadwinner was unemployed on the same basis as other low-income families providing them with greater help in their weekly Income Support payments rather than a series of single payments. This makes them more self-reliant and is fairer to others on low-incomes. The value of the single payments system was in any case overstated: only one in ten families on Supplementary Benefit received more than one single payment while one in five received none at all.

Low-income families whose breadwinner works for more than 24 hours a week, are entitled to Family Credit. This represents a considerable improvement on the old Family Income Supplement. Nearly two-thirds of those receiving Family Credit gained from the reforms after taking account of inflation and housing costs, including:

- 58 per cent (110,000) of low-paid families with one child of whom 60,000 gained £5 a week or more;
- 64 per cent (140,000) of low-paid families with 2 children of whom 80,000 gained £5 a week or more;
- 70 per cent (70,000) of low-paid families with three children of whom 50,000 gained £5 a week or more.

In the Social Security uprating statement of October 1988, Mr Moore announced further assistance of £200 million in all to low-income families with children. The child allowances in both Income Support and Family Credit were increased across the board by 50p for each child. This rise, coming on top of the increase of the allowances in line with inflation, will cost £70 million in 1989–90.

Family Credit now extends well up the income scale; a couple on £9,300 a year with two children aged 12 and 14 are able to draw this benefit. The winter of 1988–9 saw an extensive publicity campaign designed to improve take-up of this benefit.

2. CHILD BENEFIT AND LOW-INCOME FAMILIES

By targeting this extra £200 million on lower-income families, the Government will ensure that 3 million children are better off. An increase in Child Benefit would not have helped these families at all; every penny they gained in Child Benefit, they would have lost from their income-related benefits. An increase in a universal benefit like Child Benefit means that everyone gains, including the wealthiest families. As Mr Moore has said: 'That would ... be perverse targeting in the extreme' (*Hansard*, 27th October 1988, Col. 456).

Child Benefit (£7.25 per child per week) will however continue to account for half the £8 billion worth of help given to families with children, and will continue to be paid directly to the mother.

Families Receiving Child Benefit in 1988
Gross Income Numbers in thousands Per cent

Families Receiving Child Benefit in 1988

Gross Income	Numbers in thousands	Per cent
Under £5,000	560	8.3
£5,000 to £10,000	1,770	26.2
£10,000 to £15,000	1,830	27.1
£15,000 to £20,000	1,220	18.1
£20,000 to £25,000	650	9.7
£25,000 to £50,000	640	9.4
Above £50,000	80	1.2

(Source: Department of Social Security)

3. THE EXTENT OF THE COMMITMENT

Thanks to increased spending under this Government, Britain's financial provision for families is now one of the most generous in Europe. Under the last Labour Government support for the family fell by 7 per cent in real terms; since 1979 it has risen by 27.3 per cent in real terms. As a result, a two-parent family with one child under two receives more help in Britain than in any other EC Member State. We rank third in the level of support provided for a two-parent family with two children under six.

(F) POVERTY

Definition. It is virtually impossible to establish a satisfactory definition of poverty. This is because poverty can be measured in a number of ways, each of which provides a different picture of the number of people living in poverty. Poverty can, for example, be measured against highly subjective patterns of 'standard' needs or wants. Alternatively, it is possible to set an arbitrary poverty threshold. The Child Poverty Action Group (CPAG) claims that all people whose incomes are no more than 40 per cent above the old Supplementary Benefit rates should be deemed to be living in poverty. A group set up under the auspices of the European Social Charter proposed a similarly broad definition with a 'decency threshold' of 68 per cent of average wages. Using the CPAG measure of poverty the Low Pay Unit has argued that some 15.4 million people – more than one in four of the population – are living in poverty or on its margins.

According to such relative measures, the number of people living in poverty will actually *rise* when social security benefits are raised or when average wages increase. Perversely, *increases* in spending on benefits and in average wages thus *accentuate* the problems of poverty. For these reasons this Government – like many of its predecessors – does not accept any one definition of poverty. In particular, it does not accept the arbitrary definition based on social security benefits used by pressure groups including the CPAG. As Mr Peter Lloyd, Parliamentary Under-Secretary of State for Social Security, has said:

‘To use the supplementary benefit or income support levels is clearly not tenable. That would mean that when the Government raise benefit levels, there would be more poor people’ (*Hansard*, 19th January 1989, Col. 586).

Helping the Needy. Conservative policies have helped raise the standard of living of those at the bottom of the earnings scale:

- i. The creation of new jobs on a large scale is, of course, the most effective way of tackling the low incomes of those without work. The success of the Government's economic strategy has eaten remorselessly into the jobless total, reducing unemployment by well over 1 million since July 1986. Over the last five years the strong growth performance of the UK economy has led to the creation of over 2 million jobs – more than any other European country. Moreover, growing prosperity throughout the country has helped lift living standards for virtually all families to record levels.
- ii. The strength of the economy has enabled the Government to fund an increase of over 30 per cent in real terms in social security spending. In 1989–90 spending on the Government's social security programme will be a record £51 billion, equivalent to nearly one third of *all* public spending. Under the Conservatives more help than ever is being targeted towards those in greatest need, particularly the disabled, families and pensioners on low incomes. As a result of the Government's social security reforms the worst effects of the unemployment and poverty traps have now been eliminated. The Family Credit system, for instance, ensures that practically no parent is better off on the dole than in work. Crucially, Family Credit continues to provide help as a worker begins to move up the income scale. Mr Moore has outlined the importance of this kind of assistance:

‘Climbing the ladders to independence frees people to use their talents and their skills. Time after time, in recent years we have seen people rise to challenges and achieve things they never thought they could ... These are the rewards of welfare policies that work; more people getting more out of life and through their enterprise putting more back in’ (Conservative Party Conference, Brighton, 12th October 1988).

Growing Incomes. Both Conservative economic and social security policies have produced substantial improvements in living standards, for *all* sections of the population. *Households Below Average Income*, published in May 1988 by the Government Statistical Service, shows that:

- *After* housing costs were met, the real incomes of the lowest *tenth* of income distribution rose by 8.4 per cent between 1981 and 1985. Incomes for those in the lowest fifth rose by 6.7 per cent over the same period – for the *total* population, the rise was 4.8 per cent.
- In 1981, 19 per cent of pensioners had living standards below half average earnings; by 1985, this proportion had fallen dramatically to 7 per cent.

- In 1981, there were 2.5 million children in households below half average incomes; four years later, this figure had dropped to 2.2 million.

The Report showed how it is wrong to describe those receiving income-related benefits as all being in 'poverty'. Around half were in households *above* the lowest fifth of income distribution. This clearly demonstrates how benefits have helped raise people out of poverty.

Taxation. The Government's tax reform programme has also helped to raise take-home pay and incentives to work for those on low pay. 1.7 million people at the bottom of the earnings scale have ceased to pay Income Tax altogether as a result of large increases in personal allowances. The basic rate of Income Tax, paid by all 25 million taxpayers, has been cut by a quarter, to 25p, its lowest level since the early 1930s. And the National Insurance Contributions (NICs) system has also been reformed to reduce the cost to employers of taking on workers at the lower end of the earnings scale and to increase the take-home pay of those in lower-paid work (see p. 56).

(G) OTHER ISSUES

1. COMPUTERISATION

The Social Security Computerisation Programme is the biggest civil computerisation project ever undertaken outside the USA. The aims of the programme are improved efficiency, better service to the public and better jobs for those who administer the system. About £1,200 million will have been invested in the programme by 1997. It is already producing savings in administrative costs, and net savings will rise to about £150 million per annum by 1995. On the 3rd November 1988, Mr Moore opened the Washington Computer Centre in Tyne and Wear. This centre will process all 11 million pension payments in Britain.

2. BOARD AND LODGING PAYMENTS

In October 1988, Mr Nicholas Scott, Minister for Social Security and the Disabled, announced a postponement of the proposal to give people in some institutions the same help as other householders needing assistance with the cost of rents. It had been proposed that those in residential care homes, nursing homes and hostels should be entitled to claim Housing Benefit to cover housing costs only, plus Income Support for the cost of other necessities such as food. These changes will *not* now take place in April 1989 as had been planned; more time is needed to examine fully the effects of such changes on the finances of hostels. Instead, there will be increased allowances, within the Income Support system, for help with personal expenses while the special board and lodging payments remain.

People in ordinary board and lodging accommodation will however switch to the new system of Housing Benefit plus Income Support after April 1989; special board and lodging payments will no longer apply in their cases. Young unemployed boarders under the age of 25 will not have to move after two, four or eight weeks as they do under current regulations if they wish to claim Income Support.

3. STATUTORY SICK PAY AND MATERNITY PAY

A new Statutory Sick Pay Scheme was introduced in April 1983 and extended in April 1986. Employees now receive a statutory minimum income from their employers for the first 28 weeks of sickness.

The new scheme proved so successful that in April 1987 its underlying principle was extended to the new Statutory Maternity Pay. This is now paid for up to 18 weeks by employers direct to employees who qualify. It replaces Maternity Pay paid by employers and administered by the Department of Employment and the Maternity Allowance paid by the DSS. This means that there is now much better financial provision for pregnant working women. It is important that an income replacement benefit is available to those women so that they do not work too long into their pregnancies, with possible danger to their babies' health. The new arrangements also provide women with greater choice about when to give up work without affecting their overall entitlement.

4. BENEFIT FOR 16 AND 17 YEAR-OLDS

Before 1979 there was no national programme for the training of young people. This Government has now built up the Youth Training Scheme to the point where every 16 and 17 year-old who wants one is *guaranteed* a place of quality training.

The Government's financial commitment to youth training now amounts to over £1 billion a year. Over 100,000 employers participate, demonstrating their commitment to producing a highly skilled work-force to meet the demands of today's jobs market.

In addition, there is, of course, a wide range of other opportunities available to school-leavers. In these circumstances there could be no possible justification for continuing to allow young people to leave school and go straight on to benefit. Therefore, from September 1988, entitlement to Income Support was withdrawn from people under 18 who deliberately choose to remain unemployed – a change clearly foreshadowed in the 1987 Conservative Manifesto.

Child Benefit and child dependency additions (for parents on Income Support and Family Credit) are now available for a longer period. For those who leave school in the summer, Child Benefit has been extended for up to 4 months, and for Christmas and Easter leavers for up to 3 months. This will allow time for young people to find the right job or YTS place.

Those who register for a YTS place receive a YTS Bridging Allowance from the Department of Employment to help them through the period between the ending of Child Benefit and admission to the YTS place.

The YTS Allowance is significantly higher than the benefit that used to be available. Thus young people have every incentive – including financial – to avoid unemployment.

Young people who are not required to be available for work as a condition of receiving Income Support will continue to be eligible, as now, without any time limit on their entitlement. This group includes single parents; severely disabled people and the long-term sick; blind people; those in receipt of a training allowance from the Government; those caring for elderly or infirm parents; and couples with children.

A second group is able to qualify for benefit for a limited period on condition that they are looking for a job or a YTS place. This group includes those who have no parents; those who have good reason for living away from home, including those who have recently been in local authority care and those who would risk physical or sexual abuse if they lived at home; and married couples.

Individuals who do not come within any of the exemption groups will only receive Income Support if the Secretary of State is satisfied that failure to receive it would leave the young person in unavoidably severe hardship.

5. STUDENTS

The Government's White Paper setting out plans for top-up loans for students (see p. 343) also proposes that students should no longer be entitled to benefit.

The Government announced in 1985 that students would be taken out of the social security system in due course. There is no good reason why students in receipt of generous state assistance should also be entitled to other benefits which are intended to relieve poverty among those unable to find work or incapable of working.

The White Paper therefore proposes that, with effect from the academic year 1990–1, students' general eligibility for benefit (for Housing Benefit, Income Support and Unemployment Benefit, for example) will be discontinued. However, disabled students, single parents and their dependents will remain eligible for these benefits.

The estimated average level of social security benefits which could be claimed by students in 1990–1 (if they were still eligible) is £150 – whereas the top-up loan facility will be worth £420. However, students who would be particularly hard hit by loss of benefits may be eligible for assistance from new Access Funds. These discretionary bursaries, to be administered by college authorities, will be granted to students in special financial need: a total of £15 million will be available per year.

6. UNEMPLOYMENT BENEFIT AND THE NEW SOCIAL SECURITY BILL

The Social Security Bill, now before Parliament, will ensure that a person will have to be 'actively seeking work' in order to be entitled to unemployment benefit.

The Current Position. As unemployment benefit legislation now stands, claimants are merely required to be available for work. It is expected that they should draw their availability to the attention of potential employers, and they are also questioned from time to time to establish that they are genuinely available. In July 1985, the all-party Public Accounts Committee commented: 'We are concerned about the weakness of the formal test of availability for work and welcome the DHSS' decision to consider whether more effective tests are practicable' (30th Report, HC 434 Session 1984–5, p. VII, para. 11).

The New System. In order to fill the vacancies the economy is now creating and to encourage people to be more self-supporting, claimants will have to demonstrate that they are genuinely seeking work. If a claimant cannot convince the employment service of this, then the latter will have the power to debar that claimant from Unemployment Benefit or Income Support. Furthermore, claimants will no longer be able to turn down work (after a set period of unemployment) on the grounds that it is not their usual occupation or it would fail to bring them their accustomed rate of pay.

The Bill will make three other significant changes to existing social security legislation:

- i. The Treasury Supplement to the National Insurance Fund will be scrapped. The Supplement has been progressively reduced during the 1980s and is no longer needed since the Fund can be entirely financed by NI contributions.
- ii. 'Non-custodial' parents (i.e. one divorced or separated from a partner, who has day-to-day responsibility for looking after children) will be made liable to maintain a child for whom an Income Support allowance is currently paid (because of continuing full-time education) until the child's 19th birthday. The Government anticipates this change could result in 10,000 'non-custodial' parents taking direct responsibility for their children's welfare.
- iii. From 1990, no person in receipt of compensation for illness or injury from an insurance company or similar source will receive 'double recovery' by getting state benefit as well. For example, if, £5,000 compensation is agreed or awarded and the injured person has already had £1,000 in state benefits for his injury, he will be paid £4,000 and the other £1,000 will be paid to the DSS. This procedure is likely to save some £55 million a year.

7. FRAUD

Stopping the Cheats. Until 1980–1, the success of the drive against benefit fraud was assessed on the basis of the number of prosecutions brought against individuals. There

was no regular assessment of the actual savings made. But since 1981, the Government has stressed that the prime measure of achievement should be financial rather than legal. The number of staff devoted to anti-fraud work has been doubled to over 3,000. There can be no clearer indication of the importance the Government places on this aspect of the DSS' work, for, as Mr Scott has commented: 'There is a substantial amount of conscious, deliberate fraud in social security. This is not glamorous or even excusable. It is theft. People who defraud social security are stealing [from] the old, the poor and the sick. We are not going to let them get away with it' (Press Release, 6th January 1989).

Results. In 1988–9 the Government expects to recover £250 million – £10 million more than the target and £150 million more than five years earlier. This sum, however, is equivalent to only one-eighth of the £2 billion the Inland Revenue raised by its efforts to curb tax evasion in 1987–8.

(H) OPPOSITION POLICIES

1. THE LABOUR PARTY

Promising the Earth. Labour's 1987 Election Manifesto, *Britain will Win*, proposed massive increases in spending on social security. The Manifesto promised that a Labour Government would 'immediately increase the single pension by £5 a week and the pension for a married couple by £8' (p. 4)*

These lavish promises contrast sharply with the record of the last Labour Government which cheated Britain's pensioners (see *The Campaign Guide 1987*, p. 291).

. These commitments alone were costed by the Chief Secretary to the Treasury at £13·8 billion. The Labour Party also undertook to 'increase Child Benefit by £3 per week for all children, [and] raise the allowance to the first child by £7·36' (ibid.). These pledges were costed at £3·48 billion. Implementation of them would have meant that money would have gone to *all* families regardless of other incomes. That promise of largesse came from a Party which, when last in Government presided over a 7 per cent reduction in total financial support for families.

In addition, Labour promised to increase the value of death and maternity grants at a total estimated cost of £180 million. They also promised to 'extend the long-term Supplementary Benefit rate to the long-term unemployed' (*Britain Will Win*, p.4) – which was costed by the Chief Secretary to the Treasury at some £570 million.

Labour also said that, as a priority, they would 'start to phase in a new disability income scheme' (ibid.) and that they were committed to 'the introduction of a statutory national minimum wage' (ibid.). They would certainly have added several billion pounds to Labour's already lavish spending programme.

Creating New Burdens. The Labour Party also irresponsibly committed itself to ‘restore the State Earnings Related Pension Scheme’ (ibid.). If SERPS had not been reformed by this Government it would have cost £25 billion by 2033 – an intolerable burden on the taxpayer. Labour's proposals to phase out standing charges for fuel bills would have entailed customers as a whole paying an extra £1.1 billion in unit charges and a quarter of that figure, even if exemptions were confined to elderly people. This idea would have cost other low-income groups dear.

Attacking Pension Funds. Labour's plans included proposals which would have prevented pension funds from managing their investments for the benefit of their members. In particular they would have been forced to reduce their overseas investments. The judgement of the State would have been substituted for the judgement of professional fund managers – or the interests of pensioners.

Yet More Promises of Extra Spending. Labour's 1988 policy document *Social Justice and Economic Efficiency* contains more expensive commitments. It states: ‘we should attempt to deliver a level of benefit that enables the family not merely to survive but to participate in society’ (p. 20). That clearly implies substantial extra spending. Importance is attached to ‘improving Child Benefit’ (pp. 18–19) even though money directed through Income Support and Family Credit does far more to help those on the lowest incomes (see pp. 303 & 310). In January 1989, Mr Robin Cook, Labour's Social Services Spokesman, moved a motion calling on the Government to raise Child Benefit in line with other benefits (*Hansard*, 18th January 1989, Col. 351) – something which the last Labour Government never accepted as a general principle.

More Evidence of Hostility to Private Pensions. The review poses a direct threat to this Government's efforts to persuade people to take responsibility for their own retirement. It proposes to force private pension schemes to ‘match the commitment of our social insurance pension to provide an adequate earnings-related pension protected against inflation’ (*Social Justice and Economic Efficiency*, p. 20). It is difficult to see how private pension schemes could provide that kind of definite commitment, dependent as they are on market fluctuations. This Labour proposal would thus discourage the spread of pension schemes while reinforcing people's dependency on the State during retirement.

Reversing the Social Security Reforms. The 1988 policy review team promised another major upheaval in the social security system in order to undo some of the most important of this Government's reforms. The new Social Fund would be abolished – a proposal that would expose the social security system to the kind of abuse it suffered before 1988 (see p. 302). The review also contained a commitment to remove what it described as the ‘arbitrary exclusion of the first 20 per cent of the rates bill, the new capital rules that stop benefit going to pensioners with savings; and the ferocious taper of 85 per cent on Housing Benefit’ (p. 21). The first of these proposals would reduce the accountability of local councils. The second would give benefit to people with relatively large amounts of savings when many taxpayers who are paying for the benefit have no savings and only modest incomes. The third would mean that benefits were targeted less effectively.

2. THE SLD

A Little Less Generous than Labour. In their 1987 Manifesto, the Liberal/SDP 'Alliance' promised to raise the basic state pension 'by £2·30 a week for a single person and £3·65 for a married couple ... For a poorer pensioner we will introduce an additional benefit of £3·90 a week for single people and £5·75 for couples' (*Britain United: The Time Has Come*, p. 11). They also promised to pay 'a double pension in the first week of December' (*ibid.*). According to their own costings (*The Alliance Prospectus: A Post-Budget Review of Alliance Spending Plans*), these pension increases would have cost £1·1 billion (para. 18); the extra payment at Christmas would have cost £268 million.

The increases would also have done nothing to help the poorest pensioners unless Supplementary Benefit and Housing Benefit rates were also raised, because these pensioners would simply have lost from their other benefits what they would have gained from the pension increase. No account was taken of the greatly improved living standards that most pensioners have enjoyed since 1979.

The 'Alliance' also promised to 'increase Child Benefit by £1 a week in the first year and by a further £1 a week in the second year' (*Britain United: The Time Has Come*, p. 11). In addition they promised 'a maternity grant of £150 for the first child ... and £75 for each subsequent child ... [and] a death grant of £400' (*ibid.*) – which would have cost the taxpayer over £270 million a year.

Wasteful, Inefficient and Unfair. The 'Alliance's' election commitments on social security were both wasteful and inefficient because they concentrated on increases in the universal benefits – instead of targeting money on those most in need. In the case of the death grant, many of the poorest families would actually have received *less*. The 'Alliance' proposed a cash limited grant; current arrangements enable those on Income Support, Family Credit or Housing Benefit to receive the full cost of a funeral if it cannot be met out of the deceased's estate.

Like Labour, the 'Alliance' also promised to abolish all 'standing charges for gas, electricity and telephones' (*ibid.*, p. 11) – even though this would have seriously disadvantaged a great many pensioners and people on low incomes since the lost revenue would have to be recouped by increasing unit charges – perhaps by as much as 15 per cent.

Tax and Benefits. A Green Paper (No. 2) *Partnership for Diversity*, published in August 1988, reaffirmed the old 'Alliance's' commitment to the integration of the tax and social security systems (analysed in *The Campaign Guide 1987*, pp. 63–4). The new structure would incorporate a 'social wage', a concept Mr Ashdown has frequently mooted since February 1984. This nebulous idea, similar to the basic benefit suggested by the former 'Alliance' in 1987, would gravely weaken incentives to work. It is far better to help an unemployed person find a job than to give him a minimum social wage, though no doubt the latter would be very welcome to the small minority of unemployed people who have no intention of seeking work.

3. THE SDP

Keeping Left. Like the SLD (see above), Dr Owen's SDP has also revived the old ideas about the integration of taxation and benefits. According to their Green Paper (No. 39) *A Fair Deal: Tax and Benefits Reform*, published in August 1988, the SDP would like to scrap the National Insurance ceiling of £15,860 a year, to raise the basic threshold for NI contributions from £41 to £50 and replace Family Credit and Income Support with a new means-tested 'basic' benefit. They would mean considerable financial loss for families earning over £15,860. Those earning more than £50 a week would face a huge poverty trap as they became liable for Income Tax and National Insurance. According to *The Guardian* (25th August 1988), Dr Owen's 'advisers' have proposed to overcome this problem by phasing out National Insurance payments to every £1 earned up to £50 for everyone. This would cost taxpayers £7 billion a year.

12. EDUCATION

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(A) LAYING THE FOUNDATIONS OF REFORM

1. THE CONSERVATIVE AGENDA

The Key Themes of Policy. No Government since the Second World War has shown such a strong commitment to improving the education of our children. It has devoted resources on an unprecedented scale to the education service; it has expanded opportunities (for example, in higher education, where student numbers have increased significantly); it has enthusiastically endorsed choice in education, both for its own sake and as a means of improving standards; and, above all, it has striven to enhance the *quality* of education available throughout the system.

The Decisive Break with the Past. In making this commitment the Conservative Government has distinguished itself in particular from its Labour predecessor: whereas Labour politicians talked about what might be done (in their so-called 'Great Debate' which fizzled out inconclusively), Conservatives have *acted*; whereas Labour, forced to retrench owing to the failure of their economic policies, *reduced* opportunities (numbers in higher education, for example, actually *fell* when they were in office), the

Conservatives have been able to expand them; and whereas Labour dogmatically prescribed from the centre what was to be done (for example, by insisting on compulsory comprehensivisation in 1976), Conservatives have recognised the importance of choice and diversity, leading to higher standards, in the education service.

The Conservatives have, too, rejected Labour's approach to the *social* purposes of education. The last Labour Government saw education as a tool of social engineering: the education service existed to serve their ends, not those of the consumers – parents and children. Conservatives, on the other hand, have acted to support and strengthen the role of schools in instilling discipline and in educating children for the responsibilities of citizenship.

2. SCHOOLS

Organisation and Resources. (For a full description of the workings of the education service, see the *Campaign Guide 1987*, p. 236 *et seq.*). State-funded, or maintained, schools educate 93 per cent of children; the remainder attend independent schools. Maintained schools are of three main types: county, which are funded and run by local education authorities (LEAs); voluntary, which while largely administered and funded by LEAs retain a strong link with an independent founding body, usually religious; and special schools, which may be either county or voluntary and cater for children with special educational needs.

In some areas, grammar schools have been retained; one of the first acts of the Conservative Government in 1979 was to protect their position. Now two new types of schools have joined this list: City Technology Colleges and Grant-Maintained schools.

The education service in Britain is often described as 'a national service, locally administered'. It has been so since Balfour's 1902 Education Act, which established local education authorities as administrators of the service. There are currently 104 LEAs in England, formed by county councils, metropolitan district councils and the outer London boroughs. Inner London has at present only one LEA (ILEA), though from 1st April 1990 the individual boroughs will become LEAs on the abolition of ILEA.

It is the responsibility of LEAs to provide sufficient schools, to determine their size and number, their nature (selective or comprehensive) and the amount spent on each school. The LEA is also the employer of teachers in its schools. The Secretary of State will, in many cases, be called upon to approve the opening or closure of a school.

Admissions to Schools. For many parents, the most important role of the LEA is the assignment of children to schools, particularly at the secondary level. The Conservative Government has greatly increased the rights of parents in this process. In its 1980 and 1981 Education Acts it gave parents the right to obtain full information about each school, including examination results, and a statutory right to express a preference for a particular school. The LEA must respect that preference wherever possible; there is an

appeals procedure for dissatisfied parents. These major changes prepared the way for a further extension of parental choice under the 1988 Act (see p. 331).

Spending. The Education Committee competes with other committees of the local authority for funds; on average, more than 60 per cent of the overall budget is allocated to it. While local authority expenditure in general, and education in particular, are subject to a degree of central government control, the proportion of a local authority budget devoted to education and the distribution of the education budget itself is not determined by central government.

The Government does have the power, under Acts of 1984 and 1986, to make grants to LEAs to finance specific improvements in education, but these may not total more than 1 per cent of the education element of Rate Support Grant. In 1988–9, £115 million of local authority expenditure is being supported by 50 per cent or 70 per cent grant aid; in 1989–90 this will rise to £125 million, supported by grant of about £81 million.

Total expenditure on maintained schools has risen after allowing for inflation, since 1979 – at a time when pupil numbers have dropped by some 15 per cent. Spending per primary pupil – at £895 each year – is accordingly *no less than 26 per cent higher* in real terms than in 1978–9. For secondary pupils the figure is £1,340, *almost 30 per cent more* in real terms. Furthermore, the pupil: teacher ratio is *the best it has ever been* – 17.2:1 in January 1989. Only the most blinkered opponents of the Government can continue to attack ‘education cuts’.

Smaller Classes. A teaching force which is contracting much more slowly than falling rolls has also produced smaller classes – on average, 25.4 pupils in primary schools, 20.2 in secondary. These figures are lower than in West Germany, France and Japan.

Net Expenditure by LEAs on Maintained Schools (England)

	<i>£ million</i>			
	Actual Expenditure		Expenditure at 1988–9 Prices	
	1979–80	1988–9*	1979–80	1988–9
<i>Recurrent</i>				
Under fives	177	495	330	495
Primary	1,706	3,650	3,183	3,650
Secondary	2,354	5,024	4,391	5,024
Special	249	606	465	606
<i>Capital</i>				
Total	4,772	10,155	8,378	10,155

(Recurrent and Capital)

*Estimated out-turn

(Source: Department of Education and Science)

Books, Equipment and Buildings. The complaint is often heard that schools are in need of repair, and books are in short supply. Yet between 1979–80 and 1985–6 there was a 13·8 per cent cash increase in local spending on these items. Since then there has been a further considerable injection of funds. In 1986–7 there was a 20 per cent increase in expenditure per pupil on books and equipment; for 1988–9 another cash increase of 17 per cent is planned. In 1986–7 there was a 14 per cent cash increase – from £300 to £320 million – in repairs and maintenance to school buildings. Each secondary school had, on average, £38,580 spent on it.

Nursery Education. More three and four year-olds – 44 per cent in 1987 – attend nursery schools than ever before. Nine out of ten children in this age group now benefit from some form of pre-school provision.

School Management. Some responsibility for the running of a school has always rested with its governors. However, since LEAs have dominated governing bodies by appointing a majority of their members, they have had, in practice, a circumscribed role. The Government has now radically altered both the responsibilities and the composition of governing bodies.

As a result of the Education (No.2) Act 1986, elected parent governors have had equal representation with LEA nominees since September 1988 in maintained schools. Governors have general oversight of discipline; the right to modify the LEA's policy on the curriculum; power to spend a small proportion of the school's budget; and considerable say over the appointment and dismissal of staff. Their powers were extended further under the 1988 Act: (see p. 338).

All parents may attend an annual meeting, at which governors must submit an annual report.

Political Balance on Governing Bodies. Some local authorities – mostly Labour, but two Conservative controlled – have taken the opportunity presented by the reconstitution of governing bodies under the 1986 Act to remove representatives of minority parties from membership of such bodies. Ministers have made clear their opposition to this practice. As Mrs Angela Rumbold, Minister of State at the Department of Education and Science, said:

‘When we are attempting to make governing bodies more representative, encouraging parents to sit on governing bodies so that they can make a real contribution, this sort of thing just brings local government into disrepute’ (*The Sunday Times*, 31st July 1988).

Head Teachers. The day-to-day running of every maintained school has, as much by convention as by statute, been left to the head teacher. Successive Conservative Secretaries of State have recognised that heads are the most important force in determining the success or failure of a school. Their duties and powers accordingly have been clarified and strengthened, so that they are responsible for detailed implementation of the curriculum and for discipline. They administer, together with the governors, that

portion of the school's budget which is delegated by the LEA; and are consulted on all staff matters.

Teachers in all county schools are employed and paid by the LEA; in voluntary-aided schools by the charitable body which founded the school. Until 1986, teachers in both types of school had their pay and conditions determined by the Burnham Committee, made up of LEA and teacher union representatives. Set up in 1919, the Burnham system had become increasingly unworkable. The final two years of its existence were marked by a complete inability to produce an agreement which satisfied the local authority employers, all the teacher unions and the Government as representative of the taxpayer. There was recurrent disruption in the classroom throughout those two years, and ultimately the Secretary of State, Mr Kenneth Baker, announced his own new package of pay and conditions in October 1986. The Burnham machinery was wound up by the 1987 Teachers' Pay and Conditions Act (see below).

Teachers' Pay. Full details of the crucial 1986–7 package may be found in the *Campaign Guide 1987*, p. 251. The essential components of the settlement announced by Mr Baker were:

- a long-term pay structure which would reflect the varying responsibilities of teachers;
- a clear definition of teachers' professional duties;
- a 16.4 per cent rise, payable by 1st October 1987.

Particularly important was the new system of incentive allowances – at five levels – which would give effect to a wide-spread conviction that extra responsibility and outstanding classroom teaching should be properly rewarded. Good teachers must be retained in the profession, and excellent potential teachers attracted to it by a clear salary progression reflecting good performance and sound experience.

This approach was embodied in the 1988 pay award, which included:

- new pay rates for teachers from 1st April 1988, which meant an increase for the individual teacher in the range from 4¼ per cent to over 6 per cent;
- substantial increases in the value of incentive allowances, with effect from 1st April 1988. For example, the incentive allowance A was increased by 60 per cent from £501 to £800;
- faster introduction of the incentive allowance A: the 12,000 such allowances originally proposed from September 1988 went up to 18,000;
- London allowances were increased by 7.5 per cent with effect from 1st July 1987.

The cost of implementing these recommendations was an additional £332 million in 1988–9. They meant that teachers had received a very substantial boost to their pay since March 1986. For example, taking into account an increment in September 1988:

- a teacher who was on the top of Scale 2 saw his salary rise by 8.3 per cent between October 1987 and September 1988 and by 35 per cent between March 1986 and September 1988;
- a teacher formerly on the top of Scale 2 who has an A incentive allowance received an overall increase of over 10 per cent during this year arising from the increase in all scale points, an increment, and the value of the incentive allowance;
- a teacher formerly on the top of Scale 2 who received an A incentive allowance from September 1988 received an overall increase of 14.5 per cent during this year arising from the increase in all scale points, an increment, and the value of the incentive allowance.

The table below shows how well teachers have fared under this Government (under the last Labour Government, teachers' pay *fell* by 12 per cent in real terms (*Hansard*, 23rd July 1986, Col. 218)).

Teachers' Pay Increase: April 1979 to April 1988

	1979	1988	Real terms increase
	£	£	Per cent
New entrant with good honours degree	3,996	8,859	15
Senior Teacher	7,722	18,262	22
Head Teacher (typical secondary)	10,287	25,276	27

Note. 1979 pay includes 1979 interim settlement, but not the Clegg award, implemented in 1980.

(*Source:* Department of Education and Science)

Determining Teachers' Pay. The 1988 award was made on the basis of recommendations by the Interim Advisory Committee on Teachers' Pay and Conditions (IAC), set up under the 1987 Act to advise the Secretary of State. The IAC will continue to advise him until 1990. The Labour Party has tried to exploit a criticism of the Government made by the International Labour Organisation, that it is in contravention of the Organisation's Convention 98. But the ILO's Committee on Freedom of Association subsequently noted the Government's intention to hold discussions on future machinery. Discussions began in the autumn of 1988 with the teacher unions and the employers on long term future machinery. All the unions and local authority employers took different stands, but more talks will be held soon with the aim of establishing new machinery by 1990.

Curriculum. The school curriculum is at present determined by each LEA. The Government has sought to ensure that parents are given greater say and information about what their children are taught. The requirement on each school to publish an annual prospectus has played a major role in this development. Governors, too, have been given more responsibility for the curriculum in their school, and they can reflect their policy in the spending decisions they make within their delegated budget for books and equipment.

Governors have a particular duty to decide a policy on sex education, which must be set in a moral framework that has due regard to family life. (For the major changes being made under the 1988 Act, see p. 334).

Balance in the presentation of political issues in schools is also vital. The Education (No. 2) Act 1986 banned the 'promotion of partisan political views in the teaching of any subject'. Legislation was necessary owing to the proliferation in certain LEAs of courses – often under the catch-all title 'Peace Studies' – whose sole purpose was to foster one-sided nuclear disarmament, alienation from the Government and distrust of institutions.

Public Examinations. Regular testing and assessment of pupils' progress will shortly become a much more frequent and important element in the school system. The two main national examinations at 16+ and 18+ have both been the subject of scrutiny and change under this Government.

At 16+ the General Certificate of Secondary Education (GCSE) has replaced the old 'O' Level and CSE. Pupils sat the new examination for the first time in the summer of 1988. More resources were devoted to this examination reform than any other previous change. Altogether about £250 million will be spent between the GCSE's introduction in 1986 and 1988–89 – including specific grant aid for books and equipment and in-service teacher training.

The GCSE marked a departure – and prepared the ground for the further reforms in the 1988 Act – by assessing candidates against nationally-agreed criteria, rather than simply pitting them against each other. Employers therefore will know, for the first time, what skills and aptitudes a young person with a particular grade at GCSE may be expected to possess.

The first results of the new examinations, released in August 1988, showed a small, but significant, rise in standards. Whereas 6·8 per cent of GCE 'O' Level papers merited an 'A' grade in 1987, 8·6 per cent of GCSE papers achieved this level. For grades A to C the figures were 39·8 per cent, rising to 41·8 per cent. Mr Baker commented: 'The figures bear out the strong evidence from [HMI] that the exam has already brought significant improvements in teaching and learning' (*The Times*, 25th August 1988).

At 18+, the Government has rejected the recommendation of the Higginson inquiry into 'A' Levels (published in the summer of 1988), that pupils should study up to 5 'A' Levels, the syllabuses of which would have a reduced factual content. Instead the Government is proceeding with the introduction of AS-Levels, which are voluntary. An AS-Level will cover only half of an A-Level syllabus, though to the same standard. It will be acceptable as an entry qualification to higher education. The first students will sit the new examination in summer 1989.

Discipline. Corporal punishment is no longer permitted. HMI have published a report called *Good Behaviour and Discipline in Schools* (1987) which discusses alternative means of enforcing discipline. These include building up mutual respect between staff

and pupils, and providing stimulating activity and an interesting environment. If discipline breaks down, a range of sanctions can be used, from the withdrawal of a privilege to temporary or permanent exclusion from the school.

3. EDUCATION AND TRAINING FOR EMPLOYMENT

Vocational Education. One of the main thrusts of Conservative policy, throughout all levels of the education service, has been to make the education provided more relevant to the world of employment. Critics of the Government have alleged that this has meant a disregard for the arts and humanities. In fact, proper provision has been made for both. The Government's policies also seek to restore discipline and rigorous learning in place of the child-centred self-expression promoted by 'progressive' educationalists in the 1960s and 1970s.

A Balanced Curriculum. The Government's determination to bring about a balanced curriculum with both academic and vocational elements is being realised through the development of a national curriculum (see section B). Much, however, has already been achieved.

The centrepiece of the Government's action has been the Technical and Vocational Education Initiative (TVEI). A pilot scheme, launched in 1982, involved 100,000 children and cost £250 million. It is now being extended nation-wide at a cost of almost £1 billion over the next 10 years. TVEI has succeeded in its objective of making courses for 14 to 18 year-olds more relevant to the world of work and to employers' needs. The scheme could have expanded even more rapidly if it had not been for the obstruction of some Labour-controlled LEAs.

Certificate of Pre-Vocational Education. This qualification, launched in 1985, is awarded to those who successfully complete a one-year course of basic vocational training in the year after the end of compulsory schooling (it can be taken in either schools or colleges). The courses were developed in consultation with employers and training organisations; so far more than 87,000 pupils have taken the course.

Micros in Schools. Britain has led the world in introducing micro-computers into classrooms. On average each secondary school now has no fewer than 18 micros; and each primary school has 2.

Further Education. In addition to universities, polytechnics and institutes of higher education, post-school education is provided also in colleges of further education. Though some of the work done in these colleges is 'advanced' (i.e., post 'A' level), the majority is non-advanced; students do not require 'A' levels (or even, necessarily, GCSE) to attend courses there. Some, indeed, will be resitting GCSE and 'A' level examinations at such colleges.

Tertiary Colleges. These are for 16–19 year-olds and provide teaching for 'A' levels, vocational subjects and a variety of part-time courses. They usually replace existing sixth forms.

Whether it is sensible educationally to provide tertiary colleges depends on individual circumstances: LEAs are expected to take account of local needs and wishes in considering whether or not to set up a tertiary system. Tertiary colleges should not be regarded, as they are by the SLD, as a universally applicable solution to the organisation of 16–19 education.

Vocational Courses. In line with the policy outlined above, the Government has devoted considerable attention to the quality of vocational courses in colleges and schools.

First, the Training Commission has been working with colleges to make non-advanced courses more relevant to employers' needs. In 1988–9 some £113 million was spent on this project. Secondly, the College–Employers Links Project has strengthened ties between employers and their local colleges.

Thirdly, and most importantly, the National Council for Vocational Qualifications (NCVQ) was set up in 1986 to increase national recognition of the value of vocational qualifications by both employers and potential students. It aims to ensure that:

- qualifications are based on standards of performance required by industry and commerce;
- access to courses is not restricted by inflexible methods or periods of learning, or unnecessary pre-qualifications;
- qualifications form a clear progression (including a system of accumulated credit) to encourage people to improve their skills whenever they wish;
- the range of qualifications themselves is simplified, and therefore better understood.

Those qualifications which satisfy the NCVQ's criteria will be known as National Vocational Qualifications.

Schools-Industry Links. In addition to making courses more relevant to employers' needs, much work has also been done to encourage direct links between schools and local businesses. For example, a Solihull comprehensive developed a course in applied micro-electronics and computing with the help of Land Rover Ltd.

Another important development has been the Compact Scheme, in which local employers agree to give preferential treatment to pupils at local schools provided they meet certain goals while at school. 30 new Compact Schemes have been developed in inner city areas following a central government initiative announced in May 1988. An HMI report said that Compact Schemes help to motivate pupils and can raise standards.

However, it is not just pupils who need to understand the worlds of industry and commerce. Teachers, too, can motivate children better if they themselves are up-to-date in their knowledge and experience of business. Schemes such as the Engineering Industry Training Board's Mathematics Bursaries give maths teachers 'hands-on' experience of engineering. Mr Baker has also announced an inquiry into how trainee teachers can be given better instruction in information technology, which should be a part of the preparation of all teachers for the classroom. And a £200,000 project funded by DTI, the DES and industry – called Industrial and Commercial Perspectives – will provide audio-visual materials to help trainee teachers make their school lessons more employment oriented. As Mr Baker has said:

'It is essential that young people today, the workforce of tomorrow, have the right flexibility and attitude for work in the 1990s and beyond. This is best achieved through contact with employers. I am hoping to see more industrialists spending time in classrooms over the next few years, helping pupils to solve problems and relate their activities to the real world' (Speech to 'Industry Matters' Conference, 22nd July 1988).

4. HIGHER EDUCATION, SCIENCE AND RESEARCH

The Higher Education System. (For a full description, see the *Campaign Guide 1987*, pp. 238–40). Until the mid-1960s higher education was available only in the universities and the Colleges of Advanced Technology (CATs). Following the publication of the Robbins Report and the principle it enunciated – that higher education should be available 'for all those who are qualified by ability and attainment to pursue [it] and who wish to do so' – the number of students increased rapidly. The number of institutions also rose, with the foundation of 18 universities (many formed from the old CATs), and the creation of the first polytechnics, which were to be responsible for providing technologically based higher education.

A 'Binary' System. Whilst the polytechnics have by no means confined themselves to technological courses, the distinctions in funding and status of the universities and polytechnics remained intact until the 1988 Act. The universities have always been legally independent chartered bodies, empowered to award their own degrees and employ their own staff. The polytechnics, on the other hand, have been maintained by LEAs; their staff have been employed by them and their funding received from them. The Education Reform Act re-established polytechnics, which are discussed in greater detail in Section B.

There are many other colleges which also provide higher education courses; broadly speaking, they divide into Colleges of Higher Education (maintained by LEAs) and 'voluntary colleges', charitable, usually religious, foundations funded directly from the DES. All of the latter, and some 30 or so of the former, are to join the new centrally-funded sector. The rest will continue to be maintained by the LEAs.

Universities. There are now 47 universities in the United Kingdom, following the rapid expansion of the Robbins era (in 1957 there were only 24). All but one – the University of Buckingham – are dependent (though decreasingly so – see below) on government funding. Altogether the universities now receive almost £2 billion a year of public money, their grants having risen by more than the overall rise in prices since 1979.

More students are now being admitted. After a short period of contraction, entrants rose by 8 per cent between 1983 and 1987, and the trend is still upwards.

The universities are now using their resources much more efficiently. As the Government's 1987 White Paper pointed out, the University Grants Committee 'has embarked on an ambitious programme of review and rationalisation of university departments in a wide range of subjects, in some cases in collaboration with the planning bodies for the other sectors of higher education' (*Higher Education: Meeting the Challenge*, Cm. 114, para. 3.25). Universities are now asked to produce annual reports on improvements in efficiency. In addition, proposals have been adopted 'for the regular publication from 1987 of a range of efficiency and effectiveness measures covering all universities' (*ibid.*, para. 3.27).

University teachers also have gained from new arrangements for pay agreed in March 1987. The agreement provided for a pay increase of 16.6 per cent with effect from 1st December 1987 and 7.4 per cent from 1st March 1988. A further increase of 3 per cent from April 1989 has been rejected by the Association of University Teachers. The Government, which gave £96 million towards the last pay deal, will not provide more resources for pay until universities have made better arrangements for the promotion and appraisal of staff.

Universities are now being encouraged – for the first time – to seek more of their income from sources other than the State. By attracting more private funding they can strengthen their links with the community they serve, increase their own autonomy and gain important additional resources for teaching and research. But there is no question of cutting down their support from the State. As Mr Baker has stressed:

'Increased private funding does not mean reduced public funding. More and more universities are benefiting from the services of their own professional fund-raising organisations, and I want to encourage such activity so that the total amount of money going to our universities can be increased' (Cambridge, 8th May 1987).

So successful has this strategy been that the proportion of income raised from non-exchequer sources was 45 per cent in 1986–7.

Polytechnics. The first polytechnics were established in 1967; there are now 30 of them in England and Wales. They provide courses in a wide range of subjects at all levels, which may lead to first and higher degrees, certain qualifications comparable to degrees, and the qualifications of the main professional bodies and other institutions such as those of the Business and Technician Education Council. As the 1987 White Paper notes,

'polytechnics offer all major subjects except medicine. After two decades they are firmly established and cater on average for a larger number of students than universities' (para. 4.6). Indeed, they now provide for over half the higher education students in England.

As the White Paper points out, virtually all of the 'major increase in full-time student numbers has taken place in the polytechnics and colleges of higher education, more than making good the reduction in this sector in the late 1970s. The polytechnics and colleges have also accommodated over three-quarters of the 72,000 (27 per cent) increase since 1979 in part-time student numbers' (para. 2.2). Total student numbers in the polytechnics have risen by 45 per cent since 1979.

Encouraging Greater Efficiency. The sharp increase in numbers has been accompanied by substantial progress towards greater efficiency. In the seven years between 1980–1 and 1986–7, unit costs in the polytechnics are estimated to have fallen by 15 per cent.

The National Advisory Body for Public Sector Higher Education (NAB), set up in 1981, has played a major role in co-ordinating work across polytechnics and colleges and in producing greater efficiency. Their work will now be subsumed within that of the new Polytechnics and Colleges Funding Council.

Summary of Conservative Success. The Government has graduated *magna cum laude* from its higher education policies over the last nine years:

- there are 200,000 more students in higher education than in 1979 (more than half of them on full-time courses);
- the proportion of 18 and 19 year-olds entering higher education is now one in 7, compared with one in 8 in 1979;
- the proportion of undergraduates who are female is now 46 per cent;
- the Government's target of an additional 50,000 students by 1990, set in its 1987 White Paper, has already been achieved;
- Conservative Britain spends a larger proportion of GDP on higher education than other countries in Western Europe, with the exception of the Netherlands.

The latest Conservative reforms will create the basis for further success (see Section C).

The Critics Rebuffed. Those critics who acknowledge the Government's achievements nevertheless allege that they mask a serious reduction in the resources available to higher education. In fact, total Government expenditure on higher education has more than kept pace with inflation (see p. 341).

Of course there has been much needed reform of a system which had expanded rapidly since the mid 1960s but in too many cases had lost sight of efficiency. Departments have been consolidated and superfluous posts removed; courses have been concentrated in centres of excellence thereby *improving* standards and avoiding the waste of taxpayers' money.

Nor has there been a ‘philistine’ attack on higher learning for its own sake. While a much-needed increase has taken place in those subjects which will provide the highly qualified manpower which Britain needs, the arts and humanities have also flourished. As Mr Baker has said:

‘There is a mistaken belief that our policies are directed solely towards applied knowledge and the more glamorous sciences. This is just not the case. We recognise the vital place in our universities of scholarship and research in the humanities and the social sciences. Rigorous training in these subjects can be an excellent intellectual preparation for life. But a flourishing study in these disciplines is about more than equipping people for later life. It also lies at the heart of a civilised society’ (Cambridge, 8th May 1987).

Higher Education's Links with Industry. In addition to providing more graduates in scientific and technological disciplines – for example, another 37,000 students in engineering and technology now compared with 1979 – higher education institutions work in close co-operation with industry and commerce.

The Universities. As the 1987 White Paper notes, ‘the Government strongly welcomes, and has done much to promote, the major growth in recent years of links between higher education institutions and industry’ (para. 3.21). The universities have been attracting steadily increasing support from industry and commerce: income from industrial contracts rose from some £25 million in 1981 to £50 million in 1985. Emphasising the importance of this trend, Mr Baker said:

‘There is a long way to go, but that is a good start.... Up and down the country, universities are working more closely with industry. There are now consultancy companies such as that at Leeds; specialist industry-linked centres like those in Manchester and Edinburgh; biotechnology enterprises such as those at Leicester and Cranfield; successful science parks like those at Heriot-Watt and Warwick; and spin-off companies – of which Oxford Instruments is the most famous.

‘Such activity has myriad advantages. It is particularly heartening that more and more students are going into business. 35 per cent more university graduates in 1985 took up full-time jobs in finance, marketing and management than in 1981’ (Cambridge, 8th May 1987).

The science parks – there are now 35 at universities – are one of the most striking results of closer collaboration between university and industrial scientists and technologists. The Cambridge Science Park, for example, has 67 tenants in its 130-acre site, engaged in such activities as the manufacture of ultra-violet light sources and pharmaceuticals, and providing services, such as for oil exploration activity.

Polytechnics. The work of the polytechnics is of course particularly important in the technological and vocational fields; they were created primarily to specialise in those areas. They therefore have particularly close links with industry and commerce; many polytechnic students have jobs and attend on a part-time basis.

Science Budget and Research. The quality of British research, especially scientific research, is second to none: no fewer than 15 British scientists have won Nobel Prizes since 1970. The Government has sought to encourage world-class research by promoting centres of excellence in as many subjects as possible; and to bring about increased co-operation with industry, and thereby create additional private funding.

Resources. The Government's support for science and research through the UGC and the science budget is now almost £1.4 billion – 11 per cent more, after allowing for inflation, than 1979.

The science budget is £699 million in 1988–9 – 15 per cent up in real terms since 1979. In 1989–90 it will be 16 per cent higher – £825 million. This sum is distributed among the five Research Councils (Agricultural and Food, Economic and Social, Medical, Natural Environment, and Science and Engineering). The Councils give grants for specific projects at universities and polytechnics and non-specialised research institutes; they also administer post-graduate research grants.

In April 1987 the Government gave an additional £15 million to the Research Councils so that they could fund the 24 per cent pay rise for academics without detriment to their research programmes. And in 1988–9 an extra £14 million will be allocated for urgently needed equipment for basic science in research councils and universities.

The polytechnics, in addition to competing for Research Council funds, receive a special allocation from the Secretary of State to develop research with industrial applications. This year the sum involved is £9.8 million – a 50 per cent increase on the 1987–8 allocation.

A Clear Policy for Science. The Government has consistently given science the highest priority. As Mr George Walden, then Minister of State at the Department of Education and Science, said:

‘Our objective is to maintain and enhance our support of the science base, to strengthen the knowledge and skills of the UK in science and technology, and to contribute to improving the competitiveness of our economy’ (*Hansard*, 24th March 1987, Col. 32).

Generous financial support has been combined with a drive for greater selectivity and concentration of funding and closer links with industry. Significant progress has been made. Increasingly, a more selective approach is being adopted to research projects – which is essential at a time when our major competitors are becoming more selective – on the advice of the Advisory Board for the Research Councils and the University Grants Committee. Priority is given to areas which are likely to lead to useful applications.

Government and Industry. The Government fully accepts that it has a duty to fund basic research, and its spending has never been higher. In these circumstances it is reasonable to expect British industry to increase its contribution. At present British business provides the lowest proportion of research and development of almost any

Western country; the Government's contribution, by contrast, is proportionately the highest (see table below). As Mr Walden emphasised:

‘Our universities and polytechnics are far more open today to industrial collaboration, and deserve a far more energetic response from business.

‘Exhortation alone is rarely the answer. That is why new mechanisms have been put in place in universities and polytechnics to reward co-operation with industry, as has happened so successfully with the Alvey programme of advanced research in information technology. Here 110 firms have joined with 64 universities and polytechnics in about 200 projects. ... When the best of British science and the best of British industry get together, they are unbeatable’ (*The Times*, 6th April 1987).

International Comparisons of Science and Technology Expenditure

	United Kingdom	United States	Japan	Germany	France
	per cent				
Total expenditure on R&D as a percentage of GDP	2.33	2.8	2.6	2.7	2.31
Government R&D funding as a percentage of GDP	1.29	1.25	0.6	1.1	1.5
Government civil R&D funding as a percentage of GDP	0.63	0.4	0.57	1.0	1.0
Industry's own funding as a percentage of GDP	1.0	1.3	1.8	1.6	0.9

(Source: OECD 1985)

(B) THE REFORMED SYSTEM IN SCHOOLS AND COLLEGES

1. A WIDER CHOICE OF SCHOOL

The 1988 Education Reform Act – the most important piece of education legislation since the 1944 Butler Act – broadened still further the range of schools from which parents can choose. Two entirely new types of school were created. And more parents will be able to send their children to the existing schools of their choice.

Admissions to Schools. The last means by which some LEAs thwarted parental choice has been removed. Under the ‘open enrolment’ provisions of the Act, the artificially low limits placed on admissions to popular schools by some LEAs, in order to bolster the numbers at less popular ones, will be outlawed. From September 1990 all secondary schools will have to admit up to the level of their physical capacity. Primary schools with

over 300 pupils will be included later. (Physical capacity will be determined with reference to the school's 'standard number' – usually the number admitted in 1979–80 when school rolls were at their height. The standard number may be lowered, with the Secretary of State's consent, where changes in accommodation since 1979 make this necessary. No consent is required to raise admissions limits.)

Greater competition and wider choice will bring higher standards for all. Good, popular schools will take in as many pupils as they can. When full, they will be able to submit plans for expansion to the Secretary of State should they wish to do so. Poor schools facing dwindling rolls will be under pressure to raise standards. If they fail to do so, it will be for the LEA to decide their future. In any case, LEAs will increasingly face such decisions as a result of the dramatic fall in the number of secondary school children and the consequent considerable over-provision of places.

The governors of voluntary schools will continue to agree their admissions arrangements with their LEA. Any arrangements which reserve a quota of places for pupils of a particular religion will continue, even if the result of this is that sometimes a number of places are not taken up.

Summing up the implication of open enrolment, Mr Baker has said:

'I do not claim that all parents will get their first choice of school under our proposals – there can be no question of elastic walls – but I believe that we can remove some unnecessary barriers to parental satisfaction ... *Empty desks in popular schools ... cannot be right*' (*Hansard*, 1st December 1987, Col. 776, emphasis added).

Grant-Maintained Schools. The Act establishes a completely new kind of school – the Grant-Maintained (GM) school – in addition to maintained and voluntary schools. Parents of children at secondary and the larger primary schools have a new right – to vote to take their children's school out of local authority control altogether, and have it maintained by grant paid directly by the DES.

The opportunity for parents to establish Grant-Maintained Schools will increase variety and choice within the state sector of education. For too many parents the only choice offered has been 'take it or leave it'. Wider choice will help improve standards in all schools by creating competition in the provision of free education.

The fact that schools will be able to opt out of LEA control will itself act as an incentive to make LEAs more responsive to parents' wishes. Where parents are dissatisfied with existing LEA provision, as in some Labour authorities, they will have the freedom to act so that their schools develop in accordance with their wishes and the needs of their children.

The initiative to apply for GM status lies with the governors or parents. A postal ballot may be requested by 20 per cent of parents signing a petition to the governing body, or it may be initiated by the governors themselves. If 50 per cent or more of registered parents

vote in the ballot, the result – whether for or against opting out – will stand. If fewer than 50 per cent vote, a second ballot must be held within fourteen days. The result of that ballot, irrespective of the turn-out, will be conclusive. A simple majority will determine the outcome of each ballot.

By providing for a second ballot in the event of a low turn-out, the Government has met the demand that parents be given ample opportunity to vote, if they wish to do so, on the future of their child's school. It has also maintained the principle – well-understood and widely used – that the issue should be decided by a simple majority vote.

Of course, a ballot is only the first step in the process of seeking grant-maintained status. If parents vote in favour of applying for GM status, the governors must then prepare an application, for the approval of the Secretary of State, after consideration of any local objections.

Consultation with LEA or Trustees. If a ballot of parents results in a decision to seek GM status, the governing body will have to consult with the LEA or, in the case of voluntary schools, the trustees. While the final decision must rest with the parents and governors, it is clearly right that in the case of, say, a Catholic school, the trustee (usually the Bishop) should be formally consulted on the school's plans.

The governors of a GM school will not be able to propose any significant change in the religious character of the school unless the trustees have consented, in writing. (In order to preserve the religious ethos of a school, the governors of a voluntary-aided school will be able to agree with the LEA to restrict the admissions of, for example, non-Catholics to the school.)

Neither will the governors of a GM school be able to introduce selection immediately after opting out. The Secretary of State will not normally consider a change of character in a Grant-Maintained school's admission policy until five years from the date of application for GM school status. If, at a later date, a GM school wishes to change its character, it will be able to submit proposals exactly in the way that LEAs do today.

Critics of the Government's proposals betray their lack of faith in the existing system by suggesting that every opted out school will wish to become selective. The Government believes that opted out schools will demonstrate more variety. Selection by academic ability is often less important to parents than their local school having a reputation for good discipline. Other opted out schools may wish to emulate the technological emphasis of the CTCs.

Powers of Governors. The Governors of a GM school will:

- manage the school's budget (they will receive the same level of funding as if they had remained in the LEA system);
- appoint staff, including the head teacher (who will also be a governor);
- determine policy on admissions, curriculum and discipline;

- employ the staff (on terms and conditions comparable to those they enjoy in the LEA);
- own the school premises and assets, except in the case of a former voluntary-aided school, where these will remain with the Foundation.

The Role of the Secretary of State. The Secretary of State will, in deciding whether to approve an application for GM status, take into account the likely competence and attitudes of the governing body, the school's viability, and the evidence of parental commitment to making the school a success. Where a school is also the subject of a proposal for closure by the LEA, the Secretary of State will decide first on the application for GM status.

Popularity of the Reform. There is considerable interest in opting out. The Grant-Maintained Schools Trust, an independent body set up to promote the idea of GM status, has received 458 inquiries from schools (*The Independent*, 24th November 1988). Parents at 29 of the 39 schools, where ballots had been held by March 1989, voted in favour of applying for GM status.

City Technology Colleges (CTCs). The prospects for children in urban areas will be improved still further as a result of the establishment of a network of 20 CTCs. They will:

- mean even more parental choice;
- generally follow the national curriculum, with special emphasis on science and technology;
- pioneer curriculum developments in science and technology, and new teaching and management methods;
- provide free education for children of all abilities aged 11 to 18; and
- act as 'beacons' for other local schools in the maintained sector.

Some CTCs will specialise in the technology of the performing arts, and will be known as City Colleges for the Technology of the Arts.

The foundation of CTCs will be sponsored jointly by industry and the Government, but their running costs will be met by annual grant from the DES, based on the costs of LEA schools in similar areas.

A large number of sponsors have come forward to pledge financial support for the capital costs of setting up CTCs. By the end of 1988 a total of £30 million had been pledged – a remarkable commitment by some of the best-known names in British business, such as Boots, BAT, WH Smith, Dixons, Marks and Spencer, and the Hanson Trust. To their contributions will be added £90 million of public money over the years 1987 to 1991. The first CTC – which received twice as many applications as it has places – opened in Solihull in September 1988; two more will open in Nottingham and Teesside a year later.

Labour Obstruction. 17 CTCs have now attracted funding; the number could have been higher if it had not been for the obstruction of Labour councils who have refused, for

reasons of political dogma, to release sites for CTCs. Labour defines choice in ways that suit them, not parents, as Mr Baker has said:

‘People can have any sort of education as long as the Labour party provides and controls it by means of its councillors and unions. That is the choice the Labour party offers’ (*Hansard*, 19th July 1988, Col. 947).

The Secretary of State stressed the sharp contrast between this approach and the Conservative vision:

‘We shall be setting up a network of 20 CTCs, which I am sure will become beacons of excellence. I hope that some of the practices and attitudes and, indeed, the ethos that they are creating will be copied and emulated throughout the education system’ (*ibid.*, Col. 943).

2. HIGHER STANDARDS IN SCHOOLS

The Need for a National Curriculum. If children are to be fitted successfully for the world of employment and for society, what they learn is as important as how much they learn. That is why the Government is making certain that pupils will not be able to drop important subjects too early in their school careers, leaving them ill-equipped even in basic skills. The proposed national curriculum with its ten foundation subjects – with mathematics, English and science at the core – will at last ensure that all children get a proper grounding.

It is not intended that the foundation subjects – the others are history, geography, technology, a foreign language (in secondary schools only) physical education, art and music – should represent the whole of a child's learning, and the Act does not lay down the amount of time which must be spent on each subject or even on the national curriculum as a whole. Some schools will want to expand in particular subjects or develop specific skills which arise from the national curriculum; many will offer additional subjects such as classics or home economics.

There can be no doubt that this reform is long overdue. The recent Youth Cohort Study, sponsored jointly by DES, MSC and the Department of Employment, revealed that during their fifth year at school *only one per cent of pupils studied all the foundation subjects*; almost one in eight did not even study all the *core* subjects.

Implementing the National Curriculum. The development of a national curriculum is in the hands of an independent National Curriculum Council (NCC). This body will keep the curriculum under review and advise the Government on changes. All recommendations will be the subject of wide consultation and finally have to be approved by Parliament.

At local level, LEAs, governors and teachers will be responsible for what happens in the classroom. No one will dictate to them, or to the school, what teaching methods they

should adopt, how they should arrange their timetable, or which textbooks they should choose. Indeed, the Government is keen to encourage, rather than to stifle, the individual imagination and flair of the successful classroom teacher.

Some £90 million is being set aside over the next three years to support directly the work of the NCC and the Schools Examination and Assessment Council. Over a quarter of the £214 million allocated by the Government in 1989–90 for in-service teacher training will be set aside to prepare teachers for the national curriculum and other reforms in the Education Reform Act.

Children with Special Needs. The Government remains committed to the principle of integration embodied in the Education Act 1981. The intention is that children with special educational needs should also study the national curriculum so that they can take advantage of the greatest possible educational opportunities. However, the Government recognises that the curriculum may have to be adapted to suit individual needs and circumstances. Statements of ‘Special Educational Need’ made under the 1981 Act will be able to modify the manner in which attainment targets, programmes of study and assessment arrangements apply to individual pupils. Head teachers will have discretion to exempt a pupil entirely from the requirement to study the foundation subjects where this is necessary.

The Importance of Testing. Parents have a right to know how well their child is doing at school; many parents have been complaining that they do not know whether their child is acquiring even basic skills. So the Government is giving parents a yardstick to judge for themselves. Each foundation subject is to have nationally-agreed attainment targets and assessment arrangements (including objective tests); assessment will take place throughout a child's school career, at the ages of 7, 11, 14, and 16. Regular assessment is vital if a child's strengths and weaknesses are to be identified, so that they can be either built on, or remedied.

Too many children at present do not take examinations, even at 16+; in 1985–6, for example 2 out of 5 children did not attempt GCE/‘O’ level or CSE in the 3 core subjects; almost 2 out of 3 did not take a modern language paper. Only 2 per cent of pupils attempted exams in all the foundation subjects, excluding RE and PE.

Introducing Nation-wide Assessments. For each of the 10 foundation subjects attainment targets and programmes of study will be published. The attainment targets will make clear what children should normally be expected to know, understand, and be able to do at 7, 11, 14 and 16. For the first time, it will be possible to measure every child's progress, on a ten-point scale, against national standards. Assessment will be carried out by a combination of national tests, and evaluation by classroom teachers.

While the results of individual pupils will, of course, remain a matter for them, their parents and teachers, aggregated results will be published by schools for 11, 14 and 16 year-olds. Schools will not be required by law to publish the results of assessment at 7 (though they will be strongly encouraged to do so). As Mr Baker has said:

‘Unlike Opposition Members, we want to ensure that every possible piece of information is made available to parents so that they can assess the school’ (*Hansard*, 22nd March 1988, Col. 235).

The Timetable. Work is now in hand to implement the new arrangements speedily and efficiently. First-year primary school pupils will begin work on the programmes of study in mathematics, science and English in the autumn of 1989. First-year secondary school pupils will also begin work on the maths and science programmes from the autumn of 1989. After an experimental year, the first results in these subjects for 14 year-olds will be published in 1993. Arrangements for other subjects and age-groups will be introduced as soon as possible.

More than £550 million is being made available over the next 3 years for specific programmes supporting the implementation of the Government's reforms, including the introduction of the national curriculum.

The national curriculum will be entirely the responsibility of schools themselves. The Secretary of State will have no power under the Act to insist that a particular subject should occupy a fixed proportion of school time.

3. RELIGIOUS EDUCATION

The Role of the Churches. The churches have a long and honourable tradition of involvement in education in Britain. Conservatives have always strongly supported denominational schools as an important element in the range of choice available to parents. The special place of religious instruction and collective worship in the life of a school was, of course, enshrined in the 1944 Education Act.

Religious Education in the New Act. The Government has acknowledged and reinforced the importance of religious education by including in the Act a clear obligation on LEAs, governing bodies and head teachers to ensure that the 1944 Act is complied with. It will also give parents a clear right to object if they believe that a school is not fulfilling the Act's requirements.

Lords amendments to the Act, which were accepted by the Government, clarified and updated the requirements of the 1944 Act in relation to religious education.

After discussions involving representatives of the leading faiths, the Lords accepted amendments which define the nature of the religious education to be offered. They provide that:

‘any agreed syllabus shall reflect the fact that the religious traditions in Great Britain are in the main Christian, whilst taking account of the teaching and practices of the other principal religious traditions represented in Great Britain’ (s. 7(3)).

Collective Worship. As Mr Baker said: ‘We have affirmed that religious education and collective worship should reflect our history and traditions which are based on Christian beliefs’ (Brighton, 14th October 1988). However, in schools which have a high proportion of pupils who are non-Christian, separate acts of non-Christian worship will be possible. Parents will retain their right to withdraw children from school assemblies.

Local Advisory Councils. Standing Advisory Councils on Religious Education (SACREs) are to be established by LEAs, with representation from the Church of England, other local religious denominations, the LEA and teacher associations. They will advise on the RE syllabus to be used in local schools, and – on application from a head teacher – whether the requirement for Christian collective worship should apply to a particular school, or to a group of pupils at a school.

Reversing the Decline. The importance of these provisions has been underlined by Mr Baker:

‘The general inattention given to religious education and worship in past years has contributed to their decline in schools. The provisions contained in the Bill constitute a major step in reversing that decline and in ensuring that religious education and worship have a real value and meaning in schools’ (*Hansard*, 18th July 1988, Col. 816).

4. ORGANISATION, MANAGEMENT AND FUNDING OF SCHOOLS

The Abolition of ILEA. ILEA has failed the young people of London, and their parents. In 1986 one in five pupils in ILEA schools achieved no graded result at ‘O’ level: that is twice the national average. Yet children in ILEA schools are not born with below average intelligence; in fact, on ILEA's own admission, the IQ of children entering secondary schools is about the national average.

ILEA has repeatedly tried to justify this failure by claiming the authority is starved of resources. Whatever measure one adopts, this claim does not stand up. ILEA over-spends when compared with:

- the Government's assessment of its need to spend; its 1987–8 budget was 75 per cent above GRE (grant-related expenditure);
- education expenditure nationally. ILEA educates 4 per cent of the nation's pupils, and is responsible for 8 per cent of expenditure;
- other inner city LEAs. ILEA's spending is 30 per cent in excess of Manchester's and 60 per cent more than Birmingham's.

In the light of ILEA's dismal record, the Government decided that it was right to give the inner London boroughs the opportunity to opt out of ILEA. This commitment was included in the Party Manifesto in 1987.

An Orderly Transfer. On 1st April 1990 the 12 inner London boroughs and the City of London will become local education authorities. Before the end of February 1989, these boroughs will be obliged to publish development plans, setting out the service they intend to provide and their proposals for managing their new responsibilities.

The Secretary of State has already published a circular of guidance on the content of the development plans. These must explain each borough's plans for all the schools that they inherit; for securing provision for children with special educational needs; and for further and adult education, the youth and careers services, and a professional inspectorate. The proposed administrative structure must be described, along with the arrangements for making senior appointments.

The Advantages of Local Accountability. Sweeping away the unnecessary superstructure of ILEA will enable the boroughs to run an effective, accountable local service – just like every other metropolitan council. Instead of a handful of ILEA members representing an entire borough, the local councillors will be responsible for the service and answerable to local parents. There will be considerable scope for the integration of education with other services, and for the sharing of facilities – such as sports halls.

The Financial Implications. The new inner London LEAs will be in the same position as other authorities, financing the education service in the same way as they do other services. Since, however, they will be inheriting a very high level of spending from ILEA, a 'safety net' will apply from 1990–1 and then be progressively removed over the following three years. At the end of that period spending above GRE will have to be financed by Community Charge payers – just as it would have been if ILEA had not been abolished. But the high level of spending should be reduced as ILEA's gross inefficiency and expensive structure is replaced by better and more cost effective management.

The Future Role of the LEA. Much has been made of the supposedly 'centralist' nature of the Education Reform Act. In fact, the Act shifts power and responsibility away from the local education authorities, not to central government but to parents, governors and head teachers.

Parents and teachers alike will welcome the less detailed involvement of the Town Hall in the day-to-day running of their schools. But there will continue to be a crucial, though changed, role for LEAs. They will:

- devise schemes of financial delegation, set school budgets, and supervise their application;
- provide professional support through advisory services and the local inspectorate;
- provide in-service training of teachers, and advise governors on appointments;
- ensure that schools in their area implement, over time, the national curriculum.

As Mr Baker has put it:

‘The system as it develops will be much more decentralised. But it will still be very largely [the LEA] system. It will be financed by local government; organised by local government; it will be monitored and professionally supported by local government; and it will be accountable to local government. A decentralised system will require more leadership, not less. But a different form of leadership from that which has been given by LEAs in the past’ (Speech to CLEA Conference, 15th July 1988).

Financial Delegation to Schools. The centrepiece of the Government's plans to ensure that responsibility is devolved to the local level is the Act's provision for LEAs to introduce schemes of financial delegation. At present too many schools have to go through a cumbersome process involving the LEA to have, for example, even minor repairs carried out. Pilot schemes of financial delegation in Cambridgeshire and Solihull have proved popular and successful.

All LEAs are required to draw up, and have approved by the Secretary of State, schemes for the allocation of resources between schools (except for primary schools with fewer than 200 pupils). LEAs will also delegate management responsibility for a substantial proportion of those resources. Most schemes will come into effect from April 1990, and the process will be complete by April 1993. Under each scheme, the LEA will allocate resources to each school according to a locally agreed formula. Only a limited amount of expenditure will remain to be determined centrally – for example, on administrative and advisory services, and school transport.

Devolution of Powers. School governors will be responsible for the selection and dismissal of teaching and other staff, though this may be delegated to the head teacher in the case of junior appointments. Governors will now have the powers to run their school efficiently. Training will be available to assist governors in taking up these responsibilities: an allocation of £5 million has been made within the Education Support Grant for 1989–90. (There will be additional support in the form of computer-based management information systems for schools.)

Head teachers will find their management role enhanced, and will have new freedom to manage effectively. Training will also be available for them.

Charges. The Education Reform Act clarifies the law on charging for some school activities. No charges are to be imposed – the Government is firmly committed to the principle of free education. Instead, the Act draws a clear distinction between those activities provided in, and those outside, school hours: the first are free, the second may be charged for. There are only two exceptions to this principle:

- individual instrumental music tuition, taken with a parent's agreement, may be charged for even if provided in school hours;
- activities specifically required to carry out a part of the national curriculum or for a public examination syllabus must be provided free of charge even if they take place outside normal hours.

These provisions will take effect from 1st April 1989.

5. A PROFESSIONAL TEACHING FORCE

Now that the Government has successfully introduced a revised pay structure for teachers, including a more satisfactory career progression and new incentive allowances, Ministers are turning their attention to the important issues of the recruitment and training of teachers, particularly in-service training (for details of previous reforms to initial teacher training, see *The Campaign Guide 1987*, p. 252).

Recruitment. In addition to the new pay and conditions package, the Government has been making efforts to attract more graduates into a teaching career, particularly to fill places for subjects in which there is a shortage of teachers – maths, physics, chemistry and modern languages. In June 1988, the DES Teaching as a Career Unit (TASC) launched a national publicity campaign to encourage graduates to take up teacher training places. Ministers have pointed out that firms, too, can help tackle teacher shortages. They can:

- encourage employees taking early retirement or made redundant to train as teachers;
- make joint appointments with teachers working part-time in schools and part-time in industry;
- provide teacher training opportunities.

Qualified Teacher (QT) Status. Most significantly, the Government is opening up new routes for people of calibre to attain QT status – without which no-one can teach in any state school. In May 1988 the Secretary of State published a consultation document outlining new arrangements for granting QT status, with the intention of introducing:

‘clearer and better arrangements for the entry to teaching of persons with relevant experience and other qualifications who have not completed a course of pre-service training’ (*Hansard*, 24th May 1988, Col. 109–110).

Under the Government's proposals, the existing five ‘non-standard’ routes to QT status (the standard route – taken by over 90 per cent of entrants – is a course of pre-service training) would be replaced by one such route. ‘Non-standard’ entrants would be granted a licence to teach by the Secretary of State, on the recommendation of an LEA or governing body; after either two or three years they would then be able to recommend to the Secretary of State that the licensed teacher receive full QT status. During that period a licensed teacher would be expected to undertake appropriate training.

In-service Training. While this is primarily the responsibility of LEAs, the Government has made funds available specifically to support in-service training initiatives, under the LEA Training Grants Scheme, introduced by the Education (No. 2) Act 1986. In 1988–9 it supports £207 million of LEA expenditure. For 1989–90, £60 million has been

earmarked solely for work associated with the implementation of the Education Reform Act.

6. FURTHER EDUCATION

Crucial Role of FE. In order to sustain the economic growth brought about by the Government's policies, it is vital to ensure a flow of trained manpower to industry and commerce. Our future prosperity depends on the skills of young people leaving school and training for employment or working for further qualifications. Currently there are more than 1.5 million students on FE courses, at some 400 colleges, at an annual cost to the taxpayer and ratepayer of about £1 billion.

In order to achieve what is required of them, FE colleges must have flexibility to meet the changing needs of employers and students. The parts of the Education Reform Act relating to FE are designed to create that flexibility.

Financial Delegation. The biggest colleges providing further education have budgets in excess of £16 million and over 500 teaching staff. Yet some are still subject to unnecessary interference by their LEAs. The Act therefore provides for the governing bodies of FE colleges to be given control over their budgets. Governors will be able to:

- spend within their total allocated budgets as they think best;
- use suppliers of services other than the local authority;
- carry over a surplus or deficit to the following year;
- retain a proportion of earned income, thus giving them an incentive to maximise such income;
- select all staff, teaching and non-teaching;
- decide any reduction in staffing.

A Continuing Role for the LEA. While colleges will have the freedom to respond flexibly to local needs, the LEA will retain significant responsibilities. It will:

- have to plan provision in its area each year, and decide on the role of each college within that plan, and allocate its budget;
- have to submit a scheme to the Secretary of State embodying this plan;
- remain the formal employer of college staff;
- have the right (through the Chief Education Officer) to be consulted on the appointment of senior staff;
- have the right to receive sufficient information to monitor the college's progress;
- have the right to withdraw delegated powers if the FE college's governing body is failing in its duties.

Reform of Governing Bodies. Given reforms of this magnitude, it is essential that governing bodies should be as effective as possible. They must also be able to identify, and meet, local needs. In future, therefore, FE college governing bodies will:

- have no more than 25 members;
- have at least half of their members co-opted or drawn from business, industry, the professions and employment interests (including trade unions), all of whom must be independent of the LEA and the college;
- have no more than 20 per cent of members nominated by the LEA (though they may propose, in consultation with colleges, the composition of the remaining 30 per cent).

Mr Baker summed up the reforms in this way:

‘There is a lot of support for better planning and more delegation in FE ... FE holds the key ... for equipping many of our youngsters with the skills, training and qualifications they need’ (Conference of Council of Local Education Authorities, 15th July 1988).

(C) REFORMS IN HIGHER EDUCATION

Access to Higher Education: Wider Still and Wider. The Conservative approach to higher education (see pp. 328–30) has made it possible for more young people than ever before to benefit from higher education – at universities, polytechnics and colleges. There are 200,000 more students in higher education than there were in 1979. Then, one in eight 18 and 19 year-olds entered higher education; now, one in seven does so. And this expansion is continuing.

The Government had planned in its 1987 White Paper, *Higher Education: Meeting the Challenge* (Cm. 114), for a further 50,000 students by 1990: *it has already reached that target*. Labour, by contrast, for all their pious talk of expansion, contrived actually to restrict opportunities: the number of students *fell* when they were last in office.

Spending. It is not often realised that the UK spends a higher proportion of GDP on higher education than most other countries in Western Europe; in 1989–90 over £4 billion will be provided. And the proportion of income raised by universities, for example, from non-exchequer sources has increased – to 45 per cent in 1986–7, from 37 per cent in 1979–80.

Planning for the Future. In order to make higher education even more widely available to people from all social backgrounds, the Government is introducing major changes in the way in which it is organised – changes that will lead to enhanced quality and greater efficiency:

- polytechnics and some colleges are being removed from local authority control;
- two new Funding Councils will provide funds – one for the polytechnics and some colleges, and the other for the universities.

The Universities Funding Council. At present, funds are disbursed to the universities by the University Grants Committee. However, the Croham Committee, which reviewed the workings of the UGC and reported early in 1987, recommended that a new Universities Funding Council should oversee the planning and funding of the universities. The Act gives effect to those recommendations.

How the UFC will Work. The UFC (like its counterpart for the polytechnics) will be a small body (15 members) with a strong independent representation. It will itself be independent, and will allocate the funds provided by the Government to individual universities. The Secretary of State will retain – in view of the large sums of taxpayers' money involved – a ‘last resort’ power to direct the Council, as he has at present in relation to the UGC.

A key recommendation of the Croham Committee was that the new Funding Councils should have the power to attach ‘terms and conditions’ to their funding of institutions.

The Act accordingly provides that the UFC should make funds available ‘subject to such terms and conditions as [it] thinks fit’. This phrase – commonly used in legislation – will secure the necessary level of public accountability.

However, the Funding Councils will be required to consult with relevant bodies – such as those representing university vice-chancellors and polytechnic directors – and individual institutions themselves, before imposing any terms and conditions on funds.

Future Funding of Higher Education. It would be unrealistic to expect any government to devote an ever greater proportion of public expenditure to higher education. Institutions are therefore already considering how they can attract a higher proportion of the growing national wealth into higher education. Increasingly, they are venturing into the market-place and forming links with industry and business. Institutions which are successful in attracting income from other sources will not be penalised. Mr Baker has made it clear that ‘we stand by our commitment not to reduce University public funding to offset private earnings’ (Speech to Vice-Chancellors and Principals, Oxford, 28th September 1988).

Some Vice-Chancellors (and others) have recently put forward new ideas for the way in which funds would be made available to the institutions. In particular, some have argued that the block grant to institutions could be reduced and purchasing power given to the student via a voucher. Fees could also be raised to more realistic levels so that the institutions would have a greater incentive to compete for students. As Mr Baker said:

‘It would be good for all concerned if there were incentives to pay even more attention to what suits the customer ... Your efforts would become better tuned to what your students want and the balance of power would shift towards the individual consumer and away from the centre’ (ibid.).

The Government has as yet no proposals of its own, but it is listening with interest to the growing debate amongst academics.

The End of Tenure. The Act ends the practice of appointing university lecturers to ‘tenured’ posts. This means that academics appointed on, or after, 20th November 1987 will not have a ‘job for life’, irrespective of whether there remains a job to do, or of their competence to perform it. Dons who had tenure on 20th November last year will retain it – until they change jobs. Labour has pledged to restore tenure.

Five distinguished University Commissioners are to be appointed by Parliament to oversee this reform and to amend individual University Statutes. Their Chairman will be Lord Fraser of Tullybelton.

Maintaining Academic Freedom. An argument often used to justify the practice of tenure was that it reinforced the freedom of academics to speak or write as they wished on controversial issues without fear of losing their jobs.

During the debate in the House of Lords, Lord Jenkins of Hillhead moved an amendment – which the Government has accepted – to put it beyond doubt that that traditional right of academics should be preserved. The University Commissioners, therefore, will be expected to have regard, in carrying out their functions, to the need ‘to ensure that academic staff have freedom within the law to question and test received wisdom, and put forward new ideas and controversial or unpopular opinions, without placing themselves in jeopardy of losing their jobs or privileges they may have at their institutions’ (s. 200(2)(a) of the 1988 Act).

Polytechnics and Colleges. The case for removing them from local authority control is clear. They recruit nationally (85 per cent of students on HE courses in polytechnics and colleges in England study outside their own LEAs). They are large, well-established institutions with, on average, more students than the universities; yet they remain subject in some instances to detailed local controls, designed for smaller institutions. The existing arrangements for national planning of higher education gave undue weight to local authority interests (through the National Advisory Body).

Building on Success. The new Polytechnic and Colleges Funding Council (PCFC) will, like the UFC for the universities, act independently of government in distributing resources. These new arrangements will help attract yet more students into higher education from a wider range of backgrounds. The new body is expected formally to assume its role on 1st April 1989; it will fund all 29 polytechnics in England and over 50 colleges.

Mr Baker made clear that this was a natural development:

‘Under [LEA] direction, the polytechnics and colleges have acquired a high reputation, particularly for education in technological and vocational subjects ... With maturity,

comes independence' (Conference of Council of Local Education Authorities, 15th July 1988).

Student Grants: A Uniquely Generous System. More is spent per student on higher education in the UK than in most other developed countries, mainly because of the high cost of student support. The 390,000 students in England and Wales who are receiving mandatory awards this year will cost the taxpayer almost £500 million in maintenance grants alone. This generous system is an increasing burden on parents and taxpayers. Yet it is the students who benefit most: higher education is an investment which provides a return of about 25 per cent to students yet only 5 to 8 per cent to the country.

Despite this generosity fewer young people from all backgrounds, especially blue-collar ones, enter higher education than in other European countries. The Government is determined to improve access. As Mr Robert Jackson, Parliamentary Under Secretary of State responsible for higher education, put it:

'With the number of 18 year-olds set to fall sharply in the 1990s, higher education faces both a challenge and an opportunity to broaden the range of those who have access to it. ... Government will also have to introduce more flexibility into the ways in which it supports higher education – including the system of student support' (Speech to Royal Society Conference, 14th June 1988).

Top-up Loans. A White Paper, *Top-up Loans for Students* (Cm. 520), was published in November 1988 following a review of student support set up in May 1986. It proposes the establishment of a top-up loan scheme, in addition to grants, as a means of enabling students to maintain themselves through a course of higher education, thus making more money available to students and widening access.

From 1990 the grant and parental contribution will be frozen and students will be entitled to a top-up loan, averaging over £400 in a full year to start with, and rising in value as the value of the grant is eroded. The top-up loan will be non-means tested and entirely optional; it will be offered at a real interest rate of zero. Repayments will not begin until the April following completion of the course, and then only if the student is earning at least 85 per cent of the national average wage. If a graduate's income is too low, repayments will be deferred.

Most students will be better off but there may be some who need additional help. Three new Access Funds will therefore be established, each of £5 million, which will support students in special financial need, and those, like postgraduates, who are not eligible for the top-up loan facility.

Budget Change to Covenants. In the 1988 Budget the Chancellor of the Exchequer abolished tax relief for payments made by individuals under non-charitable Deeds of Covenant. The parents of many students made use of the covenant facility to make over their contributions to the maintenance grant to their children; parental contributions accordingly were reduced for students enrolling after March 1988.

Student Unions. Every student in a college, university or polytechnic has to be a member of the local student union. It is up to higher education institutions themselves to decide whether they wish to fund student unions. Most local student unions vote to affiliate to the National Union of Students, though a few have chosen not to do so.

Many individual students have no wish to be represented by the NUS. Moreover, there has for some time been concern – shared by the Government – that taxpayers' money made available to student unions should be used to provide services for students – not to fund political campaigns.

On 18th April 1988 Mr Baker announced that he intended to gather information on:

- the organisation and cost of the services provided to students within universities, polytechnics and colleges;
- the legal status of local student unions;
- the organisation and financial links between local unions and the NUS.

A questionnaire was sent in the summer of 1988 to a sample of 70 institutions asking for this information. The results of the investigation will be published, and Mr Baker will then decide what action he should take. All those concerned will be consulted. But, as Mr Baker has said, ‘we must ensure that if students want to be involved in political campaigning then they should do it with their own money’ (Brighton, 14th October 1988).

(D) OPPOSITION POLICIES

1. LABOUR PARTY

The 1987 Labour Manifesto: An Assault on Choice. Labour Governments have always been the enemy of choice and diversity in the education service. Its 1987 Election manifesto showed that the present Labour Party is in the same tradition. It contained proposals to:

- *abolish sixth forms*, and ‘spread the provision of a comprehensive tertiary system of post-school education’ *Britain Will Win*, p. 9);
- *abolish grammar schools*: ‘we shall end the 11-plus everywhere’ (ibid.);
- *abolish* the Assisted Places Scheme;
- *abolish* charitable status for independent schools.

The rest of Labour's proposals were expensive pledges – too costly for Labour to be able to afford them in practice – to:

- restore the student grant to 1979 levels (even though it declined in value under Labour);

- introduce means-tested educational maintenance allowances for 16-and 17-year-olds;
- repeal the Teachers' Pay and Conditions Act – which ended the farce of the Burnham negotiating machinery;
- make available a nursery place for every 3 and 4 year-old whose parents want one.

Policy Since the Election. Labour reacted to their defeat by dropping their Education Spokesman, Mr Giles Radice, who had been educated at an independent school (Winchester College) – and substituting another product of the independent system, Mr Jack Straw (Brentwood School). Mr Straw's strategy has been to avoid almost all reference to those policies on which Labour were so soundly beaten in the election, and instead to claim important parts of the Government's education reforms as his own ideas. He has, for example, claimed to be the intellectual progenitor of the national curriculum:

‘I chaired a Working Party of the Labour Party 15 years ago, which recommended a National Curriculum ... it's a sensible way of trying to guarantee standards ...’ (‘Frost on Sunday’, ITV, 11th October 1987).

Furthermore, he said he was:

‘in favour, and so's the Labour Party, of what we call diagnostic testing, and regular and continuous assessment of children to find out how they are getting on’ (ibid.).

Since Mr Straw quickly showed himself incapable of doing anything other than holding on to Mr Baker's coat-tails, it was left to other Labour figures to attempt a more serious critique of recent Labour policies. Chief amongst these was Mr Neil Fletcher, leader of the ILEA and Chairman of the AMA's Education Committee. Mr Fletcher pointed out that about three-quarters of school children are educated by Labour-controlled LEAs. Labour cannot therefore shirk its responsibilities for the failures of the education service. In some remarkably frank speeches Mr Fletcher has questioned some of the most sacred ‘progressive’ shibboleths:

‘How do you build into a comprehensive system a real emphasis on the achievement potential of each child ... Does our system let down these children? For too many of them, if we are honest, the answer is yes’ (Socialist Education Association, Brighton, 30th September 1987).

‘Has the move away from formal rote learning ... carried the risk of de-skilling a generation, by failing to equip them with the hard-headed basic skills of literacy and numeracy which they need to survive?’ (ibid.).

Finally, Mr Fletcher drew back the veil on the way in which Labour has treated the education system – as a political tool.

'Our schools belong to parents; LEAs are their accountable agents, and teachers their servants. Schools do not exist for Councillors to control nor for teachers to exercise ideological hegemony over an entire generation' (*Times Educational Supplement*, 6th November 1987).

Labour's Policy Commitments. Under Mr Straw's stewardship, these have been few. Faced with the need to present a policy to local electors in May 1988, Mr Straw launched 'Parents in Partnership'. Ignoring the fact that the Education Reform Bill proposed the biggest shift of influence and responsibility to parents ever seen in the education system, Mr Straw posed as 'the parents' friend'. He even went so far as to propose 'regular confidential assessments by parents (and possibly older students) of the school's success in meeting their needs' ('Parents in Partnership', April 1988). Teachers, who had thought it their duty to report on children rather than vice versa, gave Labour's Spokesman a clear verdict – 'must try harder' (*The Daily Telegraph*, 27th April 1988).

Bricks without Straw. Other members of the Labour movement started to speak out – without regard to Mr Straw. Mr Kinnock, never averse to trampling on one of his lieutenants' territory uninvited, revealed in an interview by a young reporter: 'My preference is for forbidding fee charging so that these [private] schools continue to teach children but they can't sell education' (*Early Times*, 6th July 1988). Yet at the last election Labour committed itself only to ending 'public subsidies to private schools', by abolishing charitable status (*Britain Will Win*, May 1987, p. 9). More recently, Mr Hattersley, in a television interview said:

'I am personally in favour of the abolition of the fee-paying sector of education. It isn't Labour Party policy, but I personally believe it could be' (*Conference Day*, BBC2, 3rd October 1988).

Mr Graham Lane, General Secretary of the Socialist Education Association, follows a more traditional, centralist Labour line:

'We should press very strongly for neighbourhood comprehensive and tertiary colleges and stop messing about saying that every local authority should do its own thing. That's conference policy and we should campaign on it and we'd win millions and millions of votes' (*The Independent*, 14th July 1988).

The Policy Review. Labour's policy review document – *Social Justice and Economic Efficiency* (June 1988) – mentions education only twice in passing, reaffirming the Manifesto commitments on nursery education and for an education maintenance allowance for those aged 16 to 19 who are in full-time education. Mr Straw himself has costed the first proposal at £450 million a year, the second at £300 million; in fact the true cost of the latter would be over £700 million. Together they show that Labour has not progressed beyond the stage of making expensive promises it will be unable to keep.

They have made no proposals on the central issues of choice and higher standards in our schools. However, Labour spokesman Mr Martin Flannery promised that Labour would

repeal the Education Reform Act, and would force Grant-Maintained schools to return to local authority control (*The Daily Telegraph*, 28th January 1988) – a pledge that will win no sympathy from the parents who voted by overwhelming majorities, in the first two ‘opting out’ ballots, to leave local authority control.

Conference Decisions. The 1988 Labour Conference reinforced Mr Flannery's promise by passing a motion to repeal the opt-out clause in the Education Reform Act and to return any opted-out schools to local education authority control, as well as all City Technology Colleges. It also called on the next Labour government to return a unified educational service to Inner London – though earlier Mr Straw had tried to leave the question open.

2. THE SLD

Unrepentantly Left-wing. The education policies of the SLD are virtually indistinguishable from Labour's – not surprisingly, perhaps, for a Party amongst whose prominent members is the former *dirigiste* Labour Education Secretary Mrs Shirley Williams. In the June 1987 election the ‘Alliance’, like Labour, wanted to abolish grammar schools, sixth forms and the Assisted Places Scheme, and to ‘review the charitable status of independent schools’ (*The Time Has Come*, p. 88).

During the election campaign the ‘Alliance’ spokesman was Mr Paddy Ashdown, of whom Mr Baker observed:

‘I cannot find an inch of daylight between Labour and Alliance education policies. Not once has Mr Ashdown found any reason to argue with the Labour spokesman’ (Yeovil, 8th June 1987).

Policy Since the Election. Mr Ashdown's response to the Government's Education Reform Bill was, like the Labour Party's, to claim parts of it as his own. As Mr Baker said:

‘Between them Labour and Liberals are claiming credit for 80 per cent of the Education Reform Bill! Yet now they are standing on their heads trying to convince people they are opposed to the Bill’ (20th November 1987).

As Mr Ashdown had nothing to propose, Mr Robert MacLennan published his own ‘twelve-point plan’ for education, a mish-mash of Conservative and Labour ideas, based on one gimmick – that everything should be described in terms of ‘opting in’. Mr MacLennan soon ran into difficulties with an idea so totally devoid of substance:

‘Opting in is therefore about shifting control over day-to-day matters decisively from town halls to schools while at the same time enhancing the role of councils in planning for their communities’ (*The Guardian*, 8th January 1988).

'Opting in' became the basis of the education section in the short-lived *Voices and Choices for All*; unfortunately for Mr Maclennan, his colleagues decided to opt out of it rather quickly. In fact, *Voices and Choices for All* simply described some aspects of the Education Reform Bill and presented them as 'Alliance' policy.

'The Learning Society'. In August 1988 the merged party published a turgid 'Green Paper' on 'The Learning Society'. It contains a recipe for greater bureaucracy and vastly increased public expenditure. It repeats the former 'Alliance' commitment to a means-tested maintenance grant for 16 and 17 year-olds, which is also Labour policy. On the other hand, it would extend the Government's proposals for testing and assessment to 5-year-olds! It would set a target for participation in higher education of '25 per cent by the year 2000, with a rising figure for the following decade' (p. 19). The SLD propose to meet this target simply by restoring 'the value of student financial support to *at least the 1979 level* (Policy Briefing, No. 2, November 1988, emphasis added). They admit that the cost of this pledge would be 'about £850 million' (ibid.).

The Enemies of Choice. The SLD's attitude to the Education Reform Bill revealed their antipathy to genuine choice for parents. They *opposed* open enrolment and opting out, and even called for financial delegation to be introduced gradually.

3. THE SDP

In education, as in other policy areas, the SDP has been casting around in a fruitless effort to find a distinctive position. This has led them to turn some startling somersaults. Mrs Rosie Barnes, for example, said:

'I think it is fair to say that we can all agree with most of the aims and objectives of the Baker Bill' (*The Best for All our Children*, Campaign for Social Democracy, January 1988).

Yet she, with her two fellow SDP MPs, voted *against* the Bill on Second Reading.

Dr David Owen, lacking any new ideas, disinterred a 1983 SDP 'consultative paper', which called, amongst other things, for the abolition of examinations at 16 (Birmingham, 26th November 1987). On the same occasion he said that 'Social Democrats have to be the champions of true choice, high standards, greater independence, and prudent financing' (ibid.). Yet Dr Owen opposed the introduction of Grant-Maintained schools.

13. THE ARTS AND HERITAGE

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(A) THE CONSERVATIVE APPROACH

The Government's policy has three main aims:

- i. To maintain the level of taxpayers' support as a means to attract increasing private sector funding, to encourage greater self-reliance as a source of greater strength for the arts.
- ii. To safeguard Britain's heritage.
- iii. To ensure that artistic excellence is available throughout the country.

The Government's Achievements. The Arts have seen expansion and development on all fronts since the Government came to power in 1979. Central government expenditure on the Arts has risen by 33 per cent in real terms since 1979–80 (46 per cent, including money given to replace funding from the GLC and the Metropolitan counties). Spending in 1988–9 is 8.7 per cent higher than in 1987–8, in real terms, at £420 million. In 1989–90, it will be £439 million.

In November 1987, the Government announced a 'new departure' in arts funding. Firm figures were set for funding the succeeding three years, providing a 10 per cent increase in the first year and a 17 per cent increase over the period. In November 1988, the Government announced the extension of the programme to 1991–2, which will mean a further rise of 6 per cent in spending.

This long-term plan will encourage subsidised bodies to become more self-reliant, particularly through incentive funding schemes.

The three-year settlement was warmly welcomed by the many arts bodies, including the Arts Council, who had been calling for such a measure. Sir Peter Hall, the then Director of the National Theatre and a critic of funding policy, said of the announcement:

'The Minister is to be thanked and warmly congratulated. It's a very nice surprise' (*The Times*, 7th November 1987).

Forging a Dynamic Partnership. The manner in which Conservative policy will continue to provide for expansion has been described by Mr Richard Luce, Minister for the Arts, who has said:

'As we move towards the last part of the century we see a growing number of people wanting to enjoy and participate in the artistic life of this country. The role of the Arts Minister is to create the best possible climate in which the arts can flourish – a climate which encourages artistic excellence and the accessibility of the arts to the greatest number of people. The way I work to achieve these objectives is primarily by plural funding – a partnership in which moneys from the taxpayer and the private sector work together for the benefit of the arts' (*Hansard*, 20th May 1988, Col. 1202).

(B) FUNDING THE ARTS AND HERITAGE

The Arts Council. Its grant has risen by 13 per cent in real terms since 1979–80 (33 per cent including ‘replacement funding’) – from £61 million in 1979 to £152 million in 1988–9. It will go up to £168 million in 1991–2.

The Council will be expected to set aside a total of £18 million for the period to 1990–1 for incentive funding schemes, and for increased touring outside London.

In March 1984 the Council's policy document *The Glory of the Garden*, enthusiastically endorsed by the Government, called for a wider distribution of resources for the Arts, in order to benefit the provinces, hitherto relatively disadvantaged compared with London. Support for new activities is focusing on 13 main centres of population across Britain.

In December 1988, Mr Luce announced an extensive review of the structure of the arts in England. It will consider whether the existing arrangements for the support and funding of the arts through the Arts Council and the Regional Arts Association can be improved.

On the abolition of the GLC and the Metropolitan counties, claims were made by opposition politicians that the Arts would suffer budget cuts. In fact in 1986–7, the Government made another £43 million available, including £25 million for the Arts Council to work in partnership with the successor local authorities in the maintenance of arts spending.

Supporting the Other Main Arts Bodies. It is not only the Arts Council which has benefited from the substantial increases in funding provided by this Government.

British Film Institute. Its grant has risen from £4.9 million in 1979–80 to £11.3 million in 1988–9. Including ‘replacement funding’, this represents a real terms increase of 23 per cent since 1979–80.

National Film and Television School. Its grant has risen from £700,000 in 1979–80 to £1.6 million in 1988–9, an increase of 32 per cent in real terms.

Museums and Art Galleries. Central government expenditure on national museums and galleries has risen by 26 per cent in real terms since 1979–80. Total funding in 1988–9 is £154 million; this will rise to £174 million in 1991–2. Much of the increase will be devoted to essential (often overdue) maintenance work on the buildings – which the trustees have stressed, and the Government accepted, is a priority.

Changes to the grant-in-aid status of the National Museums and Galleries in 1986–8 enables them to get the full benefit from the income they generate, without losing any of their central government funding.

There has been a dramatic growth in the number of museums and galleries; there are now over 2,000 in the country – the great majority privately owned and run – the total having doubled in the last twenty years. These include projects such as Quarry Bank Mill at Styal, Cheshire and the museum of industrial archaeology at Ironbridge in Shropshire.

Government funds have helped to provide major new galleries, e.g. at the V&A (the Theatre Museum), the new Tate Gallery in Liverpool and the Imperial War Museum redevelopment project. Appeals on behalf of the Royal Academy, Dulwich Picture Gallery and the Courtauld Institute have all been supported by the Government.

Better Targeting of Resources. Funding has also been directed towards better conservation and display. As Mr Luce said:

‘I regard it as of primary importance for the magnificent treasures of our national museums and galleries to be seen all over the country and indeed the world’ (ibid., Col. 1207).

To help achieve this the Government has set up a travelling exhibitions unit at the Museums and Galleries Commission. A similar unit was abolished by the Labour Government in the late 1970s.

Loans for exhibitions are also helped by the Government's Indemnity Scheme, which provides insurance cover for exhibits. At the end of March 1988, the scheme was supporting loans of items worth about £600 million.

Libraries and Literature. Central government spending on libraries rose from £75 million in 1987–8 to £90 million in 1988–9; it will reach £111 million in 1991–2. Total book stocks have increased from 110 million to 115.6 million, and borrowings per capita have remained high – over 1.4 million books are issued every day. The total number of all types of service points has also increased – up from 13,900 in 1979–80 to 17,596 in 1986–7.

The Government is keen to ensure that library authorities increasingly target those with special needs such as the elderly, hospital patients, prisoners and the minority communities, through greater expenditure on staff, materials and training. This policy has produced significant results. The number of library service points in old peoples' homes, hospitals and day-care centres increased from 9,274 in 1980–1 to 13,835 in 1986–7.

The Green Paper, *Financing our Public Library Service* (Cm. 324), published in February 1988 reiterated the Government's commitment to maintain the basic free library service. In the words of Mr Luce:

‘The Green Paper seeks to explore ways in which, while that free service is preserved, public libraries might generate more income, achieve improved value for money and better service to the public’ (ibid., Col. 1204).

To help libraries in these objectives the Government has launched the Public Library Development Incentive Scheme, with £250,000 a year. The first awards have already been made to a wide variety of authorities and projects.

The British Library. The Government began construction of the new unified library, on a 9·8 acre site at St Pancras, in 1981, after years of delays. Stage 1A, costing £300 million is due to be completed in 1993. The Government has approved the final stage of the Library, which is scheduled for completion in 1996 at a cost of £90 million. As Mr Luce has said:

‘For the first time we are providing a specific, purpose-built home for the library – bringing together under one roof the majority of the Library's reference collections, which now occupy nineteen buildings around London ...in a controlled, pollution-free environment ... essential for their preservation. This new Library will be one of Britain's greatest cultural achievements’ (British Library, St Pancras, 21st June 1988).

Money for the Library's running costs and purchases will rise from £51 million in 1987–8 to £56 million in 1991–2.

The Public Lending Right Scheme was introduced by the Government in 1982 to protect the interests of authors. 16,000 authors are now registered and funding has been raised to £3·5 million a year from 1988–9, its highest ever (there will be a further increase to £4·25 million in 1991–2).

Heritage. The Government is determined to ensure that our national heritage is preserved – and made more accessible for the public at large. To this end, it created the National Heritage Memorial Fund in 1980. Total public funding to date has been over £105 million, including a special injection of £20 million in October 1987. £3 million is provided annually, and money is also available to meet the cost of large and important acquisitions.

Despite enormous price rises in recent years, the Government provided funds to save Calke Abbey, Kedleston Hall, Weston Park, the Nostell Priory furniture, the Armoury at Littlecote House, and much else. This is in marked contrast to Labour's failure to save the Mentmore collection in 1977.

In addition, important changes were made to the ‘acceptance-in-lieu’ tax arrangements in July 1985. These allow access to the Treasury's contingency reserve for acceptances up to an average of about £10 million per annum, in addition to the annual £2 million vote provision. In 1987–8 the Reserve provided over £7 million for the acquisition of Constable's ‘Stratford Mill’, Picasso's ‘Weeping Woman’ and Gainsborough's ‘Captain Wade’. The last two also benefited from the Government's ‘hybrid arrangement’, under which the difference between the tax owed and the value of a work can be met by the organisation accepting the work.

In March 1987 the Government announced that it would waive interest charges on the tax due on objects offered in lieu of tax.

Encouraging Private Generosity. The Government's taxation policies have already encouraged private benefactors to make many generous gifts. For example, Mr J Paul Getty II gave £50 million to the National Gallery in 1985 to provide endowment income for purchases. The Sainsbury family is providing the whole cost of a new wing for the National Gallery's Renaissance collections. The Clore Foundation provided the new wing at the Tate Gallery for the Turner collection. The British Film Institute has raised over £9 million from private sources for a Museum of the Moving Image, which opened in September 1988.

The Government's Business Sponsorship Incentive Scheme, introduced in October 1984, has helped to increase business sponsorship from £500,000 in 1976, to over £30 million in 1987–8. There are two categories of eligible sponsorship:

- i. £ for £ matching grants for sponsorships of £1,000 or more from companies which have not sponsored the arts previously.
- ii. Grants of £1 for every £3 of additional sponsorship from existing sponsors, who have increased their total commitment to the arts by more than £3,000.

In each case there is an upper limit of £25,000 on Government contributions.

BSIS has brought an additional £21 million and some 900 new sponsors into the Arts. For every £1 of taxpayer's money, £2.40 has come from the private sector. 90 per cent of first-time sponsors are interested in continuing their sponsorship. 70 per cent of all awards go to organisations outside London. The scheme is being strengthened and extended in 1988–9 with a budget of £3 million (an increase of over 60 per cent).

Arts Marketing Initiative. The Government's Arts Marketing Scheme, set up in December 1986, made awards of £165,000 to 22 arts organisations. It also provided marketing consultancy to a further 84. The weakness in marketing expertise in some arts bodies, which the scheme revealed, led to further Government initiatives including the 'distance learning' package consisting of an instructional video and supporting literature on arts marketing and training courses for senior management.

Private Giving. The Government has acted to encourage this by:

- Exempting gifts and bequests to charities from Capital Transfer Tax;
- Making the cost of employees seconded to charities by companies deductible from Corporation Tax;
- Reducing the individual covenant period from 7 to 4 years (the number of new deeds of covenant increased from just under 600,000 in 1980 to 830,000 in 1985);
- Introducing a new payroll giving scheme which allows individuals giving to charity to authorise their employers to deduct up to £240 a year from their salaries before tax;

- Allowing public limited companies paying dividends to make single donations to an arts body, which will then be able to claim back the corporation tax as under a 4-year covenant;
- Abolishing the £10,000 limit for higher rate relief on covenanted donations by individuals and companies.

(C) OPPOSITION POLICIES

1. LABOUR PARTY

In 1987 Labour said that they intended to ‘double’ funding for the Arts (*The Guardian*, 24th April 1987).

Mr Mark Fisher, Labour's Arts Spokesman, said that Labour ‘would bring together not only arts and libraries, museums, galleries and crafts, but bring with them publishing, photography, film, press, video, satellite and radio in one unified Ministry for the Arts and Media’ (*Hansard*, 12th March 1987). No Party had ever sought to intervene so drastically in the nation's cultural life. Mr Fisher claimed that this could be achieved by a ‘one-off capital fund for housing the arts’. Typically, no attempt was made to cost this pledge.

Labour's 1987 Manifesto reaffirmed the commitment to establish ‘a Ministry for the Arts and Media with responsibility for the arts, crafts, public libraries, museums, films, publishing, the press the record industry, the development of broadcasting and access to it, fashion, design, architecture and the heritage’ (*Britain will Win*, p. 14). Yet since 1987 Labour has been largely silent on the issue: no statement on it appeared in the 1988 policy review.

As regards arts funding, Labour's record is lamentable: in two of the five years of their last government, it *fell* in real terms.

Labour and the Elgin Marbles. Mr Kinnock (who had never previously shown an interest in the subject) suddenly pledged to restore the Marbles to Greece, after a visit there in 1984. This would create a disastrous precedent, inevitably producing scores of further demands for the return of works from our national collections. If the logic of this position was pursued, nearly all the great collections in the world would be broken up.

2. THE SLD/SDP

Their approach combines promises of funding increases with generous borrowings from the Government's policies. For example, the 1987 ‘Alliance’ Manifesto promised to ‘decentralise funding for the arts’, a policy already proposed in the Arts Council document *The Glory of the Garden* in 1984, and implemented via the Regional Arts Associations, and the Scottish and Welsh Arts Councils.

On funding for the Arts, they also adopted the Government's policy. In 1984, the Liberal document 'The Arts, Artists and the Community: A Liberal Manifesto for the Arts' did not mention the encouragement of non-governmental funding, except to dismiss it as of 'marginal importance'. However, by 1986, they were saying that the promotion of 'diverse sources of finance' was 'even more important' than increasing government support, and the 1987 'Alliance' Manifesto referred to developing 'a mix of public and private funding' – though at the same time it called for a doubling of the arts budget.

Like Labour, the 'Alliance' were obsessed with the idea of creating a full-blown Ministry, with a large budget. This would inevitably increase political interference with arts organisations; yet they profess to believe such a growth of government activity quite compatible with the independence of the arts bodies.

Neither the SLD nor the SDP has produced a policy for the arts since the collapse of the 'Alliance'.

14. HOME OFFICE AND LEGAL MATTERS

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(A) LAW AND ORDER

1. THE CONSERVATIVE APPROACH

A Partnership to Combat Crime. Alone among the major Parties, the Conservatives are unambiguously committed to upholding the rule of law, supporting the police, and tackling crime at its roots. Conservative policy recognises that the fight against crime involves the Government, the police and the law-abiding public – in particular, all those 'active citizens' who are ready to serve their community.

The Government has discharged its responsibilities fully. It has taken resolute action to protect the public against violent crime, and to reduce the fear of crime – particularly amongst the most vulnerable sections of the community, such as the elderly, women and children. It has provided far more resources for the police and the criminal justice system,

and strengthened their powers. And it is tackling the roots of crime through crime prevention projects, educational initiatives, and other measures designed to enable individuals themselves to do more to help combat crime.

Freedom and Responsibility. For too long the expansion of the state into every area of national life, social and economic, was allowed to weaken personal moral responsibility. Educational and social policies which often had the effect of reducing parents' responsibility for their children, and children's sense of responsibility for their own actions, must carry a large part of the blame. The Home Secretary, Mr Douglas Hurd, has stressed the crucial need for a strengthened sense of responsibility to reverse these harmful post-war trends:

‘Two great themes – freedom and responsibility – embody and sustain the Conservative political tradition. These two ideas are interdependent ... If you want a society that is both prosperous and cohesive, then you have to have them both. Take away from people their freedom to decide how to plan their own lives, and any notion of personal or social responsibility will wither. It is also true that unless people have a lively sense of the responsibility which they owe to themselves and to others, liberty will degenerate into licence’ (Speech to Kincardine and Deeside Conservatives, 25th June 1988).

It is this philosophy which underlies the Conservative approach to what are now recognised as the most crucial aspects of the problem – namely the need to recreate responsible social attitudes, and to enlist the public fully in the campaign to bring down crime.

2. CRIME IN THE 1980s

Signs of Improvement. Throughout the industrialised world there has been a steady increase in crime rates since 1945. This has continued under governments of every political complexion. However, there may be reason to believe that, in Britain at least, this rise is slowing down. Indeed, in certain categories of crime, there are signs that the upward trend is being reversed. The average annual increase for the last 30 years has been around 6 per cent. In the year to April 1988 it only rose by 1 per cent, and in the twelve months to September 1988, it actually fell by 3 per cent. Several metropolitan areas saw sharp falls: overall crime was down by 10 per cent in the West Midlands and Merseyside, and by 8 per cent in Greater Manchester. But violent crime rose by 13 per cent in the same period.

Key Facts about Crime. In considering the crime figures, the following points should be borne in mind:

- i. The vast majority of all crimes – about 94 per cent – are against property. Violent crime – which, of course, causes the greatest concern – accounts for the remaining 6 per cent.
- ii. The most common types of crime against property are thefts of, or from, motor vehicles and damage to them (which together account for 25 per cent of all

- crime). Many of these offences are opportunistic, and occur because vehicles are left unlocked.
- iii. Many burglaries take place as a result of inadequate precautions by householders. In 40 per cent of cases of theft, burglary and robbery, the value of the goods stolen is under £100.
 - iv. The steady rise in recorded crime over the last four decades is in part due to a greater willingness on the part of the public to report incidents. Most households have valuable possessions, and far more homes are insured today than ever before. Much wider ownership of telephones also makes the reporting of crime much easier.
 - v. The police are now including more crimes of domestic violence in the crime figures. People are also showing more readiness to report such crimes.

Clear-up Rates. The clear-up rate for all crime in England and Wales rose from 32 per cent in 1986 to 33 per cent in 1987. About three-quarters of all crimes of violence against the person – including sexual offences – are solved. 97 per cent of homicides are cleared up.

3. POLICE AND PUBLIC ORDER

Police Resources and Manpower. Under this Government, the police have received a greater increase in resources than any other major public service. In 1978–9, total spending in England and Wales was £1.1 billion. In 1988–9 it will be £3.47 billion, a rise of 53 per cent after allowing for inflation.

Total police manpower has risen by over 20,000 since 1979 (including 13,000 extra police officers), and now stands at a record 165,000. In 1989 another 1,100 police officers are to be recruited – with further substantial increases to follow. In order to help police authorities to recruit up to establishment levels, the level of Police Grant paid by central government has been increased from 50 to 51 per cent of spending.

The Metropolitan Police has gained 5,635 extra officers and 1,204 more civilian staff since 1979. When Labour left office, it was over 4,000 officers below its full establishment level. Now it has almost reached its establishment, the total itself having been considerably increased.

A great deal of desk work has been transferred to civilians from police officers, enabling the latter to return to the beat (between 1982 and 1987, 2,800 officers in provincial forces did so).

Police Recruitment and Training. The initial training course for probationers has been increased from 10 to 14 weeks. There is now much greater emphasis on understanding the problems and practical issues which officers will face in the performance of their duties. About 20 per cent of recruits are now women, and 11 per cent are graduates.

Attracting More Officers from Ethnic Minorities. The number of police officers from the ethnic minorities stood at 1,150 in December 1988, following an increase of 150 per cent in five years. The West Midlands force has introduced a 20-week intensive course for members of the ethnic communities who wish to become police officers, but who fail narrowly to meet the educational entrance requirements. The Government has supported these initiatives by undertaking an annual national advertising campaign in the ethnic press, and by holding a national conference of recruitment officers.

Police Powers. The Government has acted both to strengthen and to clarify police powers in criminal investigations, while at the same time providing new safeguards against any abuse of those powers.

The Police and Criminal Evidence Act 1984 represented the most thorough overhaul of police powers since the 1820s (for details, see *The Campaign Guide 1987*, p. 376); the Public Order Act 1986 gave the police stronger powers to avert disorder on the streets, whatever its character – inner city disturbances, industrial disputes, or football hooliganism. The Act created a new offence of disorderly conduct to protect vulnerable people from intolerable behaviour likely to cause distress, harassment or alarm. The police were given new powers to prevent serious public disorder by imposing conditions on static assemblies, such as pickets, and to ban marches; the exercise of such powers is subject to judicial review.

The Government extended the scope of the legislation to empower the police to evict groups of trespassers who threaten a landowner or who appear likely to damage property – such as the so-called ‘peace convoy’ of hippies who occupied farmers’ land in the early summer of 1986.

And in two other areas the 1986 Act gave the police powers with which to tackle specific problems: first, the offence of incitement to racial hatred was made more wide-ranging to include cases where the *intention* of the accused is to stir up hatred; second, the Act enables the police to limit the gate and to impose conditions on football matches at which trouble is expected. Exclusion orders may also be made against offenders.

Safeguards for the Public. The Police and Criminal Evidence Act provided new safeguards against the abuse of police powers. The circumstances in which a warrant to search for evidence may be obtained from a magistrate are set out in the Act; there is a statutory right to legal advice on arrest; and Codes of Practice govern the detention, treatment, questioning and identification of suspects, and the power of stop and search.

The tape recording of interviews is being extended to all police forces, after a trial in six areas. The **Home Secretary summed up the advantages:**

‘Tape recording provides an extra safeguard for the citizen. It both increases civil liberties and makes it more likely that the guilty will be brought to book’ (Oxford, 6th November 1987).

The Independent Police Complaints Authority, set up under the 1984 Act, is now firmly established. Former and serving police officers are barred from membership. In its first year of operation it processed 10,000 complaints.

Issue and Use of Police Firearms. Though particular incidents in which the police have to use firearms attract great publicity, the number of occasions on which firearms are issued to officers is falling. Weapons were actually used by the police on only seven occasions in 1985, and only once in 1986. In New York City, by contrast, police guns were fired on 283 occasions in 1985.

A review was carried out in 1987 of all the procedures relating to the use of firearms by the police, following a small number of tragic incidents. Every police force now has a specialist firearms team on 24-hour duty; the effect of this has been to reduce the number of officers authorised to use firearms. The police may carry guns only when they may have to face a person who is either armed or so dangerous that he could not safely be restrained without their use.

Firearms. The Government began a review of the law governing firearms and shotguns early in 1987, in response to growing public concern at the use of weapons in crime. The review received added impetus from the tragic events in Hungerford on 19th August 1987, when Michael Ryan, using a legally-held Kalashnikov semi-automatic rifle and a Beretta pistol, shot dead 16 people.

Firearms and Crime: Key Facts. Before the passage of the Firearms Act 1988 there was no legal obligation on owners of shotguns to keep their weapons safe. Although the vast majority took adequate precautions, there were more than 800 incidents in 1986 in which shotguns were reported to have been stolen – including 537 thefts from residential property. Stolen weapons are frequently used in the commission of further crimes. In 1986, 9,363 such offences were recorded by the police.

The weapons most frequently used in the commission of serious crime in 1986 were pistols (1,314 incidents) and shotguns (1,160). The number of offences recorded by the police in which firearms were reported to have been used by offenders quadrupled between 1972 and 1986.

Balanced Controls. The Government put forward its proposals to tighten the controls of shotguns and firearms in the White Paper, *Firearms Act 1968: Proposals for Reform* (Cm. 261), published on 2nd December 1987. The Firearms Act 1988 gives effect to the changes.

The Act has two main aims. *Firstly*, to ensure, as far as possible, that the public is protected from the irresponsible or criminal use of firearms and shotguns; and *secondly*, to protect the rights of those who use these weapons for sport or work.

Total protection for the public is impossible, as Mr Hurd has emphasised:

‘There is no point in pretending that by making changes in the law we could guarantee the safety of the public against the quiet, withdrawn citizen who answers every question, fills in every form and keeps every law until the moment comes when he commits an atrocious crime. We cannot give Hungerford an absolute guarantee against Ryan. Nevertheless, we must strengthen the law ... We must do what we sensibly can to ensure that legal authority is not given to dangerous people and to ensure that guns which are legally authorised do not pass thereafter into dangerous hands’ (*Hansard*, 26th October 1987, Cols. 36–7).

The Main Features of the Act. The principal provisions are as follows:

- *Prohibited Weapons.* Special authority from the Secretary of State was already required for the manufacture, sale, acquisition or possession of a prohibited weapon; private individuals are not normally allowed to possess them. Fully automatic weapons such as machine guns, were already prohibited; the Act adds high powered, self-loading rifles (such as Kalashnikovs), burst fire weapons, and military-style self-loading, or pump action short barrelled, smoothbore guns, to the list of prohibited weapons. Portable rocket-launchers, bazookas and mortars are also banned. Although they are used to a limited extent for sport, high powered self-loading rifles are particularly dangerous weapons; burst fire weapons have no legitimate sporting use.
- *Shotguns.* Pump action and self-loading shotguns, which have a greater firepower than traditional single and double-barrelled shotguns, are now subject to more stringent forms of control (known as Section 1 controls) – which already apply to rifles, pistols and short-barrelled shotguns, and to especially dangerous air weapons. A certificate issued by a Chief Officer of Police is required for the acquisition or possession of such a weapon. An applicant must be fit to be entrusted with a firearm and have *good reason* for wanting it.

The rules governing the possession of traditional shotguns, while less stringent than those for guns of superior firepower, have also been tightened. Chief Officers of Police are required to be satisfied that an applicant can be permitted to possess a shotgun without danger to the public; they may refuse a certificate where they are satisfied that an applicant has no good reason for acquiring or possessing a shotgun.

Owners will be under a statutory obligation to keep their shotguns in a secure place; and to list each shotgun on their certificate. Possession of a shotgun without a valid certificate will be punishable by three years' imprisonment or a fine or both (the current penalty for illegal possession of firearms).

- *Further Measures Against Abuse.* In order to reduce the risk of the unauthorised use of firearms, a firearm or shotgun certificate will have to bear a photograph of the holder. Any firearm which has been deactivated, or converted from a higher classification to a lower one, will retain its original, higher classification. This is because converted weapons may easily be re-converted to their initial capability.

The Secretary of State will take powers to designate any repeating firearm or shotgun which may be developed as prohibited, if it appears to him to be especially dangerous. Finally, the Secretary of State's power to approve rifle clubs has been extended to pistol clubs. Clubs will have to satisfy a number of strict criteria in order to qualify, and approval will be renewable on a six yearly basis.

Firearms Amnesty. On 1st September 1988, the Home Secretary launched an amnesty for illegally-held weapons, so that owners could rid themselves of them. The last two amnesties, in 1965 and 1968, yielded 41,000 and 25,000 weapons respectively. This one removed 42,725 firearms from circulation.

Knives and Other Offensive Weapons. The 1987 Conservative manifesto contained a commitment 'to strengthen the law dealing with the sale and possession of offensive weapons'. This pledge has been fulfilled. Under the Criminal Justice Act 1988, it is now an offence to carry a bladed or sharply-pointed instrument in a public place without good reason. There are exceptions – for example, penknives with blades up to three inches long, and knives carried as part of a national or religious costume. The police have the power to stop and search, if they have good reason to believe that an individual is carrying a knife.

The Act has also made it an offence to manufacture, sell, lend, give, or import certain specified weapons, which do not have legitimate sporting uses – such as knuckledusters, swordsticks, and certain so-called 'martial arts' weapons, such as 'death stars' and spiked balls on chains.

Alcohol and Public Order. Violent crime and vandalism are often the result of excessive drinking. The Government is determined that the law should be strong enough, and applied consistently enough, to control this problem. As Mr Hurd has said:

'Stupid drinking pushes too many people into crime ... The Government does not want to restrict individual freedom ... But we are also concerned to make sure people understand the dangers' (Speech to the Coventry Justices, October 5th 1988).

The Government has acted through the Ministerial Group on alcohol misuse, and Baroness Masham's Working Party on young people and alcohol. A number of significant initiatives have been taken:

- The law on under-age drinking has been strengthened by the Licensing Act 1988 (see p. 380) which introduced stiffer penalties. Licensees now have a much greater responsibility to ensure that they do not serve under-age customers. (Licensing justices have always had very extensive powers – for example, to order all licence holders to close their premises in areas of likely disorder).
- The advertising industry has issued tough new codes of practice; alcohol advertising must not be aimed at under-18s.
- The duty on low-strength drinks was reduced in the March 1988 budget.

- The High-Risk Offenders Scheme, originally introduced in 1983, has been strengthened: convicted drink-drivers will be required to pass a medical test showing that they do not have a drink problem before their licences are restored if they (i) were 2½ times over the legal limit; (ii) refused to provide a specimen; or (iii) had been previously disqualified for a lesser offence.
- Six local authorities are imposing an experimental two-year ban on drinking in public under their own bye-laws, with the Home Secretary's approval.
- The possession and consumption of alcohol on all public transport to, and from, designated sporting events has been banned.

Beating the Football Hooligans. Following the atrocious, violent behaviour of England supporters at the European Football Championships in June 1988 in West Germany, and serious incidents during the 1987–8 domestic season, the Prime Minister met the football authorities on 6th July 1988 to determine how best to tackle football hooliganism. As a result, it was agreed that a Working Party – composed of representatives from the police, the football authorities and the Government – should examine the idea of a National Membership Scheme for football fans. The final agreed report of the Working Party was published on 9th November 1988.

In January 1989 the Government published its Football Spectators Bill which will enable a National Membership Scheme to be introduced and a ban imposed on convicted hooligans travelling abroad.

The Need for a Membership Scheme. A number of measures have already been taken in an attempt to reduce incidents of hooliganism at football matches:

- closed circuit TV has been installed at almost all grounds;
- there has been greater segregation of supporters and more concentrated policing;
- the Public Order Act 1986 gave the police additional powers to deal with hooligans.

Despite these measures hooliganism remains a serious problem. Last season, for example, there were 6,147 arrests – *11 per cent more than the year before* – and 6,542 people were ejected from grounds. Violent incidents are not the only problem. Aggressive and provocative behaviour by rival supporters creates a hostile atmosphere which provokes fear amongst innocent bystanders and residents who live near a ground. On the other hand at Luton, there has been only one arrest at League matches since the implementation of their 100 per cent home members only membership scheme. This contrasts with the catalogue of violence in the year before the scheme was introduced, culminating in the appalling scenes at the Luton v. Millwall match in 1985. And Luton's income from the game has risen sharply since their scheme was introduced.

The Football Spectators Bill will introduce two important measures to reinforce the Government's determination to stamp out football hooliganism once and for all. It provides for:

- i. the establishment of the Football Membership Authority, which will draw up and implement a comprehensive football membership scheme, under guidelines laid down by the Bill and with the approval of the Secretary of State.
- ii. restrictions on convicted hooligans travelling abroad to watch matches designated by the Secretary of State as likely to be a focus for English hooligans.

The Bill establishes the framework for a scheme, not the scheme itself. The Government has asked the football authorities to draw up a practical, workable scheme for approval and run it in due course. This would ensure that it took account of the needs of football. Some features will need to be included in any scheme approved by the Government:

- All league grounds will have to be licensed to admit supporters to any designated match. Failure to abide by the law could lead to the revocation of the licence.
- Anyone attending a football match – with a few possible exceptions (for instance the disabled) – will have to have a valid membership card (one card will admit him to any match).
- Known hooligans will not be granted membership; they will be excluded altogether from football matches. Any football hooligan convicted in the future will have his membership taken away.

Preventing Hooligans from Travelling Abroad. The Government is putting a stop to football supporters dragging England's name through the mud by their behaviour overseas. From the time when the Bill becomes law:

- the courts will be able to stop convicted hooligans from travelling overseas in order to prevent violence or disorder at matches played abroad;
- convicted football hooligans may have to report to a police station or other designated place at the time when specified matches are being played abroad.

These tough measures should help restore law and order in and around football grounds. They should also give football the chance of a fresh start and the opportunity to attract back some of the millions of fans it has lost since the war. It will also make it much likelier that English clubs will be readmitted to European competition.

4. STRENGTHENING THE COURTS

Tougher Sentences. While sentencing in individual cases must remain a matter for the courts, the Government has an obligation to ensure that they have adequate penalties available to them. The Government has responded to public concern about crimes of violence in particular, by raising maximum sentences, and by extending the categories of crime which attract a maximum sentence of life imprisonment.

Murder already carries a statutory sentence of life imprisonment. Those who commit murders of policemen or prison officers, terrorist murders, sexual and sadistic murders of children, or who commit murder with firearms in the course of a robbery, can now expect

to serve at least 20 years in jail. Offenders who remain a danger to society will never be released.

The Criminal Justice Act 1988 raised the maximum sentences for other serious crimes. Trafficking in Class A drugs, attempted rape, and going equipped with a firearm for criminal purposes, all now carry a maximum penalty of life imprisonment.

For indecent assault on a woman, or cruelty to children, the maximum penalty has been raised from 2 to 10 years. The maximum term for corruption and insider dealing is now 7 years.

The Judiciary Responds to Public Concern. The courts *are* handing out stiffer sentences: the average length of sentences over the last four years has increased by some 60 per cent for rape, and sentences for robbery have increased by 25 per cent over the last two years.

Action on Over-Lenient Sentences. Excessively lenient sentences for criminals can undermine public confidence in the judicial system. The Criminal Justice Act 1988 therefore empowers the Attorney-General, with the leave of the Court of Appeal, to appeal against an excessively lenient sentence passed in the Crown Court. The Court of Appeal will be able to order an increased sentence, up to the maximum that the lower court could have passed for the offence in question.

Retrials. Occasionally, a person convicted at the Crown Court is later acquitted because of a technical defect in his original trial. It is unacceptable that a guilty man should go free for such a reason; the Criminal Justice Act 1988 therefore gives the Court of Appeal the power to order a retrial in such circumstances.

Rape. The penalty for attempted rape was raised from seven years to life imprisonment by the Sexual Offences Act 1985, and for indecent assault on a woman from two years to ten. On 21st February 1986 the Lord Chief Justice issued guidelines for the sentencing of rapists, as a result of which the proportion of convicted rapists sent to prison for five years or longer has doubled.

The Criminal Justice Act 1988 extends the statutory protection of the identity of a rape victim from the moment of the attack (at present it begins from the moment a charge is preferred). The Act also repeals Section 6 of the Sexual Offences (Amendment) Act 1976, which guaranteed anonymity to defendants in rape cases.

Confiscation of the Proceeds of Crime. In 1986 Parliament approved the Drug Trafficking Offences Act which provided for the confiscation of the assets of drug traffickers and introduced new penalties for those who 'launder' drug profits. The Criminal Justice Act 1988 extended some of these powers to other highly profitable crimes. The High Court will be empowered to freeze a defendant's assets before trial and to take possession of them after conviction. But it will only be possible to take such action if the defendant has realised at least £10,000 from the offences with which he has been charged. The sum confiscated will not exceed the total amount realised from the

offences in question. In this way the courts will be able to take effective action against all classes of crime where a substantial profit has been made.

Non-Custodial Sentences. Effective punishment and the protection of the public do not always require a custodial sentence. Of course, violent offenders must go to prison; but a young burglar, for example, could simply be confirmed in a life of crime by being imprisoned. Non-custodial sentences are very much cheaper than imprisonment, and involve less danger of reoffending.

However, alternatives to custody must be tough and demanding if the public is to trust them and the courts to use them. That is why Community Service Orders have now been strengthened: they will entail at least 21 hours of manual labour, and weekly reports on, and closer supervision of, offenders. The punishment will also involve the offender in helping the community in a practical way – for example, by removing graffiti or by repairing vandalised property. The number of Community Service Orders has risen sharply – from only 13,500 in 1979 to over 33,000 in 1986.

In July 1988 the Government published a Green Paper, *Punishment, Custody and the Community* (Cm. 424) which suggested ways in which non-custodial sentencing might be developed. It focused in particular on punishment by some degree of deprivation of liberty; on action to reduce the risk of reoffending; and on compensation to the victim and the public.

Other ideas considered in the Green Paper include:

- The tracking and supervision of offenders.
- Powers to impose a ‘curfew’ on offenders in their homes.
- Electronic monitoring (‘tagging’) of offenders.

The Green Paper makes clear that confidence in alternatives to custody would be increased if individual orders were subject to judicial supervision. It proposes, therefore, that the magistrate imposing a non-custodial sentence should be kept informed of the offender's behaviour during the course of his sentence, and should be able to relax or reimpose conditions as necessary.

The organisation of non-custodial punishment is also discussed in the Green Paper. In particular, it examines the idea of a national ‘buying agency’, which could enable private and voluntary agencies to supervise sentences, rather than leave all the work to the Probation Services.

Electronic monitoring of offenders is mooted in the Green Paper; technologies are available for keeping track of their movements, having been tested, and shown to work. The next stage is a pilot scheme for people on bail, to be introduced in 1989.

Young Offenders. The Government's policy for dealing with young offenders is embodied in the Criminal Justice Act 1982. This stressed that custodial punishment

should only be used as a last resort for those under 16. Community Service Orders were made available for 16 year-olds, and intensive programmes of punishment for some more serious offenders.

The shift away from custodial sentences for under-16s has been a significant feature of recent years. In 1981, nearly 8,000 juveniles were sentenced to custody; by 1987, the figure was down to 4,100. Those who are sent to custody are placed under a regime which takes account of the offender's age and length of sentence. The aim is to make the offender face up to his wrongdoing, and fit him to lead a law-abiding life on his release.

The Jury System. Under the Criminal Justice Act 1988 the upper limit for jury service has been raised from 65 to 70. This will increase the number of potential jurors by about two million. Many more retired people now tend to be in better health, and may wish to use their experience to make an important contribution to the community by serving on juries.

Peremptory challenge – the defendant's right to have a juror replaced, without giving any reason – has been abolished by the 1988 Act. It had become clear that, especially in cases involving several defendants, this right had been used to undermine the prosecution. As Mr Hurd has said:

‘It undermines the random character of juries, and it risks weakening public confidence in the jury system. I believe abolition is long overdue, and will strengthen the integrity of the jury system’ (Speech to the Society of Conservative Lawyers, 3rd November 1986).

5. SUPPORT FOR THE VICTIMS OF CRIME

Compensation Orders. The Criminal Justice Act 1988 extends the powers of the criminal courts, enabling them to impose compensation orders (introduced under the Criminal Justice Act 1982) instead of, or in addition to, other forms of punishment. The courts now have to consider compensation in all cases involving loss, damage or injury; if judges do not make any order, they must give the reasons for their decision.

Compensation is paid in the form of a fine, imposed on the offender, though if the offender has not been caught, or is plainly unable to make good the harm he has caused, it takes the form of a grant from the Criminal Injuries Compensation Board. The Government has been encouraging courts to use fines to compensate victims more. In September 1988 the Home Office issued a table of suggested sums of compensation for injuries inflicted in criminal incidents, ranging from £50 for a bruise, to £8,000 for serious wounds.

The Criminal Injuries Compensation Scheme has been generously funded by the Government. In the year to March 1988, it paid out £52 million to victims of crime, £3.75 million more than in the preceding 12 months. 43,054 applications were received, and 29,153 cases resolved. Under the Criminal Justice Act 1988 the Scheme has been put on

a statutory basis, giving victims who suffer significant injuries an automatic right to compensation for the first time.

A Major Step Forward. In a number of ways, therefore, the Criminal Justice Act 1988 makes major improvements for the victims of crime. As Mr Hurd has said:

‘The victim is being placed firmly centre stage by the Criminal Justice Bill. Rape victims will benefit from greater anonymity, victims of child abuse will be able to give evidence by video links, the Criminal Injuries Compensation Board will be put on a statutory footing, and courts will have to state their reasons for not awarding compensation to a victim of personal injury, loss or damage to property’ (Speech to the National Association of Victim Support Schemes, 19th October 1987).

Victim Support Schemes. There are now over 320 of these voluntary groups, which give advice and support to crime victims. It was the Conservative Government which first granted them Home Office funding in 1979. In November 1987, the Home Secretary announced that another £13 million would be made available over four years. New guidance was sent to police forces in April 1988, stressing the need to provide better information to both victims and courts.

6. PRISONS

Labour's Legacy. The problem of prison overcrowding which the Government is now tackling with vigour was exacerbated by the neglect and irresponsibility of the last Labour Government. Though the prison population grew by 14·5 per cent between 1974 and 1979, Labour actually *cut* capital spending on prisons by 20 per cent. On October 28th 1978, Mr Merlyn Rees, the then Home Secretary, was told in an open letter from the prison governors:

‘Total breakdown is imminent in the prison service ... The Home Office has produced no initiative.’

Extent of Overcrowding. In 1979, the average prison population was 42,220. Since then it has risen substantially as a result of a rise of almost a quarter in the number of cases cleared up by the police; an increase of 65 per cent in Crown Court business; and the longer sentences handed down by the courts for serious crimes. The prison population, including those held on remand and in police cells, currently stands at about 50,000, though the official total capacity of the present prison estate is only 42,500.

The Prison Building Programme. The Government is taking urgent action to tackle this serious problem; the largest prison-building programme since the Victorian era is now well under way. When the programme, along with major refurbishment work, is completed in 1995, it will provide over 24,000 extra prison places, at a cost of over £1 billion.

28 new prisons will provide 15,000 additional places. Developments at existing establishments will add another 9,000. Four of the new prisons opened in 1987, and another four in 1988.

Private Sector Involvement. The Government has also established the Prison Building Board – half of whose members come from the private sector – to improve the management of prison construction schemes. In April 1988 the Home Office invited 40 private contractors to submit outline proposals for the design, development and construction of open prisons. The Government believes that private firms may be able to provide prison places more quickly and economically than the Property Services Agency.

The Prison Service. Total manpower in the Prison Service on 31st December 1987 stood at 28,417 – following an increase of 22 per cent in the number of uniformed officers between 1979 and 1987. Over the same period, the number of inmates rose by only 15 per cent – so a marked improvement in the ratio of officers to inmates took place.

1,850 officers were recruited in 1987–8. In February 1988, the Home Secretary announced that 1,960 new officers would be recruited in 1988–9, representing a net addition of 1,360, when natural wastage is taken into account.

Pay in the prison service has been increased substantially. Overall expenditure on the prison service has risen by 43 per cent in real terms since 1978–9.

Fresh Start. In 1986, a report by PA Consultants showed that up to 20 per cent of staff resources were being wasted through restrictive practices and rigid staff deployment. A new package of working methods and terms of employment was, therefore, introduced, entitled ‘Fresh Start’. By late 1988 it had been implemented in all 121 establishments. The new arrangements provide for more flexibility in working methods, greater job satisfaction and a higher basic remuneration, while reducing excessive overtime. The changes have brought a 10 per cent improvement in efficiency.

Industrial Action by Prison Officers. Despite the Government's clear commitment to the Prison Service, the Prison Officers Association (POA) took industrial action in early 1988. This was on the grounds that staffing levels were low; in fact they have never been higher, either in absolute terms, or in relation to inmates. As Lord Caithness, the Minister then responsible for prisons, said:

‘Any resort to industrial action in the Prison Service is both unnecessary and misguided. Ensuring proper security and control in our prisons is vital, and industrial action should clearly be avoided, which in any way places this at risk’ (Home Office Press Release, 5th January 1988).

Private Remand Centres. In March 1988, out of a total prison population of about 50,000, no fewer than 11,300 were remand prisoners. These prisoners are, by definition, unconvicted, and 40 per cent of them on average are discharged without conviction, after having to endure uncongenial conditions, often for long periods.

In July 1988, the Government published a Green Paper, *Private Sector Involvement in the Remand System* (Cm. 434), setting out some of the ways in which this could bring speedier and more flexible provision than public sector management.

Time Limits on Remands. In Scotland, a system operates under which prisoners on remand have to be brought to trial within 110 days, or released. In April 1987 the Government introduced a similar system of statutory time limits in some police areas of England and Wales. The aim is to establish a limit of 56 days from first appearance before magistrates to summary trial, or 70 days to committal.

Bail Hostels. A frequent objection to the granting of bail is that the defendant is of no fixed abode, and cannot be relied on to appear in court when summoned. In 1982, the Government decided to take steps to provide hostel accommodation for such persons. 16 hostels, providing 244 places, are at present designated for those on bail, although other places are available for them in other approved hostels (also used for people on probation).

Over the financial years 1988–91, the Government will be making funds available to open another 9 bail hostels, adding about 200 more places for people on bail.

7. CRIME PREVENTION

Prevention is always better than cure. Yet this Government is the first to give proper priority to crime prevention.

Making Life Easy for the Criminal. The vast majority of recorded crime – 94 per cent – is against property. Much of it is opportunistic; it happens simply because people have not taken adequate precautions. 25 per cent of all crime is theft of, or from, motor vehicles; one in five of these would have been left unlocked. In approximately 30 per cent of domestic burglaries, the burglar enters through an unlatched window or door.

Government Action. A number of government departments have launched major initiatives to encourage effective crime prevention:

- 8,000 people are now working on crime prevention schemes, backed by the Home Office, on which over £35 million is being spent. These schemes put particular emphasis on security for the elderly and housebound.
- The Department of the Environment's Estate Action Scheme is devoting £30 million to combating crime on council estates.
- The Department of Transport is spending £15 million to fight crime on the London Underground.
- A new Government publicity campaign has been launched to heighten public awareness of crime prevention; £11·5 million has been committed to it over 3 years.

Safer Cities. It is also vital for local agencies to work together to fight crime, particularly in the inner cities. The 'Safer Cities' programme, launched in 1988, is encouraging co-operation of this kind in 20 inner city areas. So far it has been established in nine areas: Wolverhampton, Bradford, Birmingham, Coventry, Hartlepool, Lewisham, Nottingham, Rochdale and Tower Hamlets. In each case, co-ordinators are being recruited to gather teams from the police and probation services, local authorities, voluntary groups and business. Their task will be to identify particular crime problems, design solutions, see that action is taken, and monitor the results. In essence the aim of the scheme is to harness local initiative to solve local problems. The Government has provided £2.3 million for the first year of the scheme (see also p. 172).

Community Partnership. The responsibilities which rest on members of society at large, acting both individually and collectively, have been emphasised by Mr Hurd:

'Housing designers and managers, teachers, social workers, public transport providers, local businesses and key voluntary groups all should have a crime prevention dimension in their work' (Rotary Club of London, 28th October 1987).

There is no doubt that local statutory and voluntary agencies working together can reduce crime. The 'community partnership' in North Tyneside, for example, achieved a 23 per cent fall in burglaries of private homes, a similar reduction in the theft of vehicles, and an 18 per cent reduction in the amount of criminal damage.

Involving Local Businesses. The active support of local businesses is often of crucial importance in the creation of 'community partnerships'. For example:

- in 1987 National Westminster Bank gave £10,000 to fund two household security schemes, and as a result the homes of elderly people in Birmingham and in Avon were fitted with better locks and bolts;
- in Coventry, the local Chamber of Commerce has taken a leading part in a project examining the link between alcohol and crime;
- on 21st October 1987 Mr Hurd announced in Kirkby, on Merseyside, that Barclays Bank is to provide £35,000 over 3 years for a local crime prevention initiative.

Crime Concern. The 1987 Conservative manifesto contained a commitment to 'build on the support of the public, by establishing a national organisation to promote good practice in local crime prevention initiatives.' The organisation – known as Crime Concern – was launched on 23rd May 1988. It is an independent body which will develop programmes of practical action and co-ordination designed to assist local projects involving the police, local government, voluntary groups and business.

Crime Concern will build on the success of the 64,000 Neighbourhood Watch schemes which have now been set up. Initially it is being funded both by Home Office and by private sector donations. Therefore it is hoped that it will attract sufficient money from business to become largely self-financing. Mr Hurd has said:

‘There is a long way to go, but the police and public working together have started to outwit the burglar, and that is a big achievement. The figures show that rising crime is not inevitable; it can, and will, be cut back through determined action by the growing partnership between active citizens and the police’ (Swindon, 25th March 1988).

The Results. There is evidence that the Government's strategy is producing results. Overall crime fell by 3 per cent in the twelve months to September 1988: burglaries were down by 73,000, a drop of 8 per cent.

8. TERRORISM AND INTERNATIONAL CRIME

International co-operation is absolutely essential in fighting terrorism, drug traffickers and fraud. The Government has played a leading role in increasing European co-operation against terrorism – through, for example, the Trevi Group of Ministers. In addition, through the Criminal Justice Act 1988, the Government has made it easier for other states to extradite criminals from Britain (a *prima facie* case will no longer have to be proved in the English courts). And the Belgian authorities received full co-operation over those charged in connection with the Heysel Stadium tragedy in Brussels.

The Prevention of Terrorism Act 1984. The original Prevention of Terrorism Acts were passed by the Labour Government in 1974 and 1976. This Government replaced them with a new Act in 1984, which provided powers to deal with all international terrorism, as well as Irish terrorism. The 1984 Act has a five-year life; it is due to expire in March 1989.

Use of the powers under the 1984 Act helped the police to foil a summer bombing campaign of British resorts in June 1985, and to bring charges in connection with the Brighton bombing. In 1987, 54 people detained under it in connection with Irish terrorism, and 38 in connection with international terrorism, were subsequently charged with offences under other legislation. The Act therefore has made a crucial contribution to the fight against terrorism. Yet the Labour Party has consistently opposed it since 1982 (see p. 387).

A review of the Act's operation by Lord Colville of Culross QC, published in December 1987 (Cm. 264), reaffirmed the need for special legislation. Lord Colville went on to recommend that a new permanent Act should replace the existing annually renewable legislation. He also recommended that the existing powers of arrest and detention (for up to seven days) should remain and that police anti-terrorist powers at ports should be made standard and permanent.

New Improved Legislation to Combat Terrorism. A Bill to replace the 1984 Prevention of Terrorism Act received its Second Reading on 6th December 1988. The Bill re-enacts all the existing provisions, including:

- the power to proscribe organisations concerned in terrorism occurring in Great Britain and connected with Northern Irish affairs;

- the power to exclude from Great Britain, Northern Ireland or the United Kingdom persons suspected of involvement in terrorism;
- the power to arrest and detain for up to 48 hours (and for a further five days on the authority of the Secretary of State) on reasonable suspicion of involvement in terrorism; and
- powers to control the movement of passengers into and out of the United Kingdom, including provision for examination and detention and for the designation of control areas at ports.

The Bill also sets out certain new powers which are vital if terrorism is to be defeated. In particular, the Bill will:

- ban financial support for terrorism by making it an offence to be involved in handling and holding funds for terrorist purposes. The existing definition of contributing to terrorism will be extended to include activities and transactions by banks, financial institutions and other financial advisers. The offences will bring a maximum sentence of 14 years' imprisonment, or an unlimited fine, or both;
- give the police new powers of investigation to trace suspected terrorist funds. The police will be able to apply to the courts for search warrants and orders requiring specific materials to be produced, subject to certain safeguards.
- extend powers to secure the forfeiture of assets after convictions for assisting terrorism financially.

The Bill will also impose an obligation on the police to review the need for continued detention at intervals during the first 48 hours a suspect is held.

Powers of Detention: the European Court's Judgement. The Prevention of Terrorism Bill, like the 1984 Act, allows the police to detain suspects for up to a week, on the authority of the Secretary of State. This allows time for investigations – which are often complex – to be carried out.

In December 1988 the European Court of Human Rights gave judgement in the case of four people who had brought an action against the Government after being detained for a week. The Court supported the Government's right to detain people on suspicion of involvement in terrorism. However, it differed from the Government as to the length of time for which suspects might be held without being brought before a court.

The Government has no doubt that the police power of detention for 48 hours, and the 5-day extension available to the Secretary of State, are wholly justified to enable the police to carry out full investigations.

The Government may, therefore, either derogate from the Court's decision, as provided for in Article 15 of the Convention, or introduce a judicial element into the procedure at an earlier stage, to comply with article 5-3. These are complex issues; it would be wrong to make a hasty decision.

Broadcasting and Terrorism. In October 1988 the Home Secretary issued a notice to the Chairmen of the BBC and IBA, requiring them to refrain from broadcasting on TV or radio any direct statements by representatives of organisations proscribed in Great Britain and Northern Ireland, and by representatives of Sinn Fein, Republican Sinn Fein, and the Ulster Defence Association (which are not proscribed organisations). The broadcasting of any statements supporting, or inviting support, for these organisations is also banned. The ban does not apply to Parliamentary proceedings or to TV or radio news reports of the actions or opinions of the named organisation; nor are there any restrictions on newspapers. Furthermore, the full force of the restrictions will not apply during election periods, so broadcasters will be able to fulfil their obligations under the Representation of the People Act to provide impartial coverage of elections.

There is clearly widespread public support for these restrictions, which deny to those who propagate terrorism the opportunity to justify their criminal activities which radio and television provide. Similar provisions to those announced by the Home Secretary have applied in the Republic of Ireland for some years. However, supporters of terrorism have been seen and heard on programmes in Northern Ireland – causing grave offence to those who live there. As a result of the Government's measures, such appearances are no longer possible.

Summing up the Government's position, Mr Hurd said:

‘Broadcasters have a dangerous and unenviable task in reporting events in Northern Ireland. This step is no criticism of them. What concerns us is the use made of broadcasting facilities by supporters of terrorism. This is not a restriction on reporting. It is a restriction on direct appearances by those who use or support violence’ (*Hansard*, 19th October 1988, Col. 885).

Extradition. It is essential that there should be effective arrangements for returning serious offenders from one country to another in order to stand trial. The United Kingdom has, in the past, had legitimate cause for complaint when foreign courts, in nations which share our democratic values, have refused to return serious criminals to face trial in this country.

However, our own extradition law was amongst the most restrictive in the world, given the requirement imposed on other countries to prove a *prima facie* case in a British court first. About one-third of all extradition requests ended in failure. The Criminal Justice Act 1988 has introduced important changes. As a result, states seeking to extradite suspects from Britain will no longer have to demonstrate a *prima facie* case. Nevertheless, the Government reserves the right to require a *prima facie* case to be proven, when applications for extradition are made by states which do not share our values and ideals of justice.

There will be full safeguards to protect individuals if it seems unlikely that they would receive a fair trial. A suspect will have the right to see the papers on which the extradition

request is based, and to make representations to the Secretary of State within 15 days of a committal order being made by the courts.

9. DRUGS

Drug Abuse. The Government has a comprehensive strategy for tackling drug abuse. Its aim is to reduce both the supply of dangerous drugs and the demand for them. As Mr Hurd has said:

‘Clearly, international co-operation is crucial too in our determined drive against the drug trade. We need to attack the problem on every front. We need, wherever possible, to help the Governments of these countries where drugs are produced ... We need effective intelligence and enforcement action against traffickers and traders’ (Speech to Scottish Young Conservatives, Peebles, 28th November 1987).

Cutting down Production. The Government has done a great deal to try and reduce the production of drugs – acting in close co-operation with other governments and the UN Fund for Drug Abuse Control. Financial support has been given to campaigns in Latin America and in West Africa designed to curb the supply of drugs. Total resources to help such campaigns have been increased fourfold (from £0.5 million to £2 million a year).

More Effective Policing. In 1985 the Government set up the National Drugs Intelligence Unit, and attached 17 specialist drugs wings to Regional Crime Squads. An additional 221 officers have since been made available to strengthen these units. And the number of specialist drug investigators employed by the Customs and Excise has trebled since 1979. £13 million is being made available over four years to make sure that they have the most modern equipment.

Action against Traffickers. Under this Government very severe penalties have been introduced for convicted drug pushers. The Drug Trafficking Offences Act 1986 provides tough and comprehensive powers to trace, freeze and confiscate the proceeds of drug trafficking (for details, see *The Campaign Guide 1987*, pp. 377–8). Under the Act assets can be restrained and confiscated on behalf of designated countries offering similar assistance to the UK. Bilateral agreements on the confiscation of drug-related funds have now been made with the USA, Canada, Australia, the Bahamas, Switzerland and Egypt.

The maximum penalty available for trafficking in Class A drugs is now life imprisonment. And parole will not normally be granted to those serving sentences of more than 5 years for drug offences.

Further measures against drug traffickers were included in the Criminal Justice Act 1988. The Customs now have new powers to deal with people whom they suspect of carrying drugs internally. Previously a suspect could only be detained for 96 hours. A magistrates' court can now remand a defendant (for specified drugs offences) in the custody of customs officers for up to eight days.

Prevention. A major information and education campaign has been launched in England and Wales. It received £2 million in funds initially; but, because it has proved so successful, a further £2 million is being provided each year so that distribution of leaflets, public information films and a video package can continue. In addition the Department of Education and Science has provided £4 million to tackle drug abuse in schools; and the Welsh Office has contributed £150,000 to extend the campaign to schools in the Principality. All 104 local education authorities in England and Wales have now applied for funds to appoint their own specialist anti-drugs co-ordinators. And £2.1 million has been made available for in-service training for teachers on drug abuse.

Independent research shows that there is now a far greater public awareness of the devastating effects of drug abuse and an increased resistance to heroin, particularly among young people.

10. CHILD ABUSE

The levels of recorded violent and sexual abuse of children have increased substantially in recent years. It is impossible to say whether there has been an increase in the actual incidence of abuse or whether it is simply that more cases are being reported. What is certain is that the crime is self-perpetuating: a significant number of those offending against children today were themselves victims of abuse. The Government is taking a number of measures to tackle the problem.

Prevention. In 1986, the Government introduced new arrangements for checking the criminal records of those wishing to work with children in local authority services (e.g. registered child-minders, teachers, and social workers). Staff in the National Health Service and independent schools will shortly be included in these arrangements, and it is planned to extend them to the voluntary sector.

Obtaining the Evidence. The Police and Criminal Evidence Act 1984 made it easier to bring cases of suspected abuse to court. For the first time, husbands and wives – often the only reliable witnesses who can be called to give evidence in cases of this kind – became ‘compellable’ witnesses for the prosecution in cases involving sexual or violent assault on a child.

Prosecuting Cases of Child Abuse. The Criminal Justice Act 1988 provides that evidence can be given by close circuit television when the witness is a child and the offence is one of a sexual or violent assault. In these cases there will often be no other witness apart from the child. The Government therefore concluded that there should no longer be an absolute bar on convictions on the uncorroborated, unsworn evidence of a child. No such bar exists for sworn evidence – and the law provides that unsworn evidence may be given by a child if she or he possess ‘sufficient evidence to justify reception of the evidence and understands the duty of speaking the truth’. A recent independent survey showed that children over the age of 5 are not, in general, any less reliable as witnesses than adults. As Mr Hurd said:

'I am saying "let the jury decide, on the basis of all the evidence" rather than constructing an artificial and insurmountable barrier to conviction. I believe the present rules on corroboration are too rigid and, in the interest of justice, need to be reformed' (Liverpool, 2nd October 1987).

The Government is also considering whether to allow children to give evidence in court by video recording; their cross-examination would take place separately, with the recording being shown in court. The central issue here is how the desire to protect child witnesses from the obvious strain of appearing in court can be balanced against a defendant's right to have the witnesses against him cross-examined.

Powers of the Courts. The maximum penalty for cruelty to children has been increased from two years to ten under the Criminal Justice Bill 1988. Those found guilty of the sexual or sadistic murders of children will have to remain in prison for as long as they remain a menace to society, and for a minimum of 20 years.

Under the new Children Bill (see pp. 295–6) the courts will have stronger powers to protect children from abuse or neglect.

Child Pornography. The Government has made the possession of child pornography a criminal offence through the Criminal Justice Act 1988. The continued existence of a market for material which exploits and degrades children acts as an incentive to its production. In addition it is often not easy to establish an intention to circulate child pornography (which is already an offence). For these reasons the Government believes that the arguments for a strengthening of the protection which the law gives to children more than outweigh the argument that what a citizen does in his own home is not a matter for the criminal law, unless it involves harm to others.

(B) IMMIGRATION AND RACE RELATIONS

A Firm but Fair Approach. The 1987 Conservative Election Manifesto stated that 'we will tighten existing law to ensure that the control over settlement becomes even more effective' (p. 59). The Immigration Act 1988 fulfilled that commitment. It introduced four major changes:

(i) *Over-stayers.* It is now easier to remove over-stayers, however long they have been here. (Previously the offence of over-staying could only be committed on the day after leave to remain had expired.)

(ii) *Polygamy.* The admission for settlement of more than one spouse of a person normally resident here has now ended.

(iii) *Citizenship: Appeal Rights.* The rights of appeal in Britain of those arriving here claiming an entitlement to citizenship, but without evidence of such citizenship or entry clearance, have been abolished. Following a court decision on appeal rights in 1985, some 1,700 wives and children arrived in Britain claiming entry unsupported by any evidence; temporary admission had to be granted pending the hearing of their appeal. It is only sensible that people should establish their claims before coming here.

(iv) *Dependants.* Under Section 1(5) of the Immigration Act 1971 those settled here before 1st January 1973 had an absolute right to bring in their wives and children. Action was needed following a decision of the European Court of Human Rights that the clause was sexually discriminatory. In future, wives and children will continue to be able to join men who have settled here, but rights under Section 1(5) will no longer be absolute. In all cases they will need to show that proper maintenance and accommodation arrangements have been made for them in this country.

The Act therefore deals with a number of abuses, and makes the operation of immigration control more effective. (The action taken before the last election to improve the system and tighten up the immigration rules is summarised in *The Campaign Guide 1987*, pp. 398–400.)

The Lowest Figures Ever. As a result of the Government's measures, immigration is now under firm control. In 1987, 45,500 people were accepted for settlement – of whom 22,560 came from the New Commonwealth and Pakistan. This total was the lowest since Commonwealth immigration control began and some 40 per cent below the level that prevailed under the last Labour Government. 80,000 immigrants were admitted in 1975.

Areas of Controversy. Concern has been expressed in some quarters about the Immigration (Carriers' Liability) Act 1987 – passed shortly before the last General Election – under which a fine of £1,000 per passenger can be imposed on an airline or shipping company that brings in people to Britain without the right papers. Similar legislation has been passed in Canada, the United States, Australia and West Germany.

The Act was passed in response to growing evidence that individuals from abroad were increasingly trying to gain admittance to this country in search of better economic opportunities by claiming refugee status. The number of applications for refugee status swelled more than threefold to 4,900 in 1985; in that year 3,500 decisions were reached, and in only 850 cases was asylum granted. The same problem is now affecting a number of Western countries. West Germany, for example, had 100,000 people claiming refugee status in 1986.

Refugees. Neither the Carriers' Act nor any other measure passed by this Government has affected the rights of legitimate visitors or genuine refugees from political or religious persecution. As Mr Hurd has said:

‘We meet our international obligations to succour men and women fleeing from political persecution. But these obligations do not give an automatic right of entry to “economic

refugees” who are, for understandable reasons, wanting to migrate from a poor or troubled country to a richer and more peaceful one’ (Wroxton, 21st January 1989).

Firm Control to Assist Race Relations. The Conservative Party's immigration policies help create the basis for better race relations. As Mr Hurd has emphasised:

‘There is a clear link between our wish to keep an effective immigration control and our equally strong wish to encourage members of the ethnic minorities who have chosen to make their home here to take their place more fully in the mainstream of our national life. A united and cohesive society can only be built where the injustice of discrimination is eliminated. Equality of opportunity is central to Conservative philosophy and we shall continue to work to make it a reality for all our citizens’ (31st May 1987).

Section 11 Funding. Section 11 of the Local Government Act 1966 enables the Government to make grants to local authorities for additional staff to help members of ethnic minorities, and to fund initiatives, principally in the sphere of education, designed to tackle the disadvantage that ethnic groups may suffer. Total grants under Section 11 funding stand at around £100 million per annum, supporting about 12,000 jobs in 110 local authorities. The Government has commissioned a review of Section 11, in order to establish precisely how the money is being spent, and how far it is achieving its object.

Racial Harassment. The intimidation and harassment of people on the basis of their race is particularly abhorrent; the Government is determined to stamp it out. The Association of Chief Police Officers has issued guidance on the handling and investigation of racial attacks. The number of police officers drawn from the ethnic minorities is increasing (see p. 356). The Public Order Act 1986 extended the offence of ‘incitement to racial hatred’ to include films, videos, sound recordings and other media. The definition of the offence has also been extended. Whereas previously, it only embraced actions which had stirred up, or were likely to stir up, racial hatred, the Public Order Act has made the intention to create racial hatred an offence as well.

(C) OFFICIAL SECRETS AND NATIONAL SECURITY

1. OFFICIAL SECRETS

Background. The need for reform has been clear for years. The problem has been to secure widespread agreement about what should replace the unsatisfactory parts of the Official Secrets Act 1911. Under the Government's new legislation, effective protection will be provided in key areas of official information, but the remainder will cease to be covered by the criminal law.

Section 2 of the old Act made the unauthorised communication, or receipt, of any official information an offence. It therefore protected a vast range of information, most of it very

trivial. In practice, prosecutions have been rare, because successive Attorney-Generals have only brought cases where damaging breaches of the law occurred. The Franks Report of 1972 (which clearly established the case for reform) stated: 'A catch-all provision is saved from absurdity in operation only by the sparing exercise of the Attorney-General's discretion to prosecute'.

Section 2 covers all Crown Servants including ministers, civil servants, the police and members of the armed forces. The mere unauthorised receipt of official information is also an offence if the recipient knows, or has reasonable cause to believe, that the information was communicated to him in contravention of the Act.

It is patently unsatisfactory that the criminal law should protect trivial information, while at the same time making it more difficult to secure a successful prosecution in more serious cases.

Labour's Failure. The Labour Government was elected in 1974 on a manifesto that promised reform. It was extremely slow in coming. A White Paper was eventually published in July 1978 which followed the main lines of the Franks Report though in some respects it went further in protecting information than the Report had recommended. No Government legislation was ever produced, though support was given to a Private Member's Bill in 1979 whose provisions included reform of Section 2.

Since 1979. The Government introduced a Protection of Official Information Bill in 1979 which provided for the release of a substantial body of information from the scope of the Official Secrets Act, reserving the criminal law mainly for matters relating to defence, security, intelligence and foreign affairs. The Bill obtained a Second Reading in the Lords, but it failed to attract general support. The Government, therefore, withdrew the Bill, while making clear – as it did constantly thereafter – that it would produce new proposals when it seemed likely they stood a good chance of gaining acceptance.

The New Official Secrets Bill. Under this Bill, which received its Second Reading in the House of Commons on 21st December 1988, most official information will cease to be protected by the criminal law. The main provisions of the Bill are as follows:

- i. The scope of Section 2 will be reduced to six areas of information:
 - a. security or intelligence;
 - b. defence;
 - c. international relations;
 - d. information obtained in confidence from other states or international organisations;
 - e. information likely to result in the commission of a criminal offence, escape from custody or similar consequences; and
 - f. special investigation powers.
- ii. It will remain a criminal offence for members and former members of the security and intelligence services to disclose without authority any information about their

- work. This will also apply to certain other people who work closely with those services.
- iii. In the first five of the six areas of information which will still be protected, disclosure is subject to specific tests of harm (see below). The courts, not ministers, will decide whether the public interest had been harmed. The Bill will not therefore introduce any system of ministerial certificates.
 - iv. Cabinet documents and advice to ministers will only be protected from unauthorised disclosure by the criminal law if their subject matter falls within one of the protected categories and disclosure would be likely to cause harm to the public interest as defined in the Bill.
 - v. In order to prove the liability of the discloser, it will be for crown servants to show that they did not know that their disclosures would cause harm. For people other than crown servants – for example a publisher – the prosecution will have to show that the disclosure would be likely to cause harm within the meaning of the Bill, and that the person making the disclosure knew that it would.
 - vi. For the key offences of deliberate disclosure, the maximum penalty on indictment will be the same as now: two years' imprisonment, or a fine, or both. On summary conviction, the maximum penalty will be six months' imprisonment or a fine of the statutory maximum (now £2,000).

Tests of Harm. In five areas of protected information (see (i) and (iii) above), the prosecution will have to show that damage has been caused by disclosure in order to prove any offence. Each of the five areas will have its own specific test of harm.

- *Security or Intelligence.* For persons other than members and former members of the security and intelligence services and other notified people, it is not proposed that disclosure by *any* person of *any* information relating to security and intelligence should be an offence. Instead, the prosecution will have to show that disclosure would be likely to damage the work of the security and intelligence services or that the nature of the information was such that its disclosure was likely to cause such damage.
- *Defence.* The prosecution will have to prove that the disclosure was likely either to prejudice the capability of the armed forces to carry out any of their tasks, or to lead to loss of life or injury to members of the forces or serious damage to their equipment or installations, or to jeopardise United Kingdom interests abroad, or to seriously obstruct the promotion or protection of those interests, or to endanger the safety of British citizens abroad.
- *International relations and information obtained in confidence from other states or international organisations.* Disclosure will be an offence if it is likely to jeopardise United Kingdom interests abroad or seriously obstruct their promotion or protection or endanger the safety of British citizens abroad.
- *Information likely to result in the commission of an offence.* The prosecution will need to prove that disclosure of the information would be likely to result in the commission of an offence, or facilitate an escape from custody, or that its disclosure would impede the prevention or detection of offences or the apprehension or prosecution of offenders.

Special Investigation powers. Here there is no test of harm. Information about, or obtained by reason of interception of, communications authorised by warrant under the Interception of Communications Act 1985 or action authorised by warrant under the Security Service Bill may not be disclosed without authority. Such information could not be disclosed without assisting terrorism or crime, damaging national security or seriously breaching the privacy of individuals.

The Bill and the Media. The Official Secrets Bill will have a major impact on the media. There will be a dramatic cut in the amount of official information protected by the criminal law, and the fact that only six, tightly defined, categories of information will in future carry the risk of prosecution, means that the law will be clear and the media will know where they stand.

Matters such as Cabinet minutes about social security or education, ministerial correspondence, even a draft Budget statement all fall *outside* the ambit of the new Official Secrets Bill.

Even when it comes to the protected categories of information, the prosecution will have to prove that the disclosure of information by the newspaper was unauthorised; that it was official information and the newspaper knew it; that it came within one of the six areas of information defined in the Act, and the newspaper knew it; that the information was in the newspaper's hands because of an unauthorised disclosure or because it had been entrusted to the newspaper in confidence by a crown servant, and the newspaper knew that too.

In five of the six categories, where there is a test of harm, the new law will also require the prosecution to show that the particular disclosure had caused, or was likely to have caused, a specific form of harm. In the sixth category – concerning special investigation warrants – the prosecution will have to show that the disclosure concerned information about, or obtained by, a relevant warrant.

The prosecution will also have to show in court that a journalist or editor in the dock knew, or had good reason to know, the damage which his disclosure would cause. It is only with regard to crown servants that the law will assume that the defendant had some knowledge of the value of the information handled.

Public Interest Defence. The present law gives no defence of public interest. Under the proposed harm tests, the defendant could argue that his disclosure had caused good, *not* harm, to the public interest. It would be for the jury to decide. What he could *not* argue would be that his disclosure did harm, but that because it also did some good the harm did not matter.

The normal principle of the criminal law is that the criminality of an act is determined by the harm which the perpetrator knows is likely to result, not his motive for doing it. The Government sees no reason to depart from this principle. A crown servant who believes

that corruption or other malpractices should be exposed has a duty to report his concern to his seniors within the service.

Defence of Prior Publication. No absolute defence of prior publication is proposed. There are circumstances in which the disclosure of information in the proposed categories could be harmful, even though it had previously been disclosed. But, in the five areas where there are tests of harm, the prosecution will, of course, have to show that such harm was in fact caused by a second or subsequent disclosure.

2. THE SECURITY SERVICE

Background. Since 1952 the Security Service has worked under the terms of a Directive (published in 1963) by the then Home Secretary, Sir David Maxwell-Fyfe. New arrangements are now needed. Concern has been expressed about the functions of the Service, about its accountability and about the lack of any obvious means of redress against the Service by aggrieved citizens.

Putting the Service on a New Basis. The Security Service depends on the support and confidence of the nation for what it does and *in* what it does. The Security Service Bill, which was given its Second Reading in the House of Commons on 15th December 1988, will establish a clear statutory framework within which ministers and the Service itself will have to work. The Bill will define the job which the nation and Parliament wish the Service to do, and provide statutory authority for that work.

How the Security Service will Operate in Future. The Bill sets out the functions of the Security Service and introduces new arrangements to ensure they are carried out effectively. In particular it lays down that:

- i. The operations of the Service shall continue to be under the control of a Director-General appointed by the Secretary of State. The Director-General will have a statutory duty to ensure that the Service obtains information only in so far as it is necessary for the proper discharge of its functions.
- ii. The Director-General will have a specific statutory duty to maintain the political impartiality of the Service.
- iii. Information may only be disclosed by the Service for the purposes of vetting an individual under arrangements approved by the Secretary of State.
- iv. The Secretary of State shall have the power to authorise by warrant actions needed to obtain information from property. No entry on, or interference with, property shall be unlawful if it is so authorised. The Secretary of State, before issuing a warrant, will have to satisfy himself that the action proposed is necessary to obtain information which is likely to be of substantial value to the Service in discharging its statutory functions and which could not reasonably be obtained otherwise.
- v. A Commissioner (a senior judge or former judge) will be appointed by the Prime Minister to review the Secretary of State's use of his warrant power and to work with the tribunal (see vi) in the consideration of complaints. Members of the

- Security Service and officials of the Secretary of State's department will have to supply the Commissioner with whatever documents or information he needs to discharge his functions. The Commissioner will make an annual report to the Prime Minister and this will be laid before Parliament.
- vi. A tribunal (consisting of between three and five senior lawyers) will be established to receive and consider complaints about the activities of the Security Service. The tribunal will rule on complaints by individuals about the Service. If it finds that the Service has behaved unreasonably, the tribunal will have powers to order the Service to cease its inquiries and to destroy any records relating to the individuals concerned. It will also be able to direct the Secretary of State to pay compensation to the complainant.
 - vii. Where the complaint concerns anything done by the Service in respect of an individual's property, the tribunal will refer the matter to the Commissioner. The Commissioner will then establish whether a warrant was issued, and apply the principles of judicial review to the Secretary of State's decision to issue that particular warrant.

The tribunal will have the power to quash any warrant which the Commissioner finds to have been improperly issued, and which he considers should be quashed and to order the Secretary of State to pay such compensation to the complainant as the Commissioner decides.

(D) BROADCASTING

Most of the major developments in British broadcasting have been the work of Conservative Governments. The establishment of the BBC, the birth of ITV in 1954, the establishment of Channel 4 in 1982, and the Citizen's Band radio have been among the most notable achievements. Now the Government is setting out a framework for broadcasting in the 1990s which will provide viewers with more choice and encourage diversity, while protecting the high standards of British broadcasting, whose quality is recognised around the world. Conservative policy for broadcasting is designed to ensure that the interests of the consumers come first.

1. RADIO: PROPOSALS FOR DEVELOPMENT

Britain has far fewer radio stations in proportion to population than most other developed countries. In order to meet the growing demand for more local and specialist radio stations, the Government published a Green Paper, *Radio: Choices and Opportunities* (Cm. 92) in February 1987, proposing a whole new tier of community radio services. Under the proposals, the BBC would continue to carry out its public service broadcasting obligations on its local radio network, but these obligations would be lifted from the existing Independent Local Radio stations, and from any new commercial stations.

The Green Paper also proposed three new national commercial stations; the diversification of programme services; and a new Radio Authority to assign frequencies

and operate a lighter regulatory regime. Programme operators will be responsible for their own services, subject to requirements of taste and decency. They will not be able to give undue prominence to views on religious matters or matters of political controversy but will be expected to provide a diverse programme service, appealing to a wide variety of tastes and interests and not limited to a single narrow format.

Both national and local services will have to meet their undertakings as regards performance in order to retain their licences. No single group of operators will be allowed to control more than one national service or more than six local services.

2. TELEVISION: PREPARING FOR CHANGE

Growth and Choice. Rapid advances in technology are creating dramatic new opportunities in broadcasting – and television in particular. The arrival of new broadcasting technologies – including satellite and cable television – means that a much wider choice of programmes is becoming available. Change is therefore inevitable – but it is not for the Government to dictate either the pace or the precise form which this change should take.

It is essential, however, that change should benefit the consumer as the Government emphasised in its White Paper, *Broadcasting in the Nineties – Competition, Choice and Quality* (Cm. 517), published in November 1988. The arrangements which it proposes would enable viewers and listeners to determine the sort of broadcasting they want. As Mr Hurd has said:

‘More television and radio should also mean better television and radio. The Government will ensure that unnecessary and out of date regulation disappears, but that important standards are maintained: good news and current affairs, provision for a wide diversity of tastes, and tighter controls on indecent and violent television are fundamental. Consumer choice, including more subscription services, will itself deliver more quality: viewers will have a more direct say about the sort of programme they want to watch. Increasingly it will be their choices, rather than detailed intervention by regulators, which will sustain range and quality’ (Home Office Press Release, 7th November 1988).

Proposals for Diversity and Quality. The White Paper sets out in detail the Government's plans for expansion, and underlines its determination to preserve the existing diversity, and high quality, of British broadcasting.

- The BBC will continue as a public service, funded for the time being by the licence fee, which will be linked to inflation. In the longer term, however, the BBC will move over to subscription funding. *The Corporation will continue to be the cornerstone of British broadcasting.*
- The IBA and the Cable Authority will be replaced by a new Independent Television Commission (ITC), which will have disciplinary powers over all franchise holders, including cable and UK-based satellite channels. However, the

- ITC will *not* have the IBA's current detailed powers of regulation and programme planning.
- ITV will become a regionally based Channel 3, with the companies having an obligation to provide regional programmes, high quality news and current affairs programmes as well as a varied service calculated to appeal to a wide variety of tastes and interests. Channel 3 companies will also have to ensure that a minimum of 25 per cent of original programmes come from independent producers.
 - A new, conventionally broadcast Channel 5 will be established, with commercial funding. Different companies would provide services at different times of the day. Channel 5 could be followed by a sixth channel, if this proves technically feasible.
 - A flexible regime will be established for the development of local TV through both cable and microwave broadcasting (MVDS), which makes broadcasting over a short (5–10 mile) radius possible.
 - Companies bidding for Channel 3 (ITV) and Channel 5 franchises will have to pass a 'quality threshold', governing standards and diversity of programming.
 - All TV services (including the BBC) will be free to raise finance from subscription and sponsorship. All channels – with the exception of the BBC – will be entitled to carry advertising.
 - Channel 4's special remit to cater for minority interests, including S4C broadcasting in Welsh, will be preserved.
 - More night services are expected: the BBC will retain the night hours' slot on one of its channels, on the understanding that it will be used to develop a subscription service. The second BBC night hours' slot will be allocated to the ITC, which will offer it for tender. Separate night hours' licences will also be offered for Channel 3.
 - The UK's two remaining Direct Broadcasting by Satellite (DBS) frequencies will be advertised by the IBA early in 1989. (British Satellite Broadcasting, a wholly private sector venture, intends to launch its three channels in September 1989.) All DBS services will, under the Government's proposals, be subject to the same consumer protection requirements as the terrestrial commercial television companies.
 - Strict provisions on ownership will prevent broadcasting companies from being concentrated in too few hands.
 - The present ITV profits levy – paid to the Government – will be replaced by a percentage of advertising revenue.

Maintaining Standards. The Government is determined that more choice should not mean more programmes containing explicit sex and violence.

- The Broadcasting Standards Council will be placed on a statutory footing. It is drawing up Codes of Conduct for broadcasters.
- The exemption of broadcasters from the Obscene Publications Act 1959 will be removed – as promised in the Party's election Manifesto – and prosecutions will be possible, with the consent of the Director of Public Prosecutions.

- The ITC will be responsible for monitoring the performance of all commercial broadcasters, and for following up public complaints. It will conduct formal reviews of the performance of franchise holders.
- The Government is taking a leading role in negotiations for a Council of Europe Convention on Broadcasting to ensure that international broadcasters observe certain standards.

Consumer Pressure for Standards. Misgivings about the possible effects upon standards of commercial pressures are likely to prove unfounded – just as they were when ITV was set up in the 1950s as a commercial rival to the BBC.

While it is true that some people want to watch undemanding entertainment such as soap operas and game shows, not everyone does. The addition of new channels will help satisfy specialist audiences – for sport, classical music, or news and current affairs, for example.

In a more fragmented market, it will be those channels that provide the most varied service which can guarantee to advertisers that they will attract the largest audiences.

British TV – A Booming Business. BBC Enterprises is already the world's largest exporter of TV programmes: the ITV companies have also been successful in selling high quality series such as 'Brideshead Revisited' and 'The Jewel in the Crown'. By stimulating the development of the domestic market, the White Paper will create the conditions for greater demand for TV programmes here, and accordingly a larger supply of first-rate productions to sell to overseas markets. The changes that have been proposed should mean more jobs, and more production opportunities, in an industry where these have until now been artificially restricted.

An Exciting Future. As Mr Hurd has said:

'We are not trying to impose a blueprint for British television or trying to lay down what [the consumer] should choose. On the contrary we aim to create a garden in which many flowers may bloom and many people work or wander with pleasure and benefit' (Speech to the Coningsby Club, 22nd June 1988).

(E) OTHER ISSUES

1. LICENSING HOURS

The Licensing Act 1988. In its 1987 Manifesto, the Conservative Party promised to introduce legislation 'to give greater flexibility to licensing hours'. That commitment has been implemented by the Licensing Act 1988 which has relaxed the hours during which licensed premises and registered private members' clubs may serve drinks. General licensing hours, during which alcohol may be sold or supplied for consumption on licensed premises, were 11 a.m. to 3 p.m. and 5.30 p.m. to 10.30 p.m. or 11 p.m. Under

the new legislation public houses, hotel bars, clubs and wine bars can serve alcoholic drinks between the hours of 11 a.m. and 11 p.m. on weekdays, without a statutory afternoon break. (Pubs and bars can open for an additional hour on Sunday, between 12 noon and 3 p.m. The evening hours on Sunday (7 p.m. – 10.30 p.m.) are unchanged.) The relaxation of restrictions on afternoon opening does not carry with it any obligation for premises to remain open.

Though the statutory afternoon break has been ended, a new power has been introduced enabling licensing justices or magistrates' courts to impose restriction orders requiring particular premises to close during the afternoon if there is evidence that afternoon opening is causing a nuisance by giving rise to disorderly conduct.

Permitted Hours and Alcohol Abuse. Opponents of liberalisation maintain that the removal of the afternoon break will increase the overall consumption of alcohol, leading to more drunkenness and more alcohol-related crime. The Government does not believe that the limited changes which have been introduced are likely to increase alcohol abuse. In Scotland, where licensing laws were relaxed in 1977 to permit afternoon and late night opening, the dire predictions of the opponents of liberalisation have been disproved; indeed, more flexible hours have, if anything, produced a more leisurely and relaxed style of drinking. They have not led to an increase in crime or disorder.

Sale of Alcohol to Under-Age Drinkers. The Licensing Act 1964 made it an offence to sell intoxicating liquor 'knowingly' to a person under 18. In practice, this offence turned out to be difficult to prove. The new Act therefore deletes the word 'knowingly', thereby making it an offence for a licensee or his staff to sell alcohol to a customer who is under 18. It will be up to the licensee to satisfy himself about his customer's age. However, because of the difficulties involved in establishing age accurately, the licensee will be able to plead in defence that he exercised all due diligence or that he had no reason to suspect that the customer was under 18.

Government Action on Alcohol Abuse. An Inter-Departmental Group on Alcohol Abuse has been established under the Chairmanship of the Lord President of the Council, Mr John Wakeham, to review and develop the Government's strategy for combating the abuse of alcohol. Measures agreed so far by the Ministerial Group include a requirement that both pre-packaged and dispensed drinks should be labelled with their alcoholic strength; action to persuade the drinks industry to promote awareness of the relative strengths of different drinks; and guidelines for advertisers to dissuade them from targeting alcohol publicity at young people.

Voluntary Measures. In some areas – Brighton is a notable example – licensees have instituted a system of identity cards for people aged 18 or over. The establishments participating in the scheme require every customer to produce identification, proving that he or she is of age, in order to purchase an alcoholic drink. The Government is all in favour of such useful initiatives on the part of private individuals and organisations.

2. SUNDAY TRADING

In February 1986, the Government introduced a Shops Bill to deregulate Sunday Trading. Although the Bill was defeated, the Government remains committed to reform for the reasons given in the 1987 Conservative Manifesto:

‘The present laws on Sunday Trading contain innumerable anomalies. They are frequently flouted. We will, therefore, look for an acceptable way forward to bring sense and consistency to the law on Sunday Trading’.

The Government is therefore considering how the interests and views of all parties might best be accommodated. Due regard must be given to the protection of employees and the concerns of religious bodies. Mr Tim Renton, Minister of State at the Home Office, has made clear the Government's determination to find an acceptable way forward:

‘The present law on Sunday Trading is a mass of irreconcilable contradictions. It is a mess, and when the law is a mess, it makes itself into an ass. I don't think Tories should ever rest easy when law is transparently flouted and its anomalies make it indefensible’ (Blackpool, 9th October 1987).

The options which the Government is considering include:

- Giving complete discretion to local authorities.
- Permitting ‘limited hours’ opening on Sundays nationally.

3. VOTING RIGHTS FOR BRITISH CITIZENS ABROAD

Under the Representation of the People Act 1985, British citizens residing outside the UK are eligible to become overseas electors for Westminster and European Elections; they continue to be registered for up to five years in the constituencies where they lived before going abroad.

Despite the fact that many British citizens living abroad make a major contribution to the nation, the Labour Party would deny them the vote. Mr Kaufman, then Shadow Home Secretary, said of the 1985 Bill:

‘We on the Labour Benches still profoundly regret that the Bill includes any provision for expatriate voting’ (*Hansard*, 27th February 1985, Col. 435).

The Government believes that the franchise should be extended still further. The 1987 Conservative Manifesto promised ‘to extend this eligibility’. Consultation is taking place, and it is hoped that legislation will be brought forward during this Parliament.

4. CHARITIES AND THE VOLUNTARY SECTOR

The Conservative Party believes strongly in the benefits of charitable activity and voluntary action, whether for religious, educational, social or cultural purposes.

Dramatic Rise in Charitable Giving. There are more than 250,000 registered charities in the UK, with a combined annual turnover of over £10 billion. Charitable giving has increased substantially since the Conservative Government took office, and changes have been made to the tax system to encourage this trend (see p. 69).

In the ten years 1975–85, the total net income of registered charities increased in real terms by 89·7 per cent. Between 1980 and 1985, donations increased by 74 per cent in real terms, compared with a real decline of 40 per cent between 1975 and 1980.

Government Support for the Voluntary Sector. The Government has itself provided generous support to voluntary bodies. In 1986–7 a total of £279·5 million went to voluntary bodies in direct grants or via the urban programme. In the years 1979–80 to 1986–7, Government support for voluntary bodies rose by some 92·4 per cent in real terms. At present, about 830 voluntary bodies receive direct grants of over £15,000, and about 300 receive between £1,000 and £15,000.

Review of Charities. The Woodfield Report on the regulation of charities was published in June 1987. It called for:

- improved management of the Charity Commission, including the provision of management information;
- the updating of the Register of Charities, and measures to force individual charities to submit accounts;
- an increase in the Commission's powers to prevent abuse;
- a more active role for the Commission in reviving small local charities which have become moribund.

The Home Secretary announced on 21st January 1988 that the Government accepted the recommendations of the review, which have attracted general support among the charities themselves. Many of the recommendations have already been implemented.

5. LEGAL AID

Cost. 1989 marks the fortieth anniversary of the introduction of legal aid. Spending on it has increased dramatically. In the 1960s total annual expenditure never exceeded £10 million; by 1979 spending had risen to £100 million. In 1988, it was estimated to have reached over £450 million.

The 'Green Form Scheme', which helps provide legal advice, has grown particularly fast. Since 1979, expenditure in this area has risen from £12 million to £60 million. The number of people assisted has increased from 300,000 to 1·2 million.

Scale of Help Provided. The number of claimants per year has risen from about 150,000 in the 1960s to some 2 million now. The Government is committed to providing assistance for anyone who is not able to afford the legal advice or representation he needs, but it is essential that the taxpayers' money should be used as efficiently and effectively as possible.

Improved Administration. The Legal Aid Act 1988 made several important changes. The administration of legal aid has been transferred from the Law Society to an independent Legal Aid Board. The new body has responsibility for the Legal Aid Fund, and is accountable to Parliament through the Lord Chancellor. Ultimately, the Government hopes that the Board will take charge of the entire legal aid scheme.

The Legal Aid Act made other small changes. Some recipients will now have to pay a higher proportion of their costs, and conveyancing and wills will no longer be eligible for aid. Now that the solicitors' monopoly on conveyancing has ended, the Government takes the view that these charges should be left to individuals.

6. FAMILY LAW

The Family Law Reform Act 1987 gave effect to the recommendations in two Law Commission reports on illegitimacy, which called for the removal of all the legal disadvantages suffered by illegitimate children. (About one-fifth of the children born in England and Wales have parents who are not married to one another.)

Proposals for a Family Court. Jurisdiction in family matters in England and Wales is divided between the High Court, the County Court and the Magistrates' Courts. The High Court has its own Family Division for dealing with such matters. However, in the County Courts and Magistrates' Courts, family matters are dealt with alongside other business. It is widely recognised that this situation gives rise to confusion, and to inconsistent decisions by the Courts.

The Government has consulted widely on the reform of the system. The issues are highly complex. The Government takes the view that any change in the structure of the Courts should only take place after various reforms of the law itself have been implemented.

The Children Bill, introduced in November 1988, by the Department of Health, is one of those important measures of reform (see pp. 295–6).

7. CIVIL JUSTICE REVIEW

In February 1985 the then Lord Chancellor, Lord Hailsham, set in hand a review of the machinery of civil justice in England and Wales with the aims of reducing delay, cost and complexity.

Proposed Reforms. The review team and its advisory body, chaired by Sir Maurice Hodgson, published their report in June 1988. The proposals in it are designed to reduce delay in the handling of cases; simplify the handling of smaller cases; ensure the best use of court resources; and reduce the cost of litigation.

As regards the functions of the Courts, the report recommends:

- the retention of the High Court and County Court as separate courts, but with better arrangements for the allocation of cases between them;
- unlimited financial jurisdiction for the County Court;
- restrictions on the use of the High Court for cases worth less than £25,000;
- special arrangements for personal injury cases;
- County Court registrars should try cases up to £50,000;
- the small claims procedure should cover cases up to £1,000;
- the court should supervise the progress of cases, and that evidence should be exchanged at an early point to speed up cases.

New Code for Small Cases. The review highlighted the difficulties faced by unrepresented litigants in smaller cases. It therefore recommends:

- more help from judges for unrepresented parties;
- a right to lay representation where small claims in county court debt and housing cases are concerned;
- a cheaper and simpler procedure for dealing with some housing disputes;
- the simplification of court forms and information leaflets;
- more help for litigants from court staff and better links between the courts and advice agencies.

Competition. The Report also encourages the introduction of competition into legal services – for example, through the advertising of fees or hourly rates by counsel and solicitors. Such steps would help cut the cost of legal action for individual litigants.

Court Administration. The Review's recommendations include:

- new training programmes for court staff;
- new training facilities for judges;
- the introduction of computer facilities for the management of lists and individual cases;
- a major programme to improve the management of information available to judges and court staff.

The Report will be considered in detail by the Lord Chancellor and the Government before any final decisions are taken about its implementation.

8. REFORM OF THE LEGAL PROFESSION

In January 1989, the Lord Chancellor published three Green Papers (Cm. 570, 571, 572) on the future of the legal profession, contingency fees and the conveyancing of properties. Their common aim is to introduce greater competition and choice, and make the legal services more responsive to the consumer's needs. At the same time it is essential that these services are provided by people with the necessary expertise, bound by adequate codes of conduct and disciplinary procedures.

The Future of the Legal Profession. The central theme of the Green Papers is that the provision of legal services should no longer be the restricted preserve of barristers and solicitors, but should be open to anyone who can satisfy certain conditions, including membership of a professional body approved by the Government; and the acceptance of Codes of Conduct, as enforced by the professional body.

The Government's main proposals are as follows:

- i. Professional Codes of Conduct should henceforth be based on principles laid down by statute.
- ii. A Legal Services Ombudsman should replace the existing Lay Observer, who does not have sufficient powers to protect the public interest.
- iii. Rights of audience and advocacy should be open to anyone who acquires the relevant qualifications and experience, and is a member of a recognised professional body, instead of being confined to barristers and solicitors.
- iv. Limited and General Certificates of advocacy should be established to ensure that advocates have the right training and experience.
- v. The automatic requirement that barristers must be accompanied by solicitors should be abolished; those who are paying for in-court work should decide for themselves.
- vi. Barristers should open up admission to their profession, by reforming their systems for allocating pupillages and relaxing the rules which insist that they only practise in registered chambers.
- vii. Barristers should be free to enter partnerships, to form corporations, to employ people, to enter into contracts with clients directly, and to negotiate their own fees.
- viii. All persons with a given degree of experience in advocacy should be eligible for promotion to the judiciary.
- ix. Barristers and solicitors should be free to enter multi-disciplinary partnerships and multi-national partnerships; (the formation of a single European market will greatly increase the demand for such services).
- x. The categories of people and organisations eligible to apply for probate should be enlarged.

Contingency Fees. The introduction of such fees would mean that no payment would be made for legal representation in court if the lawyer concerned lost; but if he won, he would receive an agreed proportion of the award made by the court. This would only be possible in some civil proceedings, but in these cases it could improve access to justice significantly for those who are not eligible for Legal Aid, but whose means would not

allow them to pursue a case in court. There are, however, significant objections to a full system of contingency fees. It is questioned whether it would be desirable to give lawyers a financial interest in the outcome of a case, and in the size of award made. The client would be in a weaker position than a lawyer in assessing his case's chances, and might be at a disadvantage in negotiating the lawyer's share.

The Government therefore proposes that the Scottish system should be adopted in England and Wales. Under this, lawyers may take cases on a speculative basis, receiving their normal taxed costs if successful. The problem with this is that there is no element of reward for the risk taken to give the lawyer an incentive to take the case. The Government is therefore considering whether a fixed percentage of his costs or of the award might be added to the lawyer's payment, to satisfy this need.

Conveyancing by Authorised Practitioners. The Government proposes to introduce legislation to create a simpler system for the conveyancing of property, allowing banks, building societies, licensed conveyancers, and other individuals and institutions, to provide conveyancing services to clients. Until 1985, conveyancing was the sole preserve of solicitors. The Administration of Justice Act 1985 then created the new profession of licensed conveyancers, to offer competition in this area (there are currently about 500 of them practising).

The Government believes that the consumer's interests would be best served by opening up the right to offer conveyancing services – though it is concerned that banks and other large institutions should compete fairly, and should not offer such services at an artificially cheap price as a ‘loss-leader’. The Government proposes that:

- Those who actually provide the services must be qualified solicitors or licensed conveyancers.
- Authorised practitioners must comply with a code of conduct based on statute imposing uniform standards.
- The practitioner will be required to have adequate professional indemnity insurance to meet potential claims for poor services.
- Every authorised practitioner will be obliged to belong to a suitable ombudsman scheme, with an independent adjudicator.
- Client's money must be kept separately from the practitioner's.

(F) OPPOSITION POLICIES

1. LABOUR PARTY

Law and Order. Labour's record on law and order is contemptible. The Labour Party has long refused to accept its duty to support the rule of law unequivocally – and indeed many Labour politicians and councils have compromised themselves by failing to condemn violence, by encouraging law-breaking and by refusing to give full backing to

measures designed to combat terrorism. Indeed, some on the hard left of the party have even expressed support for extreme Irish Republicans.

Labour in Office. Between 1974 and 1979 Labour let down the police. By 1979 the police force was more than 7,000 officers below establishment; morale at one point fell so low that there was even talk of a police strike.

Labour's record of office in local government is just as bad. Left-wing Labour Councils waste ratepayers' money by producing glossy magazines attacking the police (such as Manchester City Council's *Police Watch*) and by funding intrusive police 'monitoring' or 'support units' – instead of sensibly attempting to tackle crime in their area and constructively helping the police by undertaking, for instance, improvements to the environment on council estates or encouraging Neighbourhood Watch Schemes. (Labour's record in local government is examined more fully on p. 569.) Mr Roy Hattersley, Labour's Home Affairs Spokesman, has himself exposed the 'irresponsible attacks' on the police by hard left councils (*The Daily Telegraph*, 19th September 1988), saying that 'I shall have no truck with unfounded, uninformed and irresponsible attacks on the police' (ibid.).

Shackling the Police. Yet the Labour Party would make the police accountable to these same irresponsible local authorities. Labour's 1987 Manifesto pledged that 'locally elected police authorities will be given clear statutory responsibilities with the police to enforce the law' (*Britain Will Win*, May 1987, p. 10).

In fact Labour's *real* policy – hidden from view in the manifesto but exposed during the election – was 'to give locally elected police authorities in all areas, including London, statutory responsibility in determining the policing policies, priorities and methods of their force' (*Protecting our People*, NEC document, March 1987, p. 18). Despite the charade of a Policy Review, Labour remains committed to such a course. Labour's 1988 Policy Review Document confirms that Labour supports 'directly accountable police authorities, including an elected police authority in London' (*Social Justice*, p. 35).

Labour's antipathy to the police was revealed, too, by its forthright opposition to the Police and Criminal Evidence Act 1984, which equipped the police with the powers they need to fight crime more effectively. They also fought tooth and nail against the Public Order Act 1986 which enables the police to protect people vulnerable to harassment or frightened by loutish behaviour.

Courting the Republicans. Some on the hard left of the Labour Party have even gone so far as to court extreme Irish Republicans.

- Mr Jeremy Corbyn, hard left MP for Islington North, stood in silence for a minute at a meeting to honour eight IRA gunmen shot dead as they bombed a police station in County Armagh (*Sunday Express*, 17th May 1987). He also employed, as his House of Commons research assistant, Mr Ronan Bennett, who was

- convicted of murdering an RUC police inspector in 1975 – although the conviction was later quashed (*The Sunday Times*, 4th October 1987).
- Mr Ken Livingstone is renowned for his sympathy for Irish Republicanism. He has, for instance, attacked the extradition treaty between London and Dublin: ‘no Republican would hope to have a fair trial in Britain any more than Arthur Scargill could get a fair trial in the Court of Appeal’ (*The Sunday Times*, 29th November 1987). He has also shared a platform with Anne Maguire, who spent 14 years in jail for possessing explosives, and flew in May 1986 to Holland where he hailed two fugitive bombers as ‘political refugees’ (*Daily Mail*, 17th November 1987).
 - At a Party Conference fringe meeting in October 1986, Miss Clare Short spoke at the same meeting as convicted IRA bomber Tommy Carroll (*The Times*, 2nd October 1986). (For further details of the Hard Left's support for Republicans, see pp. 496–7, 563.)

Terrorism. The actions of a number of Labour MPs and councils should cause little surprise, since the Labour leadership itself is half-hearted in its commitment to fight terrorism. Nowhere is this more obvious than in Labour's continuing opposition to the Prevention of Terrorism Act and its opposition to the Government's latest measures to combat terrorism.

- Since 1982 the Labour Party has consistently opposed – and voted against – the renewal of the Prevention of Terrorism Act. The Party remains committed to its repeal – as Mr Jim Marshall, one of Labour's Northern Ireland spokesmen, has confirmed (*Tribune*, 19th February 1988).
- Leading Labour Spokesmen have been forthright in their denunciation of the Act. Mr Hattersley, for instance, has condemned it as ‘draconian’ (*The Guardian*, 11th February 1988) – while Miss Clare Short, a former Labour Employment Spokesman, has said that ‘the PTA does not prevent terrorism. Its title is Orwellian. It does the reverse’ (*Tribune*, 19th February 1988).

Aware of charges that Labour was soft on terrorism, Mr Kinnock has, however, been trying to soften his Party's line. But his attempts to get the party to *abstain*, rather than oppose, two Government measures – the new Prevention of Terrorism Bill and the Bill requiring local government candidates in Northern Ireland to sign a declaration against violence – utterly failed (see p. 560).

But despite Mr Kinnock's attempts to soften his Party's line, Labour's refusal to vote *for* the new Prevention of Terrorism Bill (and the fact that so many of its MPs voted against its Second Reading) along with its commitment to repeal the existing Act, all emphasise that the party cannot be trusted to play its full part in the fight against terrorism.

As the **Prime Minister** has said, ‘people will believe that everyone is serious about fighting terrorism only when the opposition benches join this side’ in supporting the Bill (*Hansard*, 6th December 1988, Col. 170).

Immigration. At the last election Labour attempted, characteristically, to disguise its policies on immigration. The Party's Manifesto simply stated that Labour would 'ensure that the law does not discriminate on the grounds of race, colour or sex' (*Britain Will Win*, May 1987, p. 14).

On an earlier visit to India, Mr Kinnock had pledged a future Labour Government to repeal the British Nationality Act 1981 and the Immigration Act 1971 without saying what would replace them (*The Times*, 5th June 1986). Labour have also pledged themselves to giving the right of citizenship automatically to everyone born here (*Daily Mirror*, 9th June 1986). This would mean giving the right of abode to children born to parents in Britain in a temporary capacity – such as illegal immigrants.

Labour's Policy Review hardly addressed the issue at all – merely confirming that Labour would 'introduce a new British Citizenship Act. This would establish immigration laws and procedures that respect the family life of all those living here and do not discriminate on grounds of race or sex' (*Social Justice*, p. 36).

Freedom of Information/Official Secrets. Labour is totally confused over the Government's proposals to reform the Official Secrets Act – as was vividly illustrated by their reactions to the publication of the White Paper for reform of the Act. Mr Hattersley described it as 'draconian', even though it is far less restrictive than the White Paper produced by the last Labour Government in 1978. Meanwhile, Lord Mishcon in the House of Lords welcomed the White Paper, saying 'I congratulate the Government' (*House of Lords Hansard*, 29th June 1988, Col. 1606).

Labour's record in office conflicts sharply with their professed commitment to greater freedom of information. Successive Labour Governments failed to reform the Official Secrets Act, and were highly restrictive in their attitude to consultation and to the release of official information; they also failed to keep Parliament informed of developments in the Security Service.

Failing to Protect National Security. Labour's Policy Review proposes to introduce a 'Freedom of Information Act' in which 'exemptions to protect both national security and individual rights of privacy must be specific and carefully defined, and there must be a right of appeal' (*Social Justice*, p. 34). That is a dangerous proposal. It would be utterly irresponsible to leave 'national security' as the only area protected. Information that would be useful to criminals, or had been received in confidence from other governments or which might endanger the lives of British subjects if disclosed, should all be restricted with the deterrent of the criminal law.

But the proposal is not just dangerous for national security; it is dangerous for the opposition as well – as Mr Jeff Rooker, Labour's former Local Government Spokesman, has emphasised:

‘if the view prevails that the Opposition wants to see all the nation's secrets in the newspapers, then that is very damaging – for the Opposition’ (Speech to Birmingham Perry Barr Labour Party, 6th January 1988).

Bringing Party Politics into National Security. Traditionally the political parties have not made political capital out of vital security matters. Labour have now abandoned that tradition. Prominent Labour MPs have supported breaches of confidence in relation to security issues, most notably in the Wright case and the Zircon affair (see *The Campaign Guide 1987*, p. 414).

The Labour Party refused to support the Government's Security Service Bill and voted against its Second Reading (*Hansard*, 15th December 1988, Col. 1188). Mr Hattersley originally suggested that Labour would support the Bill ‘subject to examination’ (*Hansard*, 23rd November 1988, Col. 137), but the Party changed its mind, according to Mr Hattersley because the Bill failed to deal with ‘the accountability of the Security Services’ (*Hansard*, 15th December 1988, Col. 1122).

Mr Hattersley called for the security services to be subjected to ‘a degree of general supervision’ from Parliament (*ibid.*, Col. 1124). But as Mr John Patten, Minister of State at the Home Office, has pointed out – ‘no democracy in the Western world operates parliamentary scrutiny over the operational decisions of the service which guards it’ (*ibid.*, Col. 1185).

Labour's irresponsibility is, however, hardly surprising – given that their Leader, though a Privy Counsellor, sought briefing in the Wright case from the defence counsel rather than the Government (see p. 556).

Prisons. Labour have hardly addressed themselves to the question of prisons since 1979 (they did little better in government, see p. 364). Their 1983 election Manifesto, *A New Hope for Britain*, suggested that the prison population could be reduced ‘by cutting many maximum sentence lengths for non-violent offenders’.

In September 1986, Mr Clive Soley MP announced that a future Labour Government would embark on a major reform of the prison system, but in fact Labour's 1987 manifesto did not mention prison policy at all; nor did the Party's Policy Review document, produced in 1988.

Conclusion: A Checklist of Labour's Irresponsible Actions. Not once have Labour supported the Government in its efforts to strengthen the rule of law. They have voted against such crucial measures as:

- the Police and Criminal Evidence Act 1984
- the Public Order Act 1986
- the Criminal Justice Act 1988
- the renewal of the Prevention of Terrorism Act 1984, and of the Northern Ireland Emergency Provisions Act

- the Immigration Act 1988
- the Security Service Bill.

On a number of other major reforms they have abstained including:

- the Firearms Act 1988
- the new Prevention of Terrorism Bill
- the Elected Authorities (Northern Ireland) Bill which introduces a declaration against violence for local government candidates.

On the last two, however, over 40 Labour MPs broke ranks, and voted against.

2. THE SLD

The SLD have moved towards a more hard line position than the ‘Alliance’ on a number of key Home Office issues.

Police. Before the last election the old ‘Alliance’ parties attacked ‘extremist Labour councillors ... [who] try to introduce local political control over police operations’ (*The Time has Come* p. 84). But now, the SLD ‘strongly endorse the principle of police accountability to police authorities which should consist of elected members of local authorities and other representatives of the community’ according to a party Green Paper endorsed by the 1988 Conference (*The Rights and Liberties of the Citizen*, p. 42) – a position not dissimilar from that of the Labour Party.

Security. Before the last election the ‘Alliance’ proposed that the security services should be monitored by ‘a committee of privy councillors ... including members of both Houses of Parliament’ (*The Time has Come*, p. 73). In the *Rights and Liberties of the Citizen*, however, the SLD call for an impartial monitoring committee, as well as ‘statutory terms of reference for the security and intelligence services, which would delimit their role and powers’ (p. 38). They also support a replacement for the Official Secrets Act which ‘would contain a public interest defence’ (*ibid.*, p. 29) – an extremely damaging proposal.

Immigration. The old ‘Alliance’ was committed to ‘simplify nationality law and review the sexist and racist implications of the British Nationality Act, 1981’ (*The Time has Come*, p. 83). The SLD have now committed themselves to full ‘repeal [of] the 1981 British Nationality Act’ (*Rights and Liberties of the Citizen*, p. 13) as well as to the abolition of the primary purpose rule (*ibid.*).

Constitution. The SLD still advocate the old Liberal idea of ‘a full written constitution regulating the rights of the individual and the powers of the state’ (*Rights and Liberties of the Citizen*, p. 5). They demand that ‘the European Convention on Human Rights should be incorporated into our own domestic law so that it is directly enforceable in the Courts’ and that it should have ‘priority over all inconsistent statute and common law’ (pp. 5–6).

3. THE SDP

Dr Owen's attempts to forge a distinct identity for the SDP – and distinguish it from the SLD – have not yet included any specific proposals on how to tackle crime.

One of the few areas where the SDP have made their views known is reform of the Official Secrets Act. As Dr Owen made clear in a speech during the Epping by-election, they support the inclusion of a 'public interest defence' which would seriously undermine the Government's attempts to ensure civil servants adhere to their duty of confidentiality (30th November 1988).

Their only other contribution to discussion of Home Office and legal issues has been a Green Paper (No. 37) on legal services and legal aid which, for the most part, is concerned with minor administrative improvements to the existing system. It has nothing to say about the central questions of choice and competition which the Government has now addressed in its radical proposals for the future of the legal profession (see p. 384).

15. LOCAL GOVERNMENT

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(A) HOW THE SYSTEM WORKS

1. STRUCTURE AND FUNCTIONS

The Local Government Act 1972 defined the powers of the 39 non-metropolitan (or 'shire') county councils in England, and 8 in Wales. Their major responsibilities are education, social services, the police and fire services, strategic planning, and traffic and transport, including highways.

The 1972 Act also created 36 metropolitan district councils and 296 non-metropolitan district councils in England, and 37 non-metropolitan councils in Wales. They were given responsibility for housing, refuse collection, local planning, parks, cemeteries, museums and off-street car parks.

The London Government Act 1963 established 32 London borough councils. These are responsible for social services, refuse collection, housing, local planning and parks.

The Local Government Act 1985 abolished the six former metropolitan county councils and the Greater London Council. The responsibilities of these bodies had always been less than those of the 'shire' counties. Metropolitan district councils are therefore now also responsible for education, social services and some transport functions. London boroughs now share responsibility for refuse disposal and for parks and housing inherited from the GLC.

As a result of the abolition of the GLC and the metropolitan county councils, some £240 million in revenue balances and £305 million in capital receipts are being passed on to the successor boroughs and districts. In addition, an estimated £100 million a year will be saved in the long term as a result of staff reductions.

In 1987 the Government announced that the Inner London Education Authority will be abolished in 1990. From that date inner London boroughs will be responsible for education, as outer London boroughs are already (see pp. 336–7).

2. ELECTORAL CYCLES

Local government elections are held on the first Thursday in May. All county, district and London borough councillors are elected for four years.

All the members of a shire county council, each of whom is the sole representative of an electoral division within the county, are elected simultaneously once every four years.

In metropolitan district councils there are elections every year, except for years of county council elections, with one third of the members of the council up for election in rotation. These districts are divided into wards which return three councillors, one of whom comes up for re-election each time. The next metropolitan district council elections are due in 1990, 1991 and 1992.

In non-metropolitan districts the councils were entitled under the 1972 Act to choose their electoral cycle – either election by thirds as for metropolitan districts or an election of the whole council simultaneously every four years. In England 118 non-metropolitan councils have chosen elections by thirds, and 182 have chosen whole council elections. In Wales the figures are 7 and 30 respectively.

The next elections in non-metropolitan district councils with elections by thirds are in the same years as those for the metropolitan districts, while the next election year for those with elections by the whole council is 1991.

The London boroughs have whole council elections every four years. The next elections are due in 1990.

(B) THE REFORM OF LOCAL GOVERNMENT FINANCE

1. THE CASE FOR ABOLISHING DOMESTIC RATES

An Anachronism. The domestic rating system, which is now nearly 400 years old, is an anachronistic survival from a time when the franchise was restricted to property owners and when local businesses had a separate vote.

At a time when most local services were property services – e.g. roads, gas, water, drains, etc. – a property tax such as domestic rates made sense. But today most local services are for people – education, housing, libraries, personal social services and so on. Everyone over the age of 18 has a vote, and businesses no longer have separate representation. So, as the Secretary of State for the Environment, Mr Nicholas Ridley, has said, ‘It must be right for all the people to pay a charge for local services, just as all the people can vote for them’ (Buxton, 19th March 1988).

A Basically Unfair System. Domestic rates are levied on households, irrespective of the number of people within them. So a widow can pay as much or more as an entire family of four adults living next door.

Furthermore, under domestic rates Government grant has to redistribute resources between areas of high and low rateable value. That means poor people in ‘richer’ areas have to subsidise rich people in ‘poorer’ areas. So a ratepayer in Luton (an area with a high rateable value) has to pay over 50 per cent more in rates than his counterpart in Carlisle (a low rateable value area) – even though Carlisle is the higher spending area.

There is a wide discrepancy in average domestic rate bills between areas, and even within areas:

- in Cambridge the average rate bill for a terraced house in 1987–8 was £387, but £647 for a 2 bedroom flat;
- in nearby Harlow the figures were £416 and £921.

Furthermore, rateable values of properties bear little relation to the incomes of the households which live in them. Thus, 41 per cent of households living in homes with above average rateable values have below average incomes, while 40 per cent of those with above average incomes live in homes with below average rateable values.

All this is clearly unfair.

Too Complex. The present rating system is too complicated for most people to understand fully. It does not help that the basis of the system is the notional rental value of a property in 1973, especially since the private rented housing market now barely exists as a point of comparison.

Rates do not provide any yardstick by which voters can analyse the performance of their local authorities. And fluctuations in rates often do not in practice match changes in the spending of the local authority. As Mr Ridley has commented:

‘It is a system which has developed a Byzantine complexity of its own. Instead of admitting that the rating system was no longer appropriate for local government in the late 20th Century, successive Governments have tried to patch it up with a sort of Heath Robinson machinery of rusty nails and sticking plaster. All we have succeeded in doing is to make it more unfair, more unworkable and more inscrutable’ (Buxton, 19th March 1988).

Revaluation. If the domestic rating system were to be retained, the present valuations, based on assessments made in 1973, would have to be changed. A full revaluation would be needed.

The recent revaluation in Scotland – after five years, not fifteen – showed how devastating the effects could be. In one case – that of an ordinary house – the rateable value increased from £171 to £726. In another case the increase was from £184 to £706. In a third case – a modest flat – the rateable value increased from £405 to £1,289.

Encouraging Extremism. One of the major flaws in the current rating system is that, by failing to make local councils adequately accountable to their local electorates, it encourages extremism in local government. Of the 35 million local voters in England, 17 million are not liable for rates and 6 million pay less than full rates. So nearly half of all local voters pay nothing at all in local bills for local services.

The rating system thus produces a dangerous combination at local elections – some voters are rendered apathetic by the complexity of the whole process while others can be encouraged by the profligate to vote for them, safe in the knowledge that they will not have to contribute towards the final bill.

The results produced by the current rating system can be seen in the extremism, bad management and waste of many councils today.

As the Local Government Minister, Mr John Gummer, has said of the current rating system:

‘To apply a tax on property for services which are overwhelmingly personal is illogical. To charge the same on two semis – the one with a single pensioner, the other with four working adults – is manifestly unfair. Incomprehensible, illogical and unfair – the

domestic rating system is no basis for accountable local government' (*Local Government Chronicle*, 7th October 1988).

No Friends Left. The domestic rate system is now wholly discredited – as even Opposition politicians have finally come to recognise. Labour's Shadow Environment Secretary, Dr John Cunningham, has said: 'I'm not suggesting that the rates as they are at present are acceptable. They do need radical reform' (BBC, *Newsnight*, 21st May 1987). The 'Alliance' manifesto at the last General Election stated: 'Britain needs a fair system of local finance which rates no longer provide' (*Britain United*, May/June 1987).

2. THE COMMUNITY CHARGE

There will be three types of Community Charge:

- the *personal* Community Charge, levied on all adults over the age of 18 – with certain exemptions;
- the *collective* Community Charge, levied on houses in multiple occupation, such as hostels with highly mobile residents, and paid by the landlord who collects the money back from the residents (see p. 399);
- the *standard* Community Charge, levied on the owners of second homes (see p. 399).

The Community Charge will replace the domestic rating system and will fund, as domestic rates do now, approximately one quarter of local government spending. Businesses will continue to fund roughly a quarter as well, while government will still, through grant, pay for about half.

The Personal Community Charge: Establishing Accountability. The personal Community Charge will be a flat-rate charge for local services levied on all adults over the age of 18, with certain small groups exempted (see p. 396). Each local authority will set the level of Charge for its own area.

Government grants will be calculated so that every local authority in England could provide a standard level of services for a standard level of Charge. In 1988–9 this standard level of Charge would have been £202.

Since the level of business rates will in future be set nationally rather than locally, local authorities will only be able to increase spending by increasing the Community Charge. A £1 increase in spending for every adult in the local authority area will produce a £1 increase in the Community Charge. Conversely, an efficient council which is able to organise its services more cost-effectively, will see the reduction in costs which will follow feed straight through into a lower level of Community Charge.

The Ready Reckoner. Every Community Charge bill will include on it the figure for the standard level of Charge for which every local council could provide a standard level of

services. Voters will be able to compare this standard Charge with the actual level of Charge their local authorities are demanding.

High and low spending councils will be instantly identified as such. Every local voter will pay more for the former, and less under the latter: they will be able to choose which they prefer. The **Prime Minister** has summarised the radical step forward in accountability which the Community Charge will provide:

‘We have never had this sort of system before. It means that people in local authorities have a ready reckoner by which to judge the performance of the local authority’ (London, 5th March 1988).

Labour's Moment of Truth. The Labour Party knows that the Community Charge will put a stop to the type of reckless high spending which is the Party's hallmark in local government.

The Labour Co-ordinating Committee, an influential soft left pressure group within the Party, has described the Community Charge as ‘a straightforward attempt to create the conditions for local tax-payers' revolts against council spending plans’ (*Labour Councils in the Cold*, Labour Co-ordinating Committee, January 1988, p. 7). It went on to provide one of the simplest arguments for the Community Charge:

‘Ordinary local people will foot the entire bill on any local spending above the government norm. When the local council wants to carry out a programme of service expansion, local people will no longer be cushioned by increased business rates and rate support grant. They will want to know that increased expenditure is well spent’ (ibid. p. 11).

A Basically Fair System. The Community Charge, levied on individual adults rather than on households, will mean that single widows will no longer pay as much or more for the same local services as a family of four adults living in the same local authority area.

It will also mean that everyone, wherever they live, could pay the same for a standard level of services. Variations in bills between different areas will only be caused by different council policies and practices.

The Community Charge will mean that everyone will pay their share towards the cost of local services rather than just a few unfortunate ratepayers as at present. This reinforces the moral case for the Community Charge, as Mr Gummer has made clear:

‘The morality of the Community Charge can be assessed quite separately from figures of gainers and losers. First, and most important, is that, for the first time, nearly every adult will be required to make a direct contribution to the cost of local services, from which all of us benefit. This is in fulfilment of the simple, but nevertheless important, principle that “everyone should pay his share”’ (Blakeney, 7th October 1988).

Since everyone benefits from the provision of local services, it is quite reasonable to expect that everyone who can pay should make a contribution to the cost. And, of course, as well as being morally right, such a system reinforces local accountability and discourages profligacy.

Protecting the Less Well-Off. The Community Charge is not a flat-rate tax, levied regardless of ability to pay. Rebates will be available for those on low incomes. Those people who are eligible for Income Support – which replaced Supplementary Benefit from April 1988 – will receive a full 80 per cent rebate. So will those whose income is within the earnings disregard level above Income Support levels. Income Support recipients include those whose sole source of income is the state retirement pension or unemployment benefit. Four million people will be eligible to receive the 80 per cent rebate. The rebate will be deducted from the bill which those entitled to it receive.

Furthermore, those on Income Support will have their benefit uprated to cover the national average of 20 per cent of the Community Charge. Thus those living in areas with councils which spend above the national average will make a small net contribution toward paying for this profligacy, while those living in areas which spend below average will actually be better off. So even those on the lowest incomes will have an interest in efficiency in local government and will thus be able to play a full part in local democracy.

As well as helping people on income support, the rebate system will also benefit those who, although on low incomes, do not qualify for income support. Rebates will diminish at the rate of 15p loss of rebate for every £1 of income above these levels. A further five million people will be eligible to receive some rebate.

Over nine million people will be eligible to pay these reduced levels of Charge – one quarter of all Charge payers. A couple with two children under the age of 11, living in an area with a Community Charge of £246 (the average level had the charge been fully in effect in 1988–9), would only pay the full Charge if their gross income exceeded about £8,100 a year (i.e. around £155 per week). This is nearly three-quarters of average earnings. In addition students will be liable to pay only 20 per cent of the Charge. They will do so at their term-time address.

Some critics have argued that it is unreasonable to expect low-income groups to pay anything at all. This point has been dealt with by Mr Gummer:

‘The rebate system, coupled with the increase in income support, ensures that as many people as possible – virtually all adults – are able to play a part in the process of responsible local democracy. To deny that right to the four million adults on income support would be patronising and demeaning. In effect we would be saying to these people: “you are not fit to participate fully”. That would be a message of despair – a signal that we have given in to a culture of dependency and consigned them to a species of serfdom’ (ibid.).

Fair Contributions from All. Because of the rebate system, the top ten per cent of households by income will pay *six times* as much in Community Charge as the bottom ten per cent. They only pay five times as much in rates.

Moreover, it must be remembered that under the new system central government – the national taxpayer – will continue to pay around half the cost of local services. Consequently, the top ten per cent of households by income will pay around fifteen times as much towards the total cost of local services as the bottom ten per cent.

Gainers. Many groups – among them some of the most deserving groups in society – will be better off because of the introduction of the Community Charge. Those on the lowest incomes will gain. Based on 1988–9 figures, for households in the lowest income group of all (with a net income of £50 per week or less) rates amount to 3·9 per cent of net income, while the Community Charge will represent only 3·0 per cent.

Households on all net income levels up to £200 per week will be better off on average. Altogether, 58 per cent of all households (11·1 million) will gain from the introduction of the Community Charge.

Other groups who will gain under the Community Charge when it is fully implemented include:

- more than four in five single pensioners living alone and two-thirds of all pensioner households;
- three quarters of single adult households other than single pensioners;
- nearly 90 per cent of one-parent family households;
- nearly 60 per cent of couples with two children.

Of the households that will lose, 56 per cent will lose less than £2 a week, including nearly 38 per cent that will lose less than £1 a week. The left-wing *New Statesman* has commented, ‘most people will lose or gain relatively trivial amounts through the poll tax, despite all the hoo-hah being made by opponents of the poll tax about the size of these changes’ (5th February 1988).

Exemptions. A relatively small number of people – around half a million – will be exempted completely from paying the Community Charge. These groups will be:

- the severely mentally handicapped;
- long stay hospital patients (those whose sole or main residence is in a hospital);
- those cared for in a residential home;
- prisoners;
- foreign diplomats;
- members of visiting armed forces (the foreign Governments concerned will continue to make contributions to central government in lieu of the Community Charge – the money will then be recycled through Government grant);
- members of religious communities who have no income of their own;

- those under the age of 19 and eligible for child benefit because they are still at school.

Implementation. A separate Community Charge register will be set up by each District Council. A version of the register containing simply names and addresses will be open for public inspection.

The Community Charge Registration Officer (CCRO), who will be an officer of the local authority, will have access to such council information as he requires to compile the Community Charge Register. He will also send to each household a form requesting details of those in the household over the age of 18. This will be the CCRO's main source of information in compiling the register. Those who complete the form swiftly and accurately should not be troubled further. He will not, however, have access to private information such as bank accounts. There will be no need for identity cards.

The CCRO will also have the right to inspect the electoral roll, which is available for public inspection anyway. The Community Charge will not be a tax on voting: some who will be liable for the Charge, such as foreign citizens, will not have the right to vote, while failure to register for the Charge will not result in the loss of the right to vote. The register and the electoral roll will be entirely separate.

There will be financial penalties for failure to fill in the canvass form and for intentional evasion of registration for the Community Charge. An ultimate sanction of imprisonment will be available for the courts to use in cases where people are able to pay the Charge but wilfully refuse to do so.

Since the CCRO will have access to a great deal of information other than the electoral roll, those who leave their names off the electoral roll in an attempt to evade the Community Charge will be unlikely to escape detection. So it would be pointless for people to disenfranchise themselves in this way.

Indeed, an opinion poll for the *Local Government Chronicle* (19th February 1988) indicates that nearly one in four voters would be more likely to vote in local elections as a result of the introduction of the Community Charge, including nearly one in three of those who said they had not previously voted. This will, as the Government intends, increase the accountability of local councils by encouraging higher turn-outs in local elections.

The Cost of Implementing the Community Charge. A report to the Government on the implementation and collection of the Community Charge, produced by the independent management consultants Price Waterhouse, was published on 23rd June 1988. Its main findings were as follows:

- It confirmed the Government's estimate that *the cost of collecting the Charge will be roughly the same per payer as the cost of collecting rates.*

- Since there will be roughly twice as many Charge payers as ratepayers the collection costs will roughly double from £200 million to between £379 million and £435 million.
- Economies of up to 15 per cent could be achieved in the cost of collecting the Charge if all local authorities performed as well as the most efficient for each category of authority.
- Current expenditure on preparation for the Community Charge could be around £122 million in 1988–9 but could be reduced to £99 million – a saving of over 18 per cent – by improved productivity. The Government's initial estimate was of costs of £70 to £90 million.
- Little expenditure is needed in 1988–9.

The Government has provided extra funds for local authorities to enable them to prepare for the implementation of the Community Charge. Capital allocations of £135 million will be made in 1989–90 for the capital costs of preparing for the Charge, in addition to the £25 million which authorities have already received for 1988–9. This level of allocations is in line with the conclusions of the Price Waterhouse report on the cost of implementing the new system. In addition, £110 million is being made available by the Government to cover the current costs of implementing the Charge in 1989–90. Half of this money is being provided through the general Rate Support Grant for 1989–90 while the remaining £55 million will be met through a specific grant to local authorities. Commenting on this provision, Mr Gummer has said:

‘Now that these allocations have been made and charging authorities know the resources they have for 1989–90 they have no excuse for not getting on with the job of implementing the Community Charge’ (*Hansard*, 16th December 1988, WA, Col. 70).

It is worth stressing that Conservative councillors should consult widely with other councils and with the private sector to ensure that all possible savings are made in implementing the Charge, and should be wary of accepting automatically the first estimate of the costs made by their officers.

There is a great deal of scope for councils to reduce costs by, for example, sharing computer facilities with each other. The Department of the Environment is sending out to local authorities on a regular basis notes on the best means to implement the Community Charge.

Community Charge Capping. The Government has announced that there will be a power in relation to the Community Charge similar to that which exists for selective rate limitation. The Government is likely to use this power only in exceptional circumstances and after consultation with the local authority itself. The power would be used if a local authority's total spending or increase in spending was excessively high.

The reduction which the authority would be required to make would feed through either as a refund to all Community Charge payers in the area, or as lower instalments of

Charge payments for the rest of the year. Community Charge capping decisions would be made and implemented by the summer of any given year.

Government Grant. The new government grant will be a single revenue support grant. This will compensate for variations in needs between different areas and provide support for local services on a per capita basis. This single revenue support grant will incorporate the previously proposed needs grant and the standard grant. Authorities will receive the same amount of grant as they would if the Government had retained two grants.

The number of criteria used to assess the amount of grant an authority is eligible for will be fewer than the 63 employed at present, so that the new system will be much simpler and easier to operate until more easily understood by ordinary voters. To achieve proper accountability, it is vital that the system should be readily comprehensible.

The Rate Support Grant Act 1988. Clearly the new system of local government finance implies significant changes in the way in which Rate Support Grant (or Revenue Support Grant as it will become) is assessed and allocated. The Government wishes to ensure that the transition from the old to the new system takes place as smoothly as possible. The central purpose of the Rate Support Grant Act 1988 is to bring the present RSG system to an orderly end, and ensure a smooth transition to the new system.

To achieve this, the Act provides for the ending of the RSG before the new system comes into operation. Without this legislation it would have been necessary for the Secretary of State to ask Parliament to approve a string of supplementary reports until well into the next decade.

The Act ensures that all remaining payments of grant made under the present RSG system are modelled on the new grant system. Grant paid for 1985–6 to 1989–90 will not vary to take account of final spending plans, but will be determined on the basis of information about authorities' expenditure in these years held by the Department of the Environment on 7th July 1988.

The key benefit of Revenue Support Grant for local authorities is that they will have absolute certainty about their grant entitlement before the start of the new year, enabling them to fix their budgets and plan ahead. The Rate Support Grant Act introduces these conditions for the remaining payments of RSG and paves the way for the new grant system by providing local authorities with greater certainty about their grant entitlements for 1989–90 and for earlier years.

The Collective Community Charge will be levied on properties in multiple occupation such as hostels where people may stay only a short time before moving on. It is up to the local Community Charge Registration Officer to designate a property as one subject to the collective Charge.

The landlord will be liable for the collective Charge. The local authority will charge the landlord according to the number of adults who live in the property. He will be required

to recover from each adult tenant, with the rent, a separately identified amount equal to the individual Community Charge for the area.

He will be entitled to deduct a management allowance of 5 per cent of the amount he is required to collect. There will be rebates for tenants on low incomes.

The Standard Community Charge. Some local services, such as fire, police, and roads, are needed whether or not a house is used as a main residence. If no Charge were able to be levied on second homes, the owners would therefore receive an undue windfall gain.

A standard Community Charge will therefore apply to all domestic property not occupied as a sole or main residence. The standard Charge will be set by the local authorities responsible for collecting the Charge as a multiple of the personal Community Charge for their area. They will be able to set it at up to twice the level of the local personal charge, and they will have the discretion to set different standard Charges for different categories of property. The Government will also have the power to set a limit at a lower level for each category of property: it intends to use this power to set a standard Charge of zero for property which is temporarily empty for up to three months on a change of occupier.

The person liable to pay the standard charge will be the owner or, if the property is let for six months or more, the tenant. No standard charge will be payable, of course, if the property is used as a sole or main residence: in these circumstances the personal Community Charge would apply, and would be payable by those who occupied the property.

Caravans. The Government has accepted the case for distinguishing between second homes and caravans. Caravan sites and caravan pitches will remain subject to non-domestic rating, and caravan owners will not be subject to the standard Community Charge.

Position of Parish and County Councils. The district council (or London borough) in each area will be responsible for managing a collection fund. This fund will receive all local Community Charges, together with Revenue Support Grant and the Uniform Business Rate for the area. The county, district and parish council will all precept upon the collection fund for the whole of their income (other than that from fees and charges and specific grants).

The Community Charge Bill. It is likely that the bill will set out all of the following:

- The income required by each authority, showing the different requirements of the different local authority tiers.
- The standard figure of Charge for which every local authority in the country could provide a standard level of service (£202 in 1988–9).
- How much of the total income required will be met by Government grant, business rates and the Community Charge.

This will enable local voters to see how much of their money each tier of local authority is spending, and whether this is more or less than the Government's standard figure.

A Charge Not a Tax. Most goods and services – including food – are provided at the same cost to all, regardless of people's incomes. Car tax, VAT and TV licences are levied at a flat rate. Redistribution of income can only be done fairly and efficiently by the national income tax and benefits system.

Since under the Community Charge people will be able to pay the same for the same services, the Community Charge is a charge for local services, not a tax.

The Simple Choice. As Mr Ridley has said, the Community Charge will ensure that the choices facing voters will be simple and stark:

‘Do you want to pay for inefficient, inadequate, expensive services or do you want to vote for frugal efficient administrations who take as little as possible of your money? ... That is the choice that Conservatives should be putting to the electorate now’ (West Bromwich, 13th February 1988).

The choice between a high Community Charge under a Labour council and a lower charge with the Conservatives is also quite clear, as Mr Gummer has pointed out:

‘If there were a Community Charge this year, the average in Conservative-controlled authorities would be £196·40 per year and in Labour controlled authorities £294·40, so there is almost £100 difference’ (*Hansard*, 14th December 1988, Col. 897).

3. TRANSITIONAL ARRANGEMENTS

Although the Community Charge will be introduced throughout England and Wales in 1990–1 there will be transitional arrangements: there will be a safety net while the present rate equalisation scheme is being phased out.

The Safety Net. Under the present system of domestic rates, government grant paid to local authorities compensates for differences in average rateable values between areas. This means that areas with high rateable values subsidise areas with low values. Thus ratepayers in high value areas can often pay more for the same level of local services than ratepayers, in similar houses, in low value areas. Rich and poor in high value areas subsidise rich and poor in low value areas.

The Government recognises that this is an absurd and unfair system, although it has been in existence for many years. With the introduction of the Community Charge, the system of rate equalisation becomes unnecessary. Revenue support grant will compensate for differences in *need* between different local areas. All Community Charge payers will, under the new system, be able to pay the same Charge for the same level of local services.

Rate equalisation, and the unfairness and burdens it has long imposed on areas with high rateable values, will therefore be abolished. However, so large are the sums involved that it would be very disruptive to do so overnight, and therefore the safety net will phase out the system over four years. This will enable those areas who lose to do so gradually, while those who gain will do so steadily until they receive the full benefit after four years – in 1994–5.

Even in the first year the maximum contribution towards the cost of the safety net will be limited to £75 per adult (i.e. a maximum £75 on the Community Charge). Without such a maximum, some local authorities would contribute over £100 per adult to the safety net.

The safety net, therefore, is merely a mechanism for phasing out an unfair existing burden.

Community Charge is the only system whose clarity and simplicity reveals this long-standing but largely unknown burden. The Community Charge is also the only system which will enable these burdens to be removed, since both Local Income Tax and capital value rating would require the retention of a similar form of redistribution of resources between different areas.

4. THE UNIFORM BUSINESS RATE AND NON-DOMESTIC REVALUATION

The Key to Local Accountability. Around half of all rates are paid by business; so half the cost of any increase in a council's spending is met by business ratepayers (in some areas much more). Local authorities are, however, not answerable to businesses, which do not have the vote. Councils thus use business rates to subsidise services to residents, who do have the vote.

This has obscured from voters the true cost of local authority services. The enormous variations in non-domestic rateable value also mean that the system of grant support to local authorities has to be much more complex to try to ensure that local taxpayers do not pay widely different rates for the same local services.

Mr Ridley has summed up the fundamental unfairness of the present system of business rates:

‘Businesses at present have no vote and no effective influence over the spending decisions of local authorities. It is unreasonable, unfair, undemocratic and economically perverse that local authorities can now set rates on businesses which vary locally and which constitute a large element in business costs’ (Buxton, 19th March 1988).

Under the new system, non-domestic rates will be levied at the same poundage everywhere. This will be set at the outset at a poundage to raise about the same amount in total as at present. Thereafter, annual increases will be limited to no more than the retail

price index. The proceeds of the new Uniform Business Rate will be redistributed to authorities as an equal amount per adult resident. This means that the full cost of increases in spending will be met by residents through the Community Charge. Correspondingly, residents will get the full benefit where authorities adopt prudent policies.

As Mr Gummer has put it:

‘The Government believes the right answer is to set business rate poundages at a uniform level across the country, and to increase them from year to year by no more than the rate of inflation. This will remove the economic distortions inherent in the present system, and enable businesses to plan ahead with confidence. It will also put the cost of changes in local government spending at the margin where it belongs – on local residents who will be paying the Community Charge and will have the right to vote in local elections’ (Eastbourne, 2nd November 1988).

In future authorities will receive grant purely and simply on the basis of their needs. So in future every council in the country will be able to charge the same for a standard level of service. In this way local people will have a clear benchmark against which they can judge the efficiency of their council. Without a UBR, this direct form of accountability would not be possible.

Fairness For Businesses At Last. Business rates currently vary by a ratio of 3:1 between the highest and lowest. So, for example, a company with similarly valued business premises could have paid 117p in the £ in Kensington and Chelsea in 1988–9, compared to 347p in the £ in Sheffield.

These extreme variations distort fair competition between businesses, and encourage businesses to choose their location for reasons which should be irrelevant. Often it is councils in the North and the inner cities, which most need new investment, which drive businesses away by high rates such as Labour controlled Ealing's rate rise of 57 per cent in 1987–8, and Labour run Manchester's 19·7 per cent rise in the same year.

Inevitably, on moving to a uniform rate set at the national average, businesses in low-spending areas, where rate poundages are currently below average, will face increases in their rate bills. However, most of these increases will be modest with few exceeding 20 per cent; many businesses have had to face much larger increases than this in recent years with no notice whatsoever when local authorities have increased their expenditure. The larger increases will be phased in (see below). Once the UBR is in place, businesses everywhere will benefit from the guarantee that rates will rise by no more than the Retail Price Index, and possibly by less, thus giving them a stable and predictable rate burden for the future and enabling them to plan new investment with confidence.

Revaluation: Unfounded Worries. At the same time as the UBR is introduced in 1990, there will also be a revaluation of non-domestic property, the first since 1973. Much of the concern expressed by small businesses in particular has been about the possible

effects of revaluation. Revaluation is however essential. If businesses are to be taxed on property values, there can be no possible justification for continuing to use 1973 rental values. Since then, there have been major changes in the economy, resulting in corresponding changes in property values. Revaluation will reflect these shifts: in general it is expected that retailers, especially in the South, will face increases in relative rateable value, whereas manufacturers, especially in the North and Midlands, will benefit from reductions.

It is clear that some of the worries of small businessmen about revaluation result from a misunderstanding. All rateable values are likely to increase substantially, by a factor averaging between 7 and 8, to reflect the effect of inflation on rents since 1973. But the uniform rate poundage will be reduced in proportion, to ensure that no more is raised in total rates than before. What matters most to the individual businessman is how his rateable value has moved relative to the average for all businesses.

Where businesses face a rise in real terms of more than 20 per cent, their increases will be phased in. No increase of more than 20 per cent (15 per cent for small businesses) will be possible in any one year. There will also be an annual limit of around 10 per cent in real terms for reductions in business rates (15 per cent for small businesses).

The transition period will last for five years from 1990. A decision on whether to continue phasing arrangements to take account of the next business rate revaluation in 1995 will be taken nearer the time. Businesses will be able to appeal against their new 1990 rateable values.

Dr John Cunningham, the Labour Party's Shadow Environment Spokesman, has said 'we support the revaluation of business property, because we are in favour of a property tax' (*Hansard*, Standing Committee E, 3rd March 1988, Col. 1186).

A Better Deal for Churches and Charities. The present system of reliefs from non-domestic rates will be substantially improved. Non-domestic property used for charitable purposes will receive 80 per cent mandatory relief – compared to 50 per cent relief at present – and churches, for example, will continue to be wholly exempt. Local authorities will retain the discretion to grant the further 20 per cent relief, and to give relief to other non-profit-making bodies.

Vicars and priests, since they use local services and have a local vote, will be individually liable for the personal Community Charge. They will be eligible for rebates on the basis of their income just like everyone else. Monks and nuns will be exempt.

Exemptions. In addition to churches and charitable properties, the following categories of property will be exempted from non-domestic rating:

- agricultural land and buildings, used exclusively for agricultural purposes;
- fish farms and fishery rights;
- lighthouses, buoys, and beacons owned or occupied by Trinity House;

- sewers and their accessories;
- land or structures occupied by drainage authorities for the purpose of regulating water flows;
- parks provided or managed by local authorities and available for free and unrestricted use by members of the public;
- property used for training, keeping occupied, providing welfare services or workshops for the disabled;
- air raid protection works;
- swinging moorings;
- property in Enterprise Zones;
- church halls and administrative property;
- exempt property when unoccupied.

Alternatives to the UBR. The CBI has requested a £2 billion reduction in the overall rates burden for businessmen. Everyone would like to pay less but that must mean others paying more. The Community Charge would increase by about £57 a head – or income tax would have to rise by nearly 2p in the pound.

The CBI have suggested that this could be overcome by a different ‘household’ system of Community Charge, which they claim would reduce collection costs by £450 million, and by raising charges for local services to market levels, which they claim would raise £1.2 billion. Both figures are wholly unrealistic.

The CBI's proposals for business rates would benefit businesses in the South-East on the whole, whereas the Government's scheme would benefit those in the North and the Midlands. In high spending Manchester the poundage would be 189p, compared with 270p in low spending Tameside. The poundage in Derwentside would actually rise by 49p – under the Government's proposals it would fall by 35p.

The ‘household’ Community Charge would also produce bizarre results: low-spending Salford would charge £480, while high-spending Liverpool would charge only £164.

Charging market rates for all local government services would take them out of the reach of some groups altogether.

The National Federation of the Self-Employed has proposed that business rates should be based on ability to pay, through a levy on company profits. This would in effect result in sharply increased rates of corporation tax. It would also mean that some banks, for example, would pay nothing this year because of their provisions to cover non-payment of Third World debt. Furthermore, special provisions for unincorporated businesses would be necessary and for non-profit-making businesses such as building societies. Such a scheme would therefore be highly complex and probably ineffective; and it would increase the tax on success faced by growing companies.

5. ALTERNATIVES TO THE COMMUNITY CHARGE

Local Income Tax. Both the Labour Party and all the remnants of the 'Alliance' – both the SLD and the Owenite SDP – support the replacement of domestic rates by a Local Income Tax. Labour, in addition, propose a second tax – on the capital value of property – to be levied on top of LIT.

However, LIT would not significantly increase accountability since only 2 million more people would pay it than pay domestic rates. This would still leave nearly half of all local voters paying nothing in local bills for local services. Furthermore, one more deduction from the pay slip would hardly increase local voters' perception of the cost and value of local services.

LIT rates would vary greatly between different areas especially between Labour-run inner cities and Conservative-run neighbouring suburbs. The LIT rate in Camden would have been 19p in the £ in 1988–9 – on top of national income tax. Yet in next door Barnet the LIT rate would be only 5.9p in the £. So a single adult on national male average earnings would save £1,343 a year – or over £25 a week – simply by moving from Camden to Barnet. Such an individual could save nearly £1,000 a year by moving from Lambeth to Croydon, or £1,235 a year – almost £24 a week – by moving from Lewisham to Bromley.

The consequences would be clear – and devastating. LIT would drive the young, the professional and the potential wealth creators out of the inner cities entirely. In their wake, house prices in the inner cities would collapse, penalising those living there even more. So the inner cities would become ghettos of self reinforcing poverty.

LIT would give the power to raise income tax to 400 Chancellors of the Exchequer. Attempts to organise incentives, redistribution and fairness on a national scale would be completely undermined by the volatility of local income tax rates.

LIT is a naturally buoyant revenue raiser. Such a tax – especially if a Labour or 'Alliance' government removed all controls on local spending – would give extreme local authorities a virtual blank cheque, and enable them to undermine locally all the hard won gains achieved nationally in bringing public spending under control.

LIT would be difficult and costly to implement. The Inland Revenue does not currently hold the names and home addresses of all income tax payers, so a new register would have to be drawn up. Unlike the Community Charge register, an LIT register would require the collation either centrally or locally of sensitive personal and financial data and would link this to people's addresses – with clear implications for civil liberties.

In 1981 the Inland Revenue estimated that 55,000 staff would be needed to run a local system of LIT. The cost today would be £750 million.

The average rate of LIT – 6.4p in the £ in 1988–9 – would reverse at one stroke almost all the Government's cuts in income tax since 1979.

LIT would therefore be complex and expensive to operate, would undermine national economic strategy without increasing local accountability significantly, and would cripple inner city regeneration.

LIT: The SLD's Version. In April 1988 the SLD produced a document entitled *A Better Way* which purported to show the impact of its version of Local Income Tax.

Unfortunately, the SLD figures are heavily slanted and based on a number of unsupportable assumptions:

- the amount of revenue to be raised is significantly underestimated;
- the grant for inner London is increased without any basis in objective assessment of need, thus reducing LIT rates there. This in turn means that LIT rates elsewhere are increased;
- insufficient allowance is made for the need to equalise between authorities for the differences in income tax base, so if Camden increased spending by £10 per head above their needs assessment level, the LIT rate would rise by only 0.1p in the £, whereas if Rochdale did the same thing the LIT rate would have to rise by 0.3p in the £;
- it assumes that no revaluation in non-domestic property is carried out, and that there is no equalisation of non-domestic rate resources, so high spending authorities would receive a permanent windfall gain at the expense of their local businesses and of other, more prudent, local authorities.

The consequences of the SLD plan would be that:

- single taxpayers on national average earnings in Shire county areas would pay far more than under the Community Charge. In Newbury they would pay £452 a year under the SLD scheme, £291 under a properly structured LIT but only £151 under a fully introduced Community Charge (based on 1987–8 spending). In North Dorset the figures would be £460, £302 and £156 respectively, and in Rotherham £638 would be payable under the SLD scheme, £551 under a proper LIT and £252 under Community Charge;
- couples on all levels of joint income above £12,000 a year would pay more under the SLD scheme than under LIT. This point has been conceded by the SLD plan's author, Mr Philip Truscott (*The Independent*, 19th April 1988).

Capital Value Rating. The Labour Party is, true to form, not content with one tax alone. After a period of considerable confusion during which the Party changed its mind several times, Labour have now come out in support of capital value rating to pay for local government as well as local income tax.

Capital value rating would mean no more people would pay than currently pay domestic rates, which would not advance accountability at all. Rates on such a basis would still bear no relationship to the number of people in a house.

Capital value rating would also severely worsen the unfairness of resource equalisation. The disparities between regions are even greater for capital values than for rateable values, even though rateable values themselves vary far more than incomes do. People in London and the South-East would be hit very badly: they would still pay more for a house than those in other regions, would then pay more in rates because they paid more for their house, and would see these disparities increase steadily as regular revaluations occurred.

Two and a half million households could face increases of over 50 per cent with capital value rates.

People living in London would be particularly badly affected, as Mr Gummer has explained:

‘Rate bills based on the value of a home would be a disaster for London. Capital value rates would be a swingeing tax on home ownership – and on council and private tenants as well. Many thousands of Londoners on relatively low incomes live in areas where house prices have risen rapidly over the last 10 years. Their capital value bills would ruin them. They would be forced to move from the area which they love. There is no fairness, no rhyme and no reason about that’ (London, 22nd November 1988).

And, as Mr Gummer went on to point out, with local income tax on top, Labour's plans would leave many ordinary people in London facing huge bills for local services – far higher than the Community Charge:

‘At present spending levels Hammersmith and Fulham would need a 13·7p Local Income Tax rate to balance their books. Under capital value rates they would need £21·10 per £1,000 of value. Let us assume a system, as Jack Cunningham has hinted, of 80 per cent capital values and 20 per cent Local Income Tax. A senior ward sister living in a fairly typical £100,000 flat would have to pay £1,688 in capital value rates. On top of that she would pay around £250 in Local Income Tax. So she would pay £1,938 in total. That compares with a likely Community Charge bill of £473. *So under Labour she might pay nearly £30 a week more.*

Or take a senior ward sister living in Putney. Wandsworth Council are much more efficient than Labour controlled Hammersmith and Fulham. Nonetheless if she lived in a typical £80,000 flat she would pay £1,120 in capital values and around £225 in Local Income Tax. That makes a total of £1,345 compared with £397 in Community Charge when the system is in full operation. *So, under Labour she might pay nearly £18 a week more.*

But pity the poor citizens of Hampstead. They really would be clobbered by Camden's horrific overspending. Our senior ward sister would pay £2,320 on a £100,000 flat. On top of that she would pay around £385 Local Income Tax. Her total bill would be about £2,705, compared with £639 Community Charge. *So under Labour she might pay £40 a week more*' (ibid.).

Banded Community Charge. The object of this proposal was to band the level of Community Charge payable according to income.

The most comprehensive set of proposals for a banded Community Charge have been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In some parts of the country the impact of such a banded Charge would be severe – a newly qualified nurse in the West Midlands, for example, would pay at least 1½ times as much as under Community Charge. In Co. Durham a teacher with five years' experience earning £11,850 p.a. would pay almost four times as much. An experienced and unmarried police constable in Lancashire would pay three times as much.

The scheme would create a tremendous earnings trap: someone earning an extra £1 of income could end up paying an extra £1,000 or more of banded Charge.

A banded charge would have all the disadvantages of a Local Income Tax, which it resembles much more closely than the Community Charge. Thus, there would be no significant increase in accountability. Under the CIPFA's proposals only 18½ million people would pay anything at all, scarcely more than pay domestic rates. Even for those who did pay, the link between what they paid and how much the council spends would be tenuous at best. Their Charge bill might increase not because their council increased spending but because their income had gone up by a few pounds.

A banded charge would increase the incentives to leave the inner cities just as LIT would. In some parts of London a married couple on joint earnings of £15,000 would be more than five times worse off with a banded charge than with Community Charge, while someone earning a net £30,000 might pay a massive £6,000 more in Camden than in Barnet.

Nationalising Local Government Services. It has also been proposed that central government should take on the entire and direct responsibility for funding education and police and fire services – the major services which local government provides.

If central government were able to forbid local authorities to add to the resources made available to them to provide for these services, local government and local democracy would effectively cease and would be replaced by simple local administration of central funds. Such a system would, of course, reduce Community Charges to a negligible sum – which would in itself make accountability non-existent as well as irrelevant.

If, on the other hand, local authorities were to retain the right to add to central government funds for these services, there would be no essential difference from the system which the Government proposes. Central government's revenue support grant will provide almost exactly the same amount of money to local government as it needs to spend on education, fire and police. Local authorities will have the right to increase their spending on these and other services by increasing their Community Charges.

6. THE REFORM OF CAPITAL EXPENDITURE CONTROLS

Capital expenditure by local authorities in England and Wales amounts to some £6 billion a year. Most of this has traditionally been financed by borrowing. During the 1980s there has also been a considerable increase in the capital receipts generated by local authorities from about £1.3 billion in 1981–2 to about £3.2 billion in 1987–8. Although some of these receipts have been used to repay debt or to finance new capital expenditure, authorities now hold more than £6.2 billion in accumulated receipts.

In July 1988 the Government issued a consultation paper which proposed substantial reforms of the system of local authority capital expenditure. The object of these reforms (which will be implemented by the Housing and Local Government Bill now before Parliament) is to introduce into this very important area of local authority finance the same principles of accountability, simplicity and stability which the Community Charge will establish elsewhere.

The main features of the reforms are as follows:

- Controls will be on borrowing and on all forms of credit, *not* on expenditure: control over the latter will be exercised by the electorate once the Community Charge restores proper accountability.
- 75 per cent of housing receipts (e.g. from the sale of council houses) and 50 per cent of receipts from the sale of other local authority assets will have to be employed for debt redemption or set aside for future capital commitments. Outstanding local authority debt stands at about £45 billion. These proposals will help to reduce the debt attributable to past capital expenditure by local authorities. A reduction in interest payments on this debt will be of benefit to all Community Charge payers.
- The remainder of receipts – 25 per cent of housing receipts and 50 per cent of other receipts – may be spent however and whenever local authorities decide. By contrast, at present local authorities may spend only 20 per cent of housing receipts and 30 per cent of other receipts in any one year.
- Local authorities will be told how much they can borrow over a three-year period, enabling them to plan ahead.
- Local authorities will be able to finance additional capital expenditure from revenue contributions – subject, of course, to the discipline of the Community Charge.

Mr Ridley has explained the reasoning behind these reforms:

‘Local authority total assets are about £200 billion. The debt is around £45 billion. Would it not be more sensible for them to have less assets and less debt, because it would reduce the Community Charge too. Out of £200 billion assets I cannot believe there is not quite a lot which could not be better managed in the private sector. I'm not saying councils have to do this. I'm saying since it has proved highly successful politics for central government, could it not prove successful politics for local government? (*Local Government Chronicle*, 4th November 1988).

(C) THE RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND AND WALES

The RSG settlement for England in 1989–90 maintains the Government's record of generous but prudent support for local expenditure. Provision for current expenditure is set at £29.14 billion. This represents an increase of 8.6 per cent on the 1988–9 settlement, after allowing for the removal of the cost of polytechnics which from April 1989 are to be funded by central Government directly.

Aggregate Exchequer Grant – the total amount of grant from the national taxpayer to support local government – will be set at £13,575 million in 1989–90. This is £1.1 billion more than in 1988–9 – an increase of no less than 9 per cent, well ahead of inflation.

As Mr Gummer pointed out:

‘If authorities spend in line with the expenditure provisions made in the rate bill settlement increases on *average* need be only two per cent. Obviously for some authorities that will not be possible but this year the extra grant will, and must, keep down rate increases. The settlement as a whole is therefore good news for local government and ratepayers’ (*Hansard*, 19th December 1988, Col. 35).

The Government received representations from about 110 local authorities on the 1989–90 settlement. This is substantially less than in previous years and this lower level of response can reasonably be interpreted as indicating a broader level of contentment with the settlement than has been achieved in recent years.

(D) VALUE FOR MONEY

1. THE AUDIT COMMISSION

The Commission's Role. In 1983 the Government established the Audit Commission – an independent body with responsibility for the District Audit Service and with powers to appoint external auditors in England and Wales (Scotland has its own independent Commission for Local Authority Accounts). Its other main tasks are to help local authorities achieve better value for money and to strengthen local accountability. It does so by reporting on the ‘economy, efficiency and effectiveness’ of local authorities.

Saving Money. In its first four years, the Commission identified potential improvements in value for money approaching £500 million a year. In little more than a year the actual savings achieved by local authorities have leapt from £80 million a year to £220 million a year (*The Independent*, 15th August 1988).

Better Management. In March 1988 the Commission published a comprehensive blueprint for well managed local authorities. This document, *The Competitive Council*, helps to guide local authorities through the new customer-oriented environment which the Government is creating.

Strengthening the Power of Auditors. The Local Government Act 1988 introduced a major new power for district auditors. They can now issue ‘prohibition orders’ or stop notices to prevent councils from acting unlawfully or from incurring unlawful expenditure. This power will enable district auditors to step in and halt or prevent such actions before harm is done to the interests of ratepayers (or Charge payers).

This is a major advance on the previous arrangements, under which district auditors could only protest at (but not prevent) such actions and under which their only sanction was to surcharge the perpetrators after the event. It is therefore a significant new protection for Charge paying electors from the depredations of extreme and irresponsible councillors.

2. COMPETITIVE TENDERING

Existing Success. Competitive tendering involves the drawing up of a detailed contract for a local service for which private sector companies compete on equal terms with in-house workforces. It is an increasingly successful and widespread method of saving costs and improving the quality of council services.

A survey for the *Local Government Chronicle* revealed that the proportion of councils contracting services out has risen from 10 per cent in 1986 to almost 30 per cent in 1988 (*Local Government Chronicle*, 8th July 1988). The survey also shows that, since 1981, 131 councils have contracted out services, saving more than £42 million.

Wide Acceptance. While Conservative councils have been in the vanguard of the move towards competitive tendering, councils of all political complexions have begun to embrace it:

- Among Conservative councils, Wandsworth is saving almost £4 million a year over a wide range of services, Solihull is saving £1 million over 5 years on refuse

collection, Hereford and Worcester is saving over £1 million a year by putting a variety of services out to tender and Kent has achieved savings of more than 10 per cent on vehicle and plant maintenance.

- Among Labour councils, Bassetlaw has put some grass cutting out to tender, Bury its street lighting maintenance and Ipswich has extended its office cleaning and sports centre cleaning contracts. Even Hard Left Ealing Council has put its street cleaning out to competitive tender – and saved the ratepayers £600,000 as a result.
- Among SLD councils, Eastbourne has contracted out its refuse collection, public toilet and street cleaning services, while South Somerset has contracted out its office cleaning and refuse collection services.

Spreading the Benefits. Under the Local Government Act 1988 all councils will have to submit six services to competitive tendering. They will do so over a period from August 1989 to 1991 or 1992 under a phased time-table.

The six services affected are:

- refuse collection;
- street cleaning;
- cleaning of buildings;
- ground maintenance;
- vehicle maintenance and repair;
- catering services (including school meals).

Mr Michael Howard, then the Local Government Minister, pointed out at the time the Bill was published that these six services alone cost local authorities £3 billion a year and, therefore, ‘even a 10 per cent overall saving on these services – hardly an impossible target – could save £300 million a year’ (Press Release, 26th June 1987).

The objective of competitive tendering is to ensure that services are provided by the most efficient contractor. This need not necessarily be a private company: local authorities' own workforces are quite entitled to bid for contracts, and if theirs is the best tender then they should be awarded the job. Far from being an ideologically motivated attack on the public sector, competitive tendering is a powerful means of ensuring that services are provided cost-effectively and efficiently. In a report published in January 1989 (*Preparing for Compulsory Competition*), the Audit Commission concluded that the existing experience of competitive tendering indicated that savings of 20 per cent in contract prices could be achieved *even if the work is not ultimately contracted out*. A report by Labour controlled Manchester City Council has estimated that even if local authority work forces won all the contracts put out to tender there would be a 19 per cent saving in staffing costs alone (*Financial Times*, 26th July 1988).

Sport and Leisure Facilities. The Act contains a power to enable the Secretary of State to add further activities by order to the list for tendering. After a consultation exercise, the Minister for Sport, Mr Colin Moynihan, announced on 1st July 1988 that the

management of local authority sport and leisure facilities will be added to the list. Functions in this category will have to be exposed to competition by 1992 or 1993.

This will not affect the ownership of the facilities, nor will it prevent local authorities from continuing to exercise their discretionary control over admission, opening and pricing policy – with the right to subsidise the latter. School and college facilities will be exempted.

For those facilities which are affected, however, the new provisions will offer a process of competition in which the best value for money in management can be obtained. Successes are already being achieved in this area: Basingstoke and Deane is saving £40,000 a year on the management of its swimming pools and St Edmundsbury is saving £15,000 a year on its golf course.

Mr Moynihan summed up the effects of the new policy:

‘Our proposals for competitive tendering will bring forward the achievement of sport for all, in a way that has manifestly not been achieved under the current closed shop regime’ (*Hansard*, 12th July 1988, Col. 257).

(E) PREVENTING THE ABUSE OF POWER

1. THE PROBLEM

Some Labour councils and councillors have engaged in highly questionable activities:

- *Propaganda*. Mr Ken Livingstone, former Leader of the GLC, has boasted: ‘We started working with CND and switched the Government funds we received for war preparations [civil defence] into the campaign for nuclear disarmament’ (*If Voting Changed Anything They'd Abolish It*, Collins 1987, p. 258).
- *Jobs for the Boys*. The former Labour Leader of Bradford City Council, Mr Phil Beeley, had a £13,000 job as ‘anti-privatisation adviser’ to Labour controlled Wakefield District Council (*The Sunday Times*, 22nd November 1987).
- *Politics in Contracts*. Leicester and Peterborough City Councils and the London Boroughs of Brent, Greenwich and Southwark, all have asked contractors about their links with the Nuclear Missile Programme.
- *Exploiting the Ratepayer*. Labour Councillor Gordon Flude, a member of the ruling Labour Group on Derbyshire County Council, has alleged that his group leaders ‘organise trips abroad which are totally unnecessary and agree expenses claims, often retrospective, for meetings which are secretive and often outside the true workings of council business’ (*Derby Trader*, 27th April 1988).

(For further details of Labour profligacy, extremism and incompetence in the management of local authorities, see pp. 567–70 below.)

2. THE WIDDICOMBE INQUIRY

In response to widespread public anxiety at this sort of abuse of power, the Government set up an independent Committee of Inquiry in February 1985 into the Conduct of Local Authority Business. The Inquiry was chaired by Mr David Widdicombe Q.C. In August 1985 the Committee produced an interim report on the misuse of public funds for party political purposes. The Government legislated on this matter in 1986.

The Committee's final report, published in June 1986, contained a number of proposals designed to prevent the manipulation of officials, jobs and discretionary spending powers while at the same time strengthening the rights of Opposition councillors.

The Government's full response to the Widdicombe Committee's report was published in July 1988, preparing the way for legislation (see Section 5 below).

3. PROPAGANDA ON THE RATES

The Widdicombe Committee recommended in its interim report that ‘there should be an express statutory prohibition of local authority publicity of a party political nature’ (para. 227). The Local Government Act 1986 introduced exactly such a prohibition. Under Section 2 of that Act:

‘A local authority shall not publish any material which in whole or in part, appears to be designed to affect public support for a political party’.

Section 27 of the Local Government Act 1988 tightens this ban further, by establishing that in determining whether material is banned under the Act, the content, style, circumstances of publication and likely effect on recipients will be considered as well ‘whether the material refers to a political party or to persons identified with a political party or promotes or opposes a point of view on a question of political controversy which is identifiable as the view of one political party and not of another’.

The 1986 Act, as modified by the 1988 Act, also requires local authorities to ‘have regard to’ the provisions of a Code of Recommended Practice on Local Authority Publicity. This Code makes it clear that ‘any publicity describing the council's policies and aims should be as objective as possible’ (point 12) while publicity ‘used to comment on, or respond to, the policies and proposals of central government ... should be objective, balanced, informative and accurate ... [it] should not be a prejudiced, unreasoning or political attack’ (point 13).

These provisions should ensure that where public money is used by local authorities for publicity purposes the material so funded will be as politically impartial as possible.

4. POLITICS IN CONTRACTS

The Local Government Act 1988 implements a further recommendation of the Widdicombe Committee by prohibiting the introduction of non-commercial considerations into the contracting process by local authorities.

Local authorities may, however, ask questions of potential contractors about their policies on race relations (under the 1976 Race Relations Act) or towards the disabled. But in the former case they may only ask questions specified by the Secretary of State.

As Mr Ridley has emphasised:

‘Political discrimination in the award of contracts is an offensive and growing practice; increasing numbers of councils subjugate the interests of their ratepayers and businessmen to futile political gesturing ... [the legislation] will strengthen the law by making it absolutely clear that such practices are illegal’ (*Hansard*, 6th July 1987, Cols. 83–4).

5. PREVENTING ABUSE OF CAPITAL SPENDING

In recent years a number of Labour local authorities have been employing creative accounting devices to incur capital expenditure and to evade Government controls over borrowing levels.

Some were acquiring capital assets on terms outside the letter of existing capital controls – for instance, by taking medium term leases or by barter. Others raised money by sale and lease-back of operational assets. In effect money was being borrowed by disposal of capital assets to finance revenue account deficits.

Brent raised money on its town hall, Camden on its parking meters. The result was a short-term financial bonus, paid for by a massive increase in the debt burden these local authorities had to carry in the future. Under the Local Government Finance Act 1988 these practices were banned from midnight on 9th March 1988.

6. STRENGTHENING LOCAL DEMOCRACY

On 21st July 1988 the Government published a White Paper (Cm. 433), its formal response to the Widdicombe Committee report. The Local Government and Housing Bill, now before Parliament, will give effect to the following proposals in the White Paper and in certain respects goes beyond them:

- i. The party balance on main decision taking Committees and subcommittees should reflect that on the Council as a whole.

- ii. The co-option of non-elected persons on to such committees should be banned, except for magistrates on police committees and Church representatives on education committees.
- iii. The Secretary of State should be empowered to require the inclusion of certain core provisions in standing orders.
- iv. An officer (other than the treasurer) should be appointed to report on the legality and propriety of council decisions and another officer should be responsible for management co-ordination across the whole range of a council's services.
- v. Chief officers, their deputies, other staff identified by councils as advising or acting on behalf of the councils, council employees earning more than £13,500 a year and other staff in sensitive positions should be prohibited from becoming councillors, MPs or MEPs, or engaging in public political activity.
- vi. The appointment of party political advisers to a council's staff should be limited. There will be no more than one adviser for each of the three largest groups on the council, which have more than 10 per cent of the seats.
- vii. Local authority involvement in companies should be properly regulated.
- viii. The power to spend on economic development should be removed from section 137 of the Local Government Act 1972 (section 83 of the Local Government Act (Scotland) 1973) and from other specific provisions and replaced by a single power subject to a number of specific restrictions.
- ix. The 2p rate limit for expenditure under sections 137/83 should be changed to a per adult limit of: £5 per adult in each London borough and metropolitan district; £2.50 per adult in each county and district; and £3.50 per adult in each parish and community council.

The Government rejected, however, the recommendation of the Widdicombe Committee that the role of the Chief Executive should be significantly strengthened. This reflects the view of almost all those in local government that officials should not exercise wide authority over elected councillors.

7. ACCOUNTABILITY: THE ULTIMATE REMEDY

The key to preventing abuse and to strengthening local democracy is the establishment of proper accountability in local government. That is what the Community Charge will achieve.

As Mr Ridley has stressed:

‘The advent of the new Community Charge system is the writing on the wall for councillors who run inefficient and ineffective local authorities and no amount of anti-cuts campaigns or gesture politics is going to get round the overwhelming constraint of electoral choice’ (London, 29th February 1988).

(F) THE FUTURE FOR LOCAL GOVERNMENT

1. ENABLERS NOT PROVIDERS

The major reforms being introduced in education, housing, competitive tendering and local government finance will place local authorities in an entirely new situation where the priority is individual choice, and where there is an absolute premium on efficiency and value for money.

The role of local authorities will also change as the great municipal empires of monopoly housing, education and even refuse collection are challenged and broken up. Mr Ridley has set out his own view of the future:

‘The role of the local authority will no longer be that of the universal provider. But it will continue to have a key role in ensuring that there is adequate provision to meet needs, in encouraging the various providers to develop and maintain the necessary services, and where necessary in providing grant support or other assistance to get projects started, and to ensure that services are provided and affordable for the clients concerned’ (*The Local Right: Enabling Not Providing*, Centre for Policy Studies, Policy Study 92, February 1988, p. 7).

Local authorities will therefore increasingly become regulators not suppliers, guarantors not participants, enablers not providers. They will increasingly be able to concentrate on the quality of service provided rather than the administrative minutiae involved in providing it directly.

2. THE QUEST FOR EFFICIENCY

Conservative reforms such as the Audit Commission and competitive tendering both encourage and assist the introduction of proper and effective management techniques in the pursuit of value for money. The introduction of direct financial accountability to all local voters through the Community Charge will make the pressure to put efficiency rather than political gestures first almost irresistible.

Even some Labour councillors have recognised that the new climate will make better performance imperative. Councillor Dave Sullivan, Leader of Lewisham Council, has admitted:

‘The recent MORI survey on Lewisham Council services showed high levels of community dissatisfaction with certain services. Some of these areas face privatisation and competition ... If these services are not improved users will not defend them and will not choose them’ (‘Report to Labour Group’, 8th October 1987).

Indeed, as the Labour Co-ordinating Committee has conceded, in the new environment the Government has created, ‘staff unions and councillors have a common interest in improving services – to survive’ (*Labour Councils in the Cold*, January 1988, p. 15).

Referring to ‘the new Community Charge era’ Mr Ridley said:

‘As the monopoly position of local authorities in many areas is challenged, so councillors will less and less be in a position where they can be manipulated by the power of monopoly unions. It will be both in their interests and in the interests of the workforce to put high standards and good service to the public above everything else’ (*The Local Right*, pp. 34–35).

3. STRUCTURE

The Government has made it clear that, at a time when so much is changing for local authorities, it is not appropriate to alter the basic structure of local government which at the moment is only 15 years old. The White Paper on the recommendations of the Widdicombe Committee states:

‘The Government can see no evidence which shows clearly that changes in [structure] would result in more effective local government. The Government therefore have no proposals for change. They believe that the emphasis should be firmly upon making the existing local authorities efficient and responsive to the electors’ (para 1.17).

4. THE DEMOCRATIC CHOICE

Confronted by the tremendous problems, increasing extremism and widespread waste of some local authorities, the Government faced a dilemma. Mr Ridley has described that dilemma and the way out of it which this Conservative Government has taken:

‘We have a choice: either we go on legislating until we have a framework of law within which the abuses can be contained within a more central control. Or we make local authorities fully accountable to their electors and ensure that those who vote for local extravagance and depravity pay for it. With our long tradition of responsible local public service unhesitatingly we choose local democratic accountability’ (Bournemouth, 8th October 1986).

The **Prime Minister** has summed up the Conservative way forward:

‘Please note our approach is not taking more power back to government, it is taking power and giving it back to the people where it should always reside’ (London, 5th March 1988).

(G) OPPOSITION POLICIES

1. LABOUR PARTY

Confusion on Local Government Finance. Labour's attempts to produce a policy in response to the Community Charge have frequently degenerated into farce. These have been its fifteen steps to muddle:

- i. Labour's Campaign Pack for the May 1987 Local Elections stated: 'Most people accept that rates are a reasonable tax. They are clearly understood and nearly every country taxes property. But it makes no sense to base rates on the mythical rental value of a property – when most properties would never be rented in this way. That's why Labour will base rates on the actual capital value, making for a much fairer system'.
- ii. During the General Election Labour spokesmen strenuously denied that capital value rating was Labour policy. Mr Gould denied it (*The Times*, 27th May 1987). Mr Kinnoch said 'It is not in the manifesto' (*Municipal Journal*, 5th June 1987). The Environment Spokesman, Mr Jack Straw, said: 'Any changes that we make in the financing of local government would be technical in application and would not affect rate bills in any significant way' (quoted in *Municipal Journal*, 5th February 1988).
- iii. Mr Straw's comment was curious, because during that same General Election campaign Labour's Chief Environment Spokesman, Dr John Cunningham, said: 'I'm not suggesting that the rates as they are at present are acceptable, they do need radical reform' (BBC, *Newsnight*, 21st May 1987).
- iv. Within a month, Mr Kinnoch contradicted Dr Cunningham. He said: 'It needs to be said that, contrary to myth, the overwhelming evidence is that if linked to a fair rebate system a rates system can be managed in a way that is proportional to people's ability to pay and its regressive nature neutralised' (Cardiff, 25th June 1987).
- v. Labour's new Local Government Spokesman, Mr Jeff Rooker, was appointed after the General Election. He appealed to his Party's leaders to give him a policy to propound, because, 'I am not prepared to see the Labour Party walk naked into the Debating Chamber, which is what a crude and negative opposition to the poll tax will amount to, if we are seen only to be defenders of the present unfair rating system' (Birmingham, 27th July 1987).
- vi. By September 1987, Mr Rooker was growing increasingly desperate. He said 'I have already made it absolutely clear that under no circumstances is our opposition to the poll tax going to be conducted as a defence of the existing unfair rating system' (Old Ham, 23rd September 1987). He also said 'I'm saying to [Labour's] NEC policy makers, "Hang on a minute, what's our policy on local government?" They said, "we've got the consultation document, we were in the middle of consulting about it when she called the general election". Putting it at its baldest, we haven't got a policy. That's the actual truth' (*The Independent*, 24th September 1987).
- vii. One day later, however, Mr Rooker felt able to predict that: 'At the time we come to oppose it [the Community Charge] in the Commons we will have in place an alternative, which we haven't got today' (*The Guardian*, 25th September 1987).

- With the Second Reading of the Local Government Finance Bill due in December it seemed that Labour would have a policy before the end of the year.
- viii. However, in December Dr Cunningham held a press conference at which he ruled out the production of a final Labour policy before the General Election (4th December 1987).
 - ix. During the Second Reading debate in the House of Commons, Dr Cunningham put back the time when a Labour policy would emerge until *after* a General Election. He revealed that Labour's policy now consisted simply of a promise that: 'Before legislating, we shall publish a White Paper and seek a consensus' (*Hansard*, 16th December 1987, Col. 1136).
 - x. The Labour Party then came full circle with its Campaign Pack for the May 1988 Elections, published on 28th January. This suggested a property tax 'on the capital value of a property' before 'considering the idea' of reducing the rates with 'the balance made up through a local income tax'. The pack then attacked Liberal support for LIT, because it is only 'gradually' becoming 'a practical possibility' and is 'very vague'. (Indeed, Mr Straw, then Labour's Local Government Spokesman, has pointed out that LIT would be an administrative nightmare and would have 'obviously unacceptable' implications (*Local Government Chronicle*, 6th February 1988).
 - xi. Mr Roy Hattersley, Labour's Deputy Leader, then leapt into the fray. He dismissed the idea of offering no concrete policy on the question – the notion supported by Dr Cunningham – as 'the sort of vacuous opposition which the people of this country despise' (Sedgefield, 8th April 1988). He backed the idea of a 'mixture of property tax – based on capital values – and local income tax' (*ibid.*).
 - xii. Labour has provided few details of the application of this scheme. They have not even revealed clearly how much weight would be given to each of their two taxes. Their policies have potentially disastrous consequences for people on modest incomes in areas where property values are high.
 - xiii. In his Sedgefield speech, Mr Hattersley stressed that 'the basis of local government finance must be the rating system' (8th April 1988). But Labour's Local Government Spokesman in the House of Lords, **Lord McIntosh of Haringey**, does not appear to have received the message. He has declared that rates 'are desperately inadequate as a fair basis for raising revenue for local government' (*House of Lords Hansard*, 23rd May 1988, Col. 652).

Lord McIntosh stated flatly that 'I have to make it clear that it is not the policy of the Labour Party to replace the Community Charge with capital value rating' (*ibid.*, Col. 697). He even went so far as to say that 'we are not opposed to many of the detailed provisions in the Bill' (*ibid.*, Col. 653) – this of a Bill which his opposite number in the Commons, **Dr John Cunningham**, described as 'the worst Bill to be introduced by any Government in this country this century' (*Hansard*, 25th April 1988, Col. 138).

Given this confusion, it is perhaps not surprising that Lord McIntosh concluded that: 'there is no formal Labour Party policy for local government finance' (*House*

of *Lords Hansard*, 23rd May 1988, Col. 698) and added, 'I do not think that there is any secret about this' (*ibid.*).

- xiv. *Social Justice and Economic Efficiency*, the product of the first year of the Party's policy review, did not mention the issue of local government finance.
- xv. Labour's NEC – which is not the final policy-making body of the party – has now endorsed a mixture of capital value rates and LIT after all. However, the party is still not prepared to reveal the exact proportions of local funds to be raised from each of the new taxes.

Conclusion. As Mr Howard has said: 'The only matter that is clarified is that Labour want to replace the Community Charge with not one but two taxes. How typical of the high tax, high bureaucracy Party. It is equally typical of Labour that they cannot – or will not – reveal how much money they plan to raise from each of these two new taxes. They are the squid of British politics – squirting out great clouds of murky ink to obscure rather than illuminate their policies' (19th July 1988). The implications of the two local government taxes are discussed on pp. 404–6.

Flirting With Law-Breaking. Bereft of a clear policy, prominent Labour figures have come close to supporting the idea of breaking the law in opposition to the Community Charge.

The official Labour Party newspaper *Labour Party News* has carried an advert for the 'Don't Register! Don't Pay!' campaign run by the Independent Labour Party, itself a Labour Party registered organisation. Labour's Scottish Spokesman, Dr Donald Dewar, has said that Labour in Scotland 'are looking to undermine and frustrate the implementation of the tax' (*Morning Star*, 11th March 1988).

Mr David Blunkett, now an official Spokesman on Local Government, has said:

'We don't need to be frightened of non-illegal civil disobedience. There is no difference between us on this platform in saying that we can put a spanner in the works' (*The Guardian*, 1st February 1988).

Mr Kinnock himself has given his full backing to a Labour campaign to encourage recipients of the Community Charge registration form to send it back with a request for more information. He has called this idea 'very positive' (*Morning Star*, 11th March 1988).

The Labour MP, Mr Dick Douglas, has warned those of his fellow MPs who may have qualms about law-breaking of the fate that awaits them – loss of their seats. He said:

'I now feel that they are the ones with the problem because they will have to answer to their constituency parties. We all have to face reselection and they will have to defend their position on the poll tax' (*Militant*, 18th March 1988).

Already, 18 Labour MPs have pledged to defy the law and refuse to pay the Community Charge (*Tribune*, 29th July 1988).

Although the Labour Party stopped short of committing itself officially to a non-payment campaign in Scotland (where the Community Charge is to be introduced a year earlier, in April 1989), certain Scottish Labour MPs have disagreed publicly with this policy and are advocating non-payment (see p. 564).

However, despite the incitement to law-breaking offered by militant Scottish politicians, the electorate north of the border remains distinctly unimpressed, and the non-co-operation campaign has got off to a disastrous start. Despite efforts to encourage Scottish Charge payers not to fill out and return their registration forms, over 99 per cent ignored this ill-judged advice and returned their forms correctly.

Undermining Efficiency. The first report of Labour's policy review, *Social Justice and Economic Efficiency*, makes the party's hostility to the highly successful Audit Commission very clear. The document proposes the establishment of a 'Quality Commission' to 'complement' the existing Audit Commission. Whereas the Audit Commission's function is to save public money, that of the 'Quality Commission' will be to encourage the expenditure of more, not less, money.

Unnecessary Upheaval. The review document is deliberately vague on most local government issues. It does, however, support 'an extension of democracy along the lines of the consultation paper on local government reform which we published in 1987'. This document, *Local Government Reform in England and Wales*, proposed abolition of the shire counties in favour of a new bureaucratic tier of regional authorities. The Party's Environment Spokesman, Mr Allan Roberts, has said there is a need and demand for regional government especially in the North of England (*Local Government Chronicle*, 31st March 1988).

Labour would therefore subject local government to a costly and expensive upheaval while retaining at the end of the process exactly the same number of tiers as exists today.

A New GLC. The 1987 document *Local Government Reform in England and Wales*, reaffirmed in 1988, and the Party's 1987 General Election Manifesto committed Labour to the re-establishment of 'a democratically elected strategic authority for London' (*Britain Will Win*, May 1987). Naturally they ignore the major savings achieved by the abolition of the GLC in 1986: £240 million in revenue balances and £305 million in capital receipts are being passed to the successor boroughs and districts, while an estimated £100 million a year will be saved in the long term as a result of staff reductions.

Local Government Reform also suggested 'there could be a case for two further regional authorities (North Thames and South Thames) flanking the metropolitan area'. Such a proposal would obviously imply the abolition of the Home Counties.

More Power to Extremists. The 1988 review document *Social Justice and Economic Efficiency* states that major responsibilities in ‘regional and inner city development’ are to be ‘devolved ... to local and regional authorities’. The 1987 Consultative Paper *Local Government Reform*, reaffirmed by *Social Justice and Economic Efficiency* as the basis for Labour's local government policies, also called for a loosening of spending controls on councils and declared that local authorities should prepare for ‘an interventionist role within the private sector’. It also said Labour planned to ‘give local authorities a general power of competence to do whatever is not expressly forbidden contrary to law’ (p. 22).

Coupled with Labour's apparent wish to fund local government, at least in part, from a naturally buoyant revenue raiser such as Local Income Tax, the effect of these changes would be to give Labour's extremists in local government a free hand with vastly increased resources and powers at their disposal.

2. THE SLD AND SDP

Inadequacies of LIT. Both the SLD and the SDP remain committed to a policy of a Local Income Tax (see p. 404).

No Fear of Extremists. The SLD, like the Labour Party, appear to be very keen to abolish all constraints over the activities of local extremists. Commenting on an inquiry by the District Auditor in Southwark into the activities of local councillors, the SLD's then Local Government Spokesman, Mr Simon Hughes, drew a bizarre comparison with the ‘Spycatcher’ case and fumed: ‘The age of one law for one level of government and one law for another must come to an end’ (London, 7th June 1988).

The SLD's initial Policy Declaration *A Democracy of Conscience* (January 1988) committed the party to a Local Income Tax on the grounds that it would ‘free local authorities from the dictates of central government’.

Confusion on Competition. The Government's announcement of compulsory competitive tendering in the management of local authority sporting facilities was attacked by Mr Hughes on the grounds that competitive tendering will mean that ‘all over the country there will be higher charges at the gate and at the door’ (*Hansard*, 1st July 1988, Col. 658).

Although Mr Hughes has been his Party's official Spokesman on Local Government issues, he was apparently not aware that the SLD Council in Chelmsford had achieved notable success by putting the management of its new £7 million ice rink and leisure centre out to a private company. The centre attracts 18,000 people a week and, before interest charges on development costs, the council collects close to £200,000. The SLD Chairman of Chelmsford's Leisure Centre Committee has pointed out that the Council set out the programme of activities and the ‘parameters’ for pricing when it issued a five-year management contract, and has also conceded that any price increases have been fully discussed and approved by the Council (*The Daily Telegraph*, 2nd July 1988).

More Bureaucracy. While the policies of the SLD remain deliberately vague on many issues the obsession of the old ‘Alliance’ parties with devolution of power to bureaucratic Assemblies rather than to ordinary citizens appears to have survived unaltered in the new Party.

A Democracy of Conscience (January 1988) committed the party to ‘elected regional assemblies in England’ – a new layer of expensive and unnecessary bureaucracy. The Party has not made it clear whether these assemblies are to be in addition to, or a replacement for, the existing tiers of local government.

Paralysis of Decision-Making. The SLD's commitment to introducing proportional representation in local elections is reaffirmed in *A Democracy of Conscience*. For the SDP Dr Owen has also said that ‘proportional representation is essential’ (*Sticking With It*, September 1987). Yet proportional representation would clearly lead to permanently hung councils in most parts of Britain, producing paralysis, indecision and ineffectiveness in local government.

16. HOUSING

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(A) HOME OWNERSHIP

1. A REMARKABLE INCREASE

A Nation of Owner-Occupiers. Conservative policies are extending the personal ownership of property in a whole variety of different ways. But wider home ownership has a place of special significance in the Conservative strategy. Home ownership is, quite simply, the principal foundation of the property-owning democracy (the term made famous by Sir Anthony Eden).

Since 1979 home ownership has increased more rapidly than at any time in British history. Some 3 million more families own their homes today than when the last Labour

Government left office. Nearly two-thirds of all homes in Britain are now owner-occupied – one of the highest percentages in the world.

Strong encouragement will be given to the further spread of home ownership (for that, after all, is what most people want, as opinion polls consistently show). Tax relief on mortgage interest will be maintained. The housing market has never been freer: home buyers will continue to reap the benefits of increased competition and improved services – in such areas as conveyancing and mortgage finance – introduced as a result of Conservative reforms.

Housebuilding. It is essential that the planning system should ensure an adequate and continuing supply of land for housing. Much of it can be found by re-using sites that have already been developed, and by building on land in urban areas. In the last few years nearly half the land developed for housing has been of that kind. This process will go on being encouraged by the Government, both through the planning system and by grants for the reclamation of derelict land and urban regeneration.

Private housebuilding has been increasing markedly in recent years. 1988 was the best year for private housebuilding since 1973: it is estimated that 213,100 homes were started, and 182,200 were completed.

Right to Buy. No other single measure introduced by this Government has given such a powerful boost to the spread of home ownership. Over 1.3 million public sector homes have been sold in Great Britain since 1979 – most of them to their tenants under the Right to Buy (for details of the legislation which introduced it, and extended it in the period up to the last General Election, see *The Campaign Guide 1987*, pp. 311–2).

Strengthening the Right to Buy. The process of turning public sector tenants into home owners should not take more than a few months. But some Labour local authorities have tried to obstruct sales. As a result, in some places sales have taken up to two years. The Housing Act 1988 includes a provision to help tackle this problem. If councils drag their feet, tenants have the power to serve notice on them, calling on them to proceed. If no progress is made, rent will be regarded as an advance payment towards the purchase price. The Act also strengthens the Right to Buy in three other ways:

- Councils are able to use the Right to Buy proceeds to process new applications.
- The ‘Cost Floor Rule’ – under which discounts were reduced if homes had been built or substantially improved since 1974 – has been amended. In future, only costs incurred up to eight years before each tenant's application to buy will be taken into account in calculating the ‘cost floor’. The change means that more tenants will be able to buy their homes.
- Tenants living in homes specially built or adapted for the disabled are no longer excluded from the Right to Buy.

Shared Ownership. The Government has made it possible, through this scheme, for people lower down the income scale to acquire a share in a home without having to pay

the cost of a full mortgage. The scheme is of particular value to first-time buyers in areas where the cost of living is high. For example, home owners moving to the South-East in search of work can use the money from the sale of their home to buy a share of a new house, pay rent on the remainder to a local authority or housing association, and then buy the remaining share as their income allows until eventually they become full home owners.

Between 1980 and the end of 1987, there were 36,000 shared ownership sales in England and Wales. 8,000 involved local authorities; new town corporations were responsible for 7,000; and housing associations for the remaining 21,000.

(B) HOME IMPROVEMENTS

The Conservative Record. Since 1979 over 1.2 million home improvement grants have been paid at a total cost of over £3.7 billion. *The English House Condition Survey 1986* (published in November 1988) showed that the proportion of the housing stock lacking basic amenities (e.g. a bath) fell from 5 to 3 per cent between 1981 and 1986 – providing convincing proof of the Government's success in improving the quality of the nation's housing stock.

Targeting Assistance. In May 1985, the Government published a Green Paper, *Home Improvement – A New Approach* (Cmnd. 9513) which set out proposals designed to concentrate help on those who cannot afford to carry out essential repairs and improvements without financial assistance. The Green Paper stated: 'The Government ... proposes to introduce a system under which eligibility is determined by the financial circumstances of the owner-occupier's household. This will be fairer to those who need help and fairer to those taxpayers and ratepayers who must provide it' (para. 28.)

More detailed proposals were published in the White Paper, *Housing: The Government's Proposals*, in September 1987 (Cm. 214) which was followed by a consultation document in November 1987. All these documents stress that the prime responsibility for the improvement and upkeep of private houses lies with the owner-occupiers themselves; indeed they raised £10 billion from private sources for this purpose during 1987.

The Local Government and Housing Bill. The only way to target help on those who need it most is through means testing. Consequently the new Local Government and Housing Bill, which received its Second Reading on 14th February 1989, provides for the means-testing of both owner-occupiers and landlords who apply for what will be termed 'renovation' grants. This single form of grant will replace the current five grants.

Applications will be judged against a basic fitness standard:

- Grants will be mandatory where action is needed to bring property up to a condition which endangers neither health nor safety.

- Grants will be discretionary where the work goes beyond that needed to make the dwelling fit for human habitation (the installation of thermal insulation, for example) and where the work has been proposed by a private landlord.
- The local authority will not be under any obligation to provide a grant if the property is beyond repair or if the local authority intends to demolish it anyway as part of a clearance area.

Means-testing. There will be two distinct systems:

- Owner-Occupiers.* A Consultation Paper issued by the Government in January 1989 proposes a system based on the revised Housing Benefit system introduced in April 1988. Households, with a weekly net income below a threshold based on the allowances used for Housing Benefit, would qualify for assistance with the full costs of the work. Grant would be progressively reduced for householders with income above that threshold, but there would not be an upper limit as such, since entitlement would vary depending on the cost of the particular work. The Government proposes that this ‘taper’ would be set at 20 per cent; this would mean that householders would contribute 20 pence of every £1 earned over the threshold towards the cost of the work. The Government calculates that some 1.3 million owner-occupiers in England could qualify for some assistance under such arrangements.
- Landlords.* The Government proposes that a landlord's entitlement to discretionary grants should be determined by his ability to finance the costs of repair work from projected rental income. Where local authorities accept the landlord is not going to be able to recoup his outlay, then they will be able to award grant to bridge the gap. Local authorities will take into consideration a landlord's income from other properties and assets. These proposals will enable help to be targeted on those landlords who are letting regulated tenancies and therefore receive lower incomes than those who are able to take advantage of deregulated rents introduced by the Housing Act 1988.

Other key features of the proposals which will come into effect on 1st April 1990 are as follows:

- The present age and rateable value limits will be abolished – all property over ten years old will be eligible for grant if the relevant conditions are met.
- Landlords will be obliged to repay all or part of a grant if they sell or cease to let their property within a five-year period; and an owner-occupier would be obliged to repay some or all of his grant if he sells his property above a price (to be decided by the Secretary of State for the Environment) within a three-year period.
- Private tenants, required by the terms of their tenancy agreements to carry out repairs, will also be eligible for mandatory grants.

Home Insulation. Householders in receipt of Housing Benefit, Income Support or Family Credit now qualify for means-tested grants covering up to 90 per cent of the cost of insulation. The current maximum grant is £144.

Housing Renewal Areas. The Local Government and Housing Bill also contains proposals for Renewal Areas. These will replace both General Improvement Areas and Housing Action Areas (for details see p. 321 of *The Campaign Guide 1987*) and, like the latter, will be targeted on concentrations of run-down private housing.

The Bill provides that, after a full report, a local authority may declare a Renewal Area in order to tackle housing and living conditions that are unsatisfactory (alternatively, the authority could decide that it would be better to undertake the clearance of that area). In reaching decisions, the authority would be guided by criteria laid down by the Government. It would not be able to take action in an area designated for a Housing Action Trust. Furthermore no Renewal Areas could be declared unless:

- a specified minimum number of dwellings were included;
- a specific percentage of those dwellings were privately owned;
- certain criteria (the physical condition of the housing and the financial circumstances of its inhabitants) were met;
- there had been proper consultation with the residents concerned.

Each Renewal Area will last for up to ten years. A housing authority would carry out a programme of renovation and general environmental improvement. The authority would enjoy the powers of compulsory purchase, and the right to turn roads into areas for pedestrians only.

The Home Loan Scheme. The Local Government and Housing Bill will also wind up the Home Loan Scheme, first introduced in 1978. Despite intensive publicity, fewer than 0.5 per cent of first time buyers currently claim the benefits that are available – which include a bonus of up to £110 on savings towards the cost of home purchase and a loan of £600, interest free, for up to five years. Although anyone who wishes to do so may join the scheme up to 31st March 1990 and claim the benefits up to 31st March 1993, home-buyers with limited means will be assisted in future through mortgage interest tax relief, and shared ownership schemes (in appropriate circumstances).

(C) REVIVING THE PRIVATE RENTED SECTOR

1. LABOUR'S DISASTROUS MISTAKES

In 1965, the then Labour Government introduced security of tenure for tenants of unfurnished lettings, along with a new system of so-called 'fair rents'. These were to be based on the Rent Officer's assessment of the size, location, facilities and state of repair of a property, but not on his assessment of local demand. Designed to be fair to the tenant, they had the effect of discouraging landlords from keeping their property in good repair, and they deterred potential landlords from entering the market because the rate of

return was too low. The problems were exacerbated in 1974 when Harold Wilson's Government extended the 'fair rent' concept to furnished lettings.

The difficulties which landlords have in securing an adequate return on their investment, and the problem of regaining possession from tenants who enjoy life-long security of tenure, have led to a situation where some half a million privately-owned properties – 4 per cent of the total stock – are standing empty, when many of them could be let to needy tenants. And the private rented sector has shrunk to less than 8 per cent of the total housing stock (for further background comment, see *The Campaign Guide 1987*, pp. 316–7).

2. THE MAIN REFORMS OF THE PRIVATE RENTED SECTOR 1979–87

Shorthold. The Housing Act 1980 gave landlords the right to let for fixed terms of between one to five years with a guaranteed right of repossession. Tenants were given security of tenure during the fixed term of the tenancy, plus a further year's security if the landlord did not give notice of repossession at least three months before the end of the shorthold period. Either party could apply for a fair rent to be fixed.

Assured Tenancies. The 1980 Act also permitted landlords approved by the Secretary of State (such as builders, financial institutions and housing associations) to build homes for rent at market rates, outside the scope of the Rent Acts. The Housing and Planning Act 1986 extended Assured Tenancies to existing dwellings which had been considerably improved, renovated or converted. The tenant has security of tenure for the duration of the lease and a right to a new tenancy at the end of the old one.

3. THE HOUSING ACT 1988: A KEY TURNING POINT

The Housing Act 1988 extends shorthold and assured tenancies; they will now become the basis of the majority of new lettings in the private rented sector. At the same time, existing regulated tenants will keep their right to have fair rents fixed, as well as their long-term security of tenure. Spouses will keep their right to succeed to a tenancy while other members of the family who have satisfied the two year qualifying period will have a right to succeed, though they will receive an assured, rather than a regulated, tenancy.

Shorthold Tenancies. In future this type of tenancy will have a revised minimum length of six months. Rents will be freely negotiated between landlord and tenant, though either side will have the right to apply for a fair rent to be registered. Tenants will, be able to ask a rent assessment committee to reduce the rent if there is evidence that the rent proposed is markedly higher than rents being charged for new tenancies on comparable properties in the area. At the beginning of the tenancy, the landlord would have to serve

notice that he was offering a shorthold – otherwise the tenancy would be treated as an ordinary assured tenancy (see below).

When the fixed terms ends, the landlord will have an *absolute* right to recover possession if he has served at least 2 months' notice. If he allows the tenancy to continue, he will be able to use his right to repossess at any time as long as he serves 2 months' notice. These revised terms are designed to be of particular benefit to the *small* landlord.

Assured Tenancies. In future most lettings will be assured tenancies. The Housing Act 1988 has amended the terms on which they will operate in a number of ways in future:

- Rents will be freely negotiated between landlord and tenant to ensure that the landlord enjoys a reasonable return on his investment, while the tenant and his spouse receive long-term security of tenure.
- Rent assessment committees will fix new rents at market levels, but only where landlord and tenant are in dispute.
- The present system of approved landlords will be scrapped. Any landlord will be free to let on an assured tenancy.

Resident Landlords. Most remaining statutory restrictions on lettings have been removed. This should encourage more people with spare rooms to let them to tenants or lodgers, confident in the knowledge that they can secure vacant possession quickly should they subsequently need those rooms for other purposes.

Housing Benefit is still available to help all private tenants who qualify, up to the full level of market rents. However, rent officers have been given the new task of setting a market rent to prevent collusion between landlords and tenants whose rent is paid in full by Housing Benefit. Local authorities will be able to top up housing benefit if they wish to do so, but they will receive no Government subsidy above the level accepted by the Rent Officer. Subsidy will also be limited in cases where the accommodation is unreasonably large. The Government has also made it clear that it will eventually introduce controls to stop benefit being paid on over-expensive accommodation.

Greater Protection. Rogue landlords thrive in times of shortage; the best way of helping tenants is therefore to improve the supply of accommodation. Competition is, and always will be, the most effective spur to improve standards of service for the consumer. However, the Government recognises that improved statutory protection for tenants is necessary, to deal with the landlord who is tempted to get rid of his existing tenant in order to re-let at a market rent. The Housing Act 1988 therefore includes tough measures to provide further protection against harassment or illegal eviction.

- If a landlord or his agent takes action which he knows or has reason to believe will cause the tenant to leave the property, he will be guilty of a new criminal offence under the Protection from Eviction Act. The maximum penalty will be a jail sentence and a large fine. This offence should be much easier to prove than the old offence under which the prosecution had to prove the intention to evict.

- Tenants will be able to claim substantial civil damages based on the financial gain made by a landlord after an illegal eviction.

In addition, local authorities have been given stronger powers to ensure that landlords do not evade their duty to keep their properties in reasonable condition. From January 1989, repair notices apply to the building, not to the owner, so that the latter cannot dodge his responsibility by transferring ownership to shadow companies. Authorities are able to set deadlines for work to be carried out; intentional failure to comply with notices is now a criminal offence.

4. STRENGTHENING THE PROSPECTS FOR REVIVAL

The Business Expansion Scheme. The Government has accepted that the private sector may need some special incentive to return to a field where there has been little private investment for 50 years. The Finance Act 1988 accordingly extended the Business Expansion Scheme to include investment in special companies providing assured tenancies only. The BES is only intended to help in the early stages; and is due to finish in 1993. An individual may invest up to £40,000 a year in companies which qualify for the scheme and he may set off the cost against his taxable income at his marginal rate of income tax. The value of dwellings let by the companies must not exceed £125,000 in London and £85,000 elsewhere. Over £100 million had been invested in BES schemes by November 1988, and the total for 1988–9 should be more than double that.

Providing an Incentive to Repair. At present, many private rented homes are in bad condition because meagre returns from rent have discouraged the necessary investment. Higher rents for new lettings should ensure that private rented properties are kept in a better state of repair.

The Role of Building Societies. Another encouraging development has been the announcement by the Nationwide/Anglia Building Society of £600 million worth of funding over five years for a new company called ‘Quality Street’, which is intended to provide up to 40,000 new privately rented homes. ‘Quality Street’ is thus in a very good position to make use of the new system of assured tenancies introduced in 1989 – as will other ventures of this kind.

Help from Local Authorities. In addition, since June 1988, the Government has permitted local authorities to subsidise private landlords. Local authorities can now contribute 75 per cent (on average) of the cost of a scheme. The new arrangements include both housing associations and other landlords.

5. A BIGGER ROLE FOR HOUSING ASSOCIATIONS

The 2,600 associations currently registered with the Housing Corporation have a vital role to play in the Government's plans for rented housing. Over the last twenty years, the housing association movement has become an important provider of subsidised rented accommodation for low income groups; indeed, it now comprises 25 per cent of the private rented sector as a whole. Housing associations can provide flexibly and sensitively for different housing needs. It is for these reasons that the Government believes that, in future, housing associations should become the main providers of new subsidised rented accommodation.

Under the provisions of Tenants' Choice (see p. 429) and through voluntary disposals by local authorities, housing associations will be able to take over the management of existing council estates. A marked expansion of the housing association movement should, therefore, now take place. The result should be a real market in the provision of subsidised rented accommodation – giving people on low incomes the kind of choice other groups take for granted.

Rents and Private Sector Investment. The Housing Act 1988 allows housing associations greater flexibility in setting rents. As a result they will be able to attract private capital and so provide more homes for the same amount of public money. Associations will be expected to bear more of the risk of their new developments, but will be able to keep more of the rewards. In November 1987, the Secretary of State for the Environment, Mr Nicholas Ridley, welcomed the establishment of the Housing Finance Corporation which aims in particular, to help smaller housing associations to raise private capital for the provision of new housing.

Rents for new housing association lettings will be at higher levels; they will still, however, have to be within the reach of the groups for which the associations traditionally cater. To ensure this, the Government will continue to help subsidise the cost of new developments through capital grants which will vary according to local housing costs. In 1989–90, assistance from central government through the Housing Corporation and from local authorities will on average provide 75 per cent of the cost of new development. Housing Benefit is still available for tenants who need help to pay their rent.

Some schemes will continue to be funded wholly by the public sector. However, the Government expects to see the new mixed funded schemes gradually become the norm.

More Government Help. The Government is increasing sharply the level of public funds available to the Housing Corporation for the funding of new housing association developments. In his Autumn Statement of November 1988, the Chancellor made provision for an 80 per cent increase in provision for Housing Corporation funding of housing associations between 1988–9 and 1991–2 – from £740 million to £1.3 billion.

This new combination of public and private money could be building up to 20,000 homes for rent by 1991.

6. RURAL HOUSING

Striking the Right Balance. The Government's overall aim is to help preserve both the rural environment and rural communities. At present, there is widespread concern that many villages may not survive as viable communities unless a sufficiently wide range of low-cost housing is available. Recognising the extent of the problem, the Government issued a discussion paper in July 1988, *Housing in Rural Areas: Village Housing and New Villages*. At the same time the Government remains fully committed to the preservation of the Green Belt.

Government Action. Extra resources have been provided for rural housing.

- i. The budget of the NACRT (National Agricultural Centre Rural Trust) has been tripled to enable it to expand its start-up support for rural Housing Associations – which are best placed to respond to the demand for rented houses.
- ii. The Housing Corporation has expanded its own programme for assisting Housing Associations in rural areas and aims to build 1,110 new rented units by 1991–2, nearly double the target for 1989–90.

The Next Moves Forward. The Government welcomed the joint report by ACRE (Action with Communities in Rural England) and the House Builders' Federation, *Affordable Homes in the Countryside*, published in September 1988.

The report called for more low-cost homes for local people (who could be proposed by the local council). Land would be supplied by local landowners, including councils, on the assumption that the homes would be retained, as far as possible, for use by low income families. The report also emphasised the need for effective local co-operation between builders and the local community to ensure the new housing which is provided blends in with the local environment.

Further Government Initiatives. In response to this report and other discussions, the Government launched a further package of measures at the beginning of 1989 designed to assist the development of rural communities. The major change enables councils to take account of the need for low-cost housing in drawing up local plans and reaching planning decisions. This means that sites which would not normally be released for housing development can be released for low-cost housing specifically intended for local people. In practice, this will involve the imposition of special conditions on the developer to make sure the housing is used by local, low-income groups, or that a local housing association adopts a stated policy of letting only to such groups. The Inland Revenue, in considering the value of a particular site, will have regard to any restrictions affecting its future use.

The Government is also considering proposals that would give housing associations the first right of refusal to buy houses whose residents had progressed to full ownership under shared ownership schemes. This measure would help ensure that low-cost housing remains available to less well-off first-time buyers.

(D) A NEW DEAL FOR COUNCIL TENANTS

Breaking the Cycle of Dependency. The post-war era saw a massive expansion of the role of local authorities as mass providers of housing – so much so that the number of public sector dwellings in England and Wales today is four times the level in the 1930s (4.5 million compared with 1.1 million). Some local authorities have found the task of managing huge estates beyond them.

The impoverished environment of some of the inner cities has helped create a cycle of despair and economic depression which has become self-perpetuating. Local authorities in some areas have shown themselves unequal to the task of breaking that cycle – and, in some cases, have actually exacerbated the problem.

The Housing Act 1988 is tackling this aspect of the ‘dependency culture’ by giving new rights of choice to many of the people who have the most direct interest in improving the estates and the environment in which they live: the tenants themselves.

The Role of Local Authorities. The Government envisages that local authorities will have an increasingly supervisory role in the future. They will identify and assess local housing needs and ensure in co-operation with housing associations and other landlords that these needs are met. Their virtual monopoly of provision of subsidised rented accommodation will end; other bodies, such as housing associations and building societies, will gradually assume a greater responsibility for low-cost rented housing.

In the meantime, the Government expects local authorities to manage their existing stock efficiently. The new financial regime to be created by the new Local Government and Housing Bill (see p. 431) will help them to fulfil their responsibilities more effectively, as will the proposed new system for controlling capital spending. The latter will enable local authorities to spend up to 25 per cent of their capital receipts on housing projects. Total gross housing provision for local authorities, including receipts, in 1989–90 has been increased by 13.5 per cent over previous plans.

Voluntary Disposal. Powers for local authorities to sell their housing have existed for many years – subject to the approval of the Secretary of State for the Environment.

The Housing Act 1988 clarifies the criteria which will be used in determining applications for the sale of stock by local authorities:

- i. The new landlord or landlords should be genuinely independent from the council.
- ii. The application should give tenants in the area the prospect of greater choice. Large council housing stocks should be divided among a number of separate purchasers.

- iii. There should be proper consultation of tenants (as laid down in the Housing and Planning Act 1986). The Secretary of State must reject a plan if a majority of eligible tenants are against the proposals;
- iv. A 'Tenants' Guarantee' (or something similar to it) should be provided to the tenants (see pp. 430–1);
- v. The local authority must demonstrate that it has made arrangements to continue to meet its obligations to the homeless.

Tenants' Choice. Voluntary disposal is initiated by councils themselves in consultation with tenants. Tenants' Choice confers rights on tenants themselves. It will give all council tenants a direct say in the running of their estates. Tenants will be able to look for a new landlord who may provide a better standard of service, better value for money or consult them more fully.

The need for such a right is clear. In the Ombudsman's last annual report, Labour-controlled councils were found to be particularly poor housing managers. They were adjudged to have been guilty of 'maladministration amounting to injustice' four times as often as their Conservative counterparts (*New Statesman*, 19th February 1988). In a Fabian pamphlet, four Labour academics concluded that 'the public has no confidence in Labour's abilities to run local authorities, many of which are associated with second rate services, waste and insensitivity to people's needs' (*Local Government Chronicle*, 30th September 1988).

The competition provided by Tenants' Choice will help to spur those councils which are providing a poor service to serve their tenants better in future. As the Association of District Councils (ADC) has observed: 'If [local authorities] wish to stay in business ... as landlords, we must ... ensure that we are giving the best possible deal to our customers' (*The Challenge of Tenants' Choice*, November 1988, p. 4). Commenting on the report, Mr David Trippier, Parliamentary Under-Secretary of State for the Environment said 'I particularly welcome the spirit in which they have accepted the challenge of "healthy competition" which the Act lays down for their members' (Press Release, 21st November 1988).

How Tenants' Choice will Work. All secure tenants of the following landlords will have the right to exercise their Tenants' Choice: tenants of a local council; tenants of a new town development corporation; tenants of the Commission for New Towns; and tenants of the Development Board for Rural Wales.

The following types of property are not included: certain kinds of sheltered housing for elderly, disabled or handicapped people; certain categories of housing let with employment; housing which is part of a mainly non-residential building (such as a school or office); housing on which the landlord only has a lease; and housing owned by a county council.

Tenants' Safeguards. The Housing Corporation has been given the power to vet all those new landlords who wish to be considered for the Tenants' Choice scheme. Only

financially stable and responsible landlords with a long-term commitment to the provision of low-cost rented housing will be approved. Before the tenants vote on the transfer, each tenant would have the precise terms of any new arrangement explained to him, including:

- a statement that the property would in future be let on assured tenancy terms, guaranteeing long-term statutory security of tenure. A spouse would have the right to succeed to a tenancy and a tenant would be able to negotiate to ensure rights of succession for his children;
- details of the rent to be paid and the rent review procedures (tenants would still be eligible for Housing Benefit);
- the preservation of the Right to Buy for existing tenants;
- arrangements for consultation with tenants;
- clear details as to maintenance and repair arrangements.

Asset-stripping would be impossible because landlords will not be able to dispose of property acquired under Tenants' Choice without the approval of the Secretary of State for the Environment. (This veto will not apply to Right to Buy sales which will proceed as normal.)

New landlords could include registered and non-registered housing associations, private landlords or specially formed tenants' bodies such as tenants' co-operatives. Tenants will be able to instigate action themselves. In blocks of flats, tenants will exercise their Tenants' Choice collectively; tenants of houses may exercise Tenants' Choice individually.

The Housing Corporation will be empowered to put approved potential landlords in touch with tenants. To encourage competition, the Corporation will be able to arrange for a number of them to take soundings among tenants.

The Housing Corporation would only put forward a landlord for the final voting and transfer procedure if the landlord had established a minimum level of support – probably around 10 per cent of eligible tenants.

Voting Procedure. Once the alternative landlord has been put forward by the Housing Corporation, the formal voting procedure will begin. This will only occur after a lengthy process of consultation, *after* the applicant and the relevant local authority have agreed a sale price, and *after* the tenants have received a legally binding offer.

The rules of the ballot will be carefully explained to tenants before it takes place:

- An independent teller paid for by the alternative landlord will conduct the ballot.
- No transfer will take place if a majority of eligible tenants vote against the idea or if fewer than 50 per cent turn out to vote on the proposal.
- Any tenant who abstains will be assumed to have no objection to a transfer going ahead.

- *Any secure tenant who votes against will be able to remain as a council tenant, regardless of what other tenants do.* The house of any such tenant will be excluded from the transfer. If the tenant lives in a flat, the council will lease his property from the new landlord.

Explaining the position over abstentions, Mr Trippier said:

‘We believe it is right to provide that those who, having heard all the arguments, have no feelings strong enough to vote either way, do not damage the opportunities of those who need and want change’ (*Hansard*, 11th November 1988, Col. 699).

Tenants' Guarantee. All tenants choosing to join housing associations will have the added protection of the Tenants' Guarantee. This is an enforceable code of good management for registered associations, drawn up by the Housing Corporation. The Guarantee stipulates that housing associations should:

- continue to cater for those in greatest need, such as the homeless and those on low incomes, and should pay special attention to groups experiencing particular housing difficulties;
- charge rents within the reach of those in low paid employment;
- provide additional rights for tenants, over and above the terms of an assured tenancy (tenants would, for example, be able to take in lodgers);
- participate in recognised exchange and mobility schemes, thereby improving the mobility and flexibility of labour;
- provide information not only in English, but also in other languages where appropriate.

Non-housing association landlords will be expected to give the same or similar guarantees.

(E) A NEW FINANCIAL FRAMEWORK

A Pledge Fulfilled. The 1987 Conservative Manifesto promised that: ‘We will reform the structure of local authority housing accounts’ (*The Next Moves Forward*, p. 15). The Housing White Paper of September 1987 outlined the Government's proposals ‘for a new financial regime which will reinforce the present statutory distinction between the provision of housing and other local authority functions’ (*Housing: The Government's Proposals* [Cm. 214], p. 15).

Background to Change. Governments of both parties have always sought to exercise influence on the level of council rents through the use of subsidies. The provisions of the new Local Government and Housing Bill will bring housing finance arrangements into line with the new system of local government finance.

The present system badly needs reform:

- Rents frequently bear little or no relationship to the value of the property. The rent on a pleasant council house should be more than on a flat half way up a tower block in the inner city.
- Government subsidies are not properly targeted on those areas and people in greatest need. Some authorities which have a surplus on their Housing Revenue Accounts (HRAs) actually receive Government subsidy.
- Some local authorities have a deliberate policy of keeping rents unreasonably low at the expense of their general rate fund. This is unfair on ratepayers, some of whom are less well off than the council tenants they are subsidising. It also means that council tenants cannot form a proper judgment about the value they get for the rents they pay. In particular, they cannot make any real comparison between the efficiency of their council landlord and other landlords, such as housing associations, because the various landlords have widely different policies for fixing rents.

The Changes. The new Local Government and Housing Bill will create a new financial framework:

- The system whereby councils can move cash in and out of their HRAs at will is to be ended.
- Tighter definition of HRAs will also be drawn up to reinforce the distinction between housing and other services.
- In future there will be only one exchequer housing subsidy – replacing the three existing subsidies, namely: the main housing subsidy (payable now to some authorities to assist them with loan charges on new buildings and renovations); rent rebate subsidy (90 per cent of the cost of rent rebates in a local authority area); and part of the Rate Support Grant (towards the cost of any rate fund contributions to a council's HRA).

The Government will continue to assess what each authority could reasonably expect to receive in rents and what it has to pay out in management and maintenance. But in future councils will not be able to draw on the rate fund to make up for any waste or inefficiency in their housing management. Actual rents and management and maintenance costs will be a matter for local authorities, but they will have a duty to balance their Housing Revenue Accounts without recourse to any subsidy except that provided by the Exchequer. The level of that subsidy will be the difference between what each authority needs to spend and its assumed income from rents.

The Effects of the Changes. The Bill will:

- ensure that councils receive the level of Government subsidy which they need. This will mean that rents do not exceed what those in low-paid employment can afford. Housing Benefit will continue to be available to ensure that those who need it receive help paying their rent.

- encourage councils to charge tenants (who can afford them) rents which bear a closer relationship to the current value of the property in which they live rather than rents which are based on the original cost of providing the home.
- ensure that council tenants can see precisely what value they are receiving for their money by making it easier for them to compare their council landlords with other competing subsidised landlords.

Lord Caithness, Minister for Housing, Environment and Countryside, has summed up the purpose of the reforms:

‘Councils will no longer be able to swing the costs of poor management on to the rate or the Community Charge payers. Our new financial disciplines will help to bring the worst performing councils up to the standard of the best’ (Brighton, 12th October 1988).

Council Rents Under the New System. From April 1990, all housing authorities will receive an HRA subsidy, which initially will reflect the total amount paid under the subsidy system, of 1989–90. This means that any increase in rents will be gradual.

As Mr Ridley has said:

‘We are not talking about sudden massive rent increases; we are talking about rents which progressively reflect more closely the relative worth of different council houses, without hidden subsidies from the rates or from a system of accounting which bears no relationship to the real world’ (*Hansard*, 14th February 1989, Col. 174).

He had previously emphasised that:

‘The Government has no preconceived view about what a sensible rent would be in each local authority, but the consultation paper makes it clear that it could not be at a level which was out of reach of ordinary people in ordinary jobs’ (23rd September 1988).

HRA Surpluses and the Community Charge. All local authorities are likely to require exchequer housing subsidy for the foreseeable future, and will therefore have no genuine surplus with which to subsidise the Community Charge. However, if ultimately a local authority did not need exchequer subsidy to balance its HRA, any real surplus could then be paid into the authority's general fund. This type of surplus could be used for whatever purpose a council wished, including subsidising the Community Charge.

Residual Debt Subsidy: Ending Anomalies. The Local Government and Housing Bill also provides for a Residual Debt Subsidy (RDS) to tackle the financial anomalies which arise from the disposal of local authority housing.

Under the existing system, local authorities may sometimes continue to receive a subsidy on dwellings they have sold and upon which they have paid off all debt. Yet other authorities may not be entitled to subsidy even though they are left with debt to pay. The Bill will end these anomalies. It is proposed that RDS would be paid in respect of loan

charges on any notional residual debt relevant to the dwellings sold. This will help to balance Housing Revenue Accounts. The proposals will mean that:

- i. RDS would be paid at a rate of 75 per cent of outstanding charges for sales which are compulsory for local authorities under the Tenants' Choice provisions of the Housing Act 1988, or under the Right to Buy, and also for sales of individual dwellings.
- ii. RDS would be paid at a 90 per cent rate in respect of voluntary sales of housing stock. (In Wales this 90 per cent rate would apply to all sales.)
- iii. In the case of losses caused by the establishment of a Housing Action Trust, the Government will use RDS to ensure that no additional costs fall on the remaining tenants or ratepayers in the form of rent or rate increases.

From 1st April 1989, RDS paid to a local authority will be credited to that authority's Housing Revenue Account.

(F) INNER CITY HOUSING

A Record of Action. The Government has launched a number of initiatives to tackle the problems of inner city housing.

The Priority Estates Project was set up in 1979 to decentralise management of large estates and thereby bring housing officers and tenants into closer contact. By 1988, there were over 30 such schemes in operation. As Mr Trippier has said:

‘Giving the residents a say in the decisions which affect their housing is perhaps the most effective way of ensuring that the investment in the housing stock is safeguarded for the future’ (Press Release, 23rd November 1988).

The Urban Housing Renewal Unit (now Estate Action) established in 1985 brings in external expertise and finance to assist local authority renovation work. Nearly 350 schemes have been instigated to improve the management and living conditions on some of the most run-down estates in Britain. In 1989–90, the resources available for local authorities have been increased to £190 million – a rise of 36 per cent over 1988–9.

Estate Action schemes involve:

- the introduction of local estate-based management to provide efficient housing services;
- security and environmental measures to tackle crime, cut down vandalism and improve living conditions;
- encouraging private sector investment (e.g. in Coventry and Bolton);
- measures to tackle homelessness by bringing empty properties on estates back into use (as in Newham, Greenwich, Manchester and Birmingham among other places);

- tenant management co-operatives, giving tenants greater control in running their estates;
- the Community Refurbishment Scheme (CRS), under which residents who are out of work are employed to carry out improvements to their estates.

Housing Action Trusts. The Housing Act 1988 contains provisions to set up Housing Action Trusts (HATs) to improve more of the worst local authority housing in Britain's inner cities.

Some estates are in a very poor condition – the result both of poor management and of the decay which has followed the many unsuccessful architectural experiments in the post-war era. Many local authorities in the worst areas have shown themselves to be incapable of dealing with these problems.

The new Housing Action Trusts represent a radical new method of targeting public resources on these areas. Six Trusts have been proposed, and a budget of £192 million has been allocated for the period 1989–92. Estates in Lambeth, Southwark, Tower Hamlets, Leeds, Sandwell and Sunderland have been identified as potentially suitable.

In September 1988, Mr Ridley announced the appointment of three groups of consultants to study further the areas proposed for the Trusts.

Key Features. HATs will operate in accordance with a number of clear guidelines:

- i. The Secretary of State will not be able to make orders (subject to Parliamentary approval) setting up a Trust unless a majority of tenants voting in a ballot are in favour of the proposal.
- ii. Each Trust will then purchase the relevant local authority housing at tenanted market value.
- iii. Each Trust will consist of a chairman and members appointed by the Secretary of State, including people with direct experience of the area. Such people might include tenant or local authority representatives. In all cases, a HAT will be obliged to consult with all residents over its plans for an estate.
- iv. Tenants will keep their existing rights, including their right to claim Housing Benefit. Rents will be frozen until the Trust has carried out its improvements and then they will rise in line with council rents.
- v. Using both public and private finance (where possible), the Trust will seek to transform the local environment. Empty houses will be brought back into use; repairs will be carried out; architectural improvements will be made (thereby helping to reduce the potential for crime and vandalism); and small shops and offices will be provided.
- vi. The HAT will seek to create new jobs for local people.

Transfer Arrangements. Every Trust will have a strictly limited life. Once its work is complete, it will be wound up. Its final task will be to offer new landlords to its temporary tenants who will have their own views fully taken into consideration.

New landlords might include housing associations, private sector landlords or tenant co-operatives. The Government has also undertaken to ensure that local authorities are given the necessary financial approval to buy back the houses from a Trust should tenants wish to return to local authority control. Any new landlord – other than a local authority – would have to be approved by the Housing Corporation and subscribe to the ‘Tenants’ Guarantee’ (see pp. 430–1). The rights of private tenants and owner-occupiers would not be affected by the establishment of a Trust. But they should benefit as their surrounding environment will be considerably improved.

(G) HOMELESSNESS

No Overall Shortage of Housing. The 1981 Census showed that there were 19.1 million dwellings in England and Wales but only 18.3 million households. Many of the 800,000 empty dwellings could be made available to house the homeless. Indeed there are over 100,000 empty council properties alone – which could house virtually all the 112,000 homeless people. A quarter of vacant council property has been empty for more than a year. That alone could house the number of families in bed-and-breakfast accommodation twice over.

The Housing Act 1988 will encourage better use of the existing housing stock by both private and public sector landlords. It will also encourage more new provision by housing associations and private landlords. So a great deal more rented accommodation will become available for all who want it – including the homeless.

Labour Councils’ Failure to Help the Homeless. A recent report by the all-Party House of Commons Select Committee on the Environment stated: ‘It is quite clear that available resources are not being used to best advantage in housing the homeless’ (27th June 1988, p. viii). The failure to make adequate use of existing assets is chiefly the fault of incompetent Labour local authorities:

- The Audit Commission estimated in 1986 that if the average period it takes to relet a home could be reduced by just two and a half weeks, an additional 20,000 empty homes could be occupied. Some councils take far too long to relet properties. Southwark Council, for instance, takes on average no less than 24 weeks.
- Another Audit Commission report published on 7th February 1989 stated that ‘councils could reduce the number of homeless living in bed and breakfast and other temporary accommodation by about 6,000 families if they improved the management of their housing stock’ (*The Guardian*, 8th February 1989).
- Some councils – Camden, for example – have failed to use their ‘Right to Buy’ receipts to bring empty properties back into use.
- The level of rent arrears in some cases is far too high. Over £220 million was owed to local authorities at the last count – and, of course, empty homes mean even lower rent and rate receipts for the council. On the 31st March 1988, Brent’s total arrears alone amounted to nearly £17 million (*Hansard*, 10th November

1988, WA, Col. 270). Such arrears could, if collected, be used to refurbish empty properties and bring them into use for homeless families.

Direct Government Action. Faced by a great deal of local authority mismanagement, the Government has begun a major review of homelessness legislation. But it is not waiting for its completion before taking action. In 1987–8 it:

- made extra capital allocations of £74 million to local councils largely to help them refurbish empty properties and bring them back into use. This initiative has been targeted on authorities with large numbers of families in temporary accommodation. In addition, some Estate Action Programmes have also brought empty council properties into use;
- empowered the Housing Corporation to provide money for major repairs to empty housing association property originally developed in conjunction with the local authority. The homes will have to be used for homeless families;
- provided local authorities with an explicit power in the Housing Act 1988 to give cash incentives to existing tenants who want to buy in the private sector. This will help free homes for reletting to homeless families.

(H) OPPOSITION POLICIES

1. THE LABOUR PARTY

A Cynical Conversion. At the 1987 election Labour dropped its pledge, made in 1983, to scrap the Right to Buy, simply because of its deep unpopularity. Nevertheless it was – and remains – official Labour policy to give local authorities ‘discretion’ to implement the Right to Buy or not (*Homes for the Future*, NEC Policy Document, 1985, p. 25). Labour, of course, opposed all the Right to Buy legislation.

Spendthrift Socialism. Although their support for the Right to Buy was at best lukewarm, Labour in 1987 proposed the removal of the restrictions placed on the spending of the capital receipts from council house sales – a promise which was costed at some £2.7 billion at 1987 prices by the Chief Secretary to the Treasury.

Hitting the Home Owner. Labour's 1987 manifesto implied that nearly a million existing higher rate mortgage holders would have their tax relief cut. Labour declared that ‘we will maintain mortgage tax relief at the standard rate of income tax’ (*Britain Will Win*, p. 9).

Further Threat to Tax Relief. Labour's Policy Review Document, *Social Justice and Economic Efficiency*, published in June 1988, contained nothing about the Right to Buy. Indeed it had little to say about housing matters apart from an implied threat to mortgage interest tax relief. It declared that: ‘Housing finance has emerged piecemeal over the years. It is now time for a fundamental review’ (p. 21). Labour would ‘question the imbalance between the subsidy given to the wealthiest home-owners and the decline in

support for the poorest tenants' (ibid.). Early in 1989, Mr Clive Soley, the Labour Housing Spokesman, appeared to take this policy further, stating:

'You can't do away with it [Mortgage Interest Relief] overnight ... you do need to change it over a period of time' (BBC Radio 4, *Today*, 11th January 1989).

Confusion in Mr Kinnock's Camp. During the spring of 1988, an embarrassing rift developed between Mr Kinnock and Mr Clive Soley. The latter had said that the Housing Bill 'has nothing to offer' (London, 29th April 1988). However, two months later, Mr Kinnock appeared to endorse the principle of allowing tenants to opt out of municipal control, saying that 'if council tenants want to switch tenures, they should be able to do so' (*The Guardian*, 16th June 1988). This not only contradicted Mr Soley, but ignored the widespread campaigns run by Labour-led local authorities against this part of the Act.

New Threats to the Private Rented Sector. Mr Soley has suggested that the right to choose a new landlord, introduced for local authority tenants by the Housing Act 1988, should be extended to tenants of non-resident private landlords (*Financial Times*, 8th October 1988). This right would threaten the entire basis of the newly deregulated private rented sector: no sensible landlord could afford to risk his investment in this way.

Mr Soley had previously said that a Labour Government would reintroduce rent controls, despite the fact that, as he himself admitted: 'some private investors may be frightened of investing in rented housing when they realise a Labour Government would reimpose rent controls' (*Financial Times*, 20th June 1988).

Wearing Two Hats. Labour's two Environment Spokesmen, Dr John Cunningham and Lord McIntosh, have contradicted each other on the question of Housing Action Trusts. The latter endorsed the principle of HATs, declaring 'we do not oppose them in principle' (*House of Lords Hansard*, 28th July 1988, Col. 391). But Dr Cunningham has dismissed the HAT proposals as 'a central Government imposition' (*Hansard*, 11th November 1988, Col. 679).

2. THE SLD AND SDP

Undermining Home Ownership. The 'Alliance' Manifesto in 1987 (*Britain United – The Time Has Come*) implicitly threatened mortgage interest tax relief by stating: 'In the long run we want public support for housing costs to be even handed between those who rent and those who buy' (p. 17).

The 'Alliance' was even more explicit in its threat to the Right to Buy, which the Liberals, like the Labour Party, voted against in 1980. Immediately before the 1987 General Election the then 'Alliance' Spokesman, Mr Michael Meadowcroft, declared that the 'Alliance' did not 'intend to view the Right to Buy in the way the Government view it' (*Hansard*, 10th February 1987, Col. 205). Although the Manifesto stated that 'we will retain the Right to Buy' (p. 17), it went on to undermine this pledge by conceding to local

authorities ‘enough discretion [over the Right to Buy] to deal with local housing shortages’ (ibid.).

Moving to the Left. Neither the Liberals nor the SDP (Mark 1) supported the Housing Bill on its Second Reading (30th November 1987). However, in January 1988, the short-lived embryonic policy declaration by Mr David Steel and Mr Robert Maclennan, *Voices and Choices for All* backed the Government's deregulation of new private sector lettings, while renewing the old ‘Alliance's’ commitment to the long-term abolition of mortgage interest tax relief. The successor document, *A Democracy of Conscience* (January 1988), dropped the explicit support for deregulation of private lettings, but reiterated the commitment to the eventual abolition of mortgage interest tax relief.

Few New Ideas. The SLD's latest housing proposals, (*Partnership for Diversity*, published in August 1988, English Green Paper 2) support the Government's concept of the local authority as an enabling agency. However, the paper resurrects the threat to mortgage interest tax relief as it now stands. It also states that ‘where a local housing shortage has been clearly identified, we will subsidise and actively promote discretionary powers for local authorities to enable tenants to buy *another* [house] on comparable terms’ (p. 15, emphasis added). This proposal would limit the tenant's Right to Buy his existing home in some parts of the country.

The proposals called for the maintenance of local authorities' discretionary powers in respect of the ‘Right to Buy’ (ibid., p. 14), which would remove the Right to Buy from tenants living in specially built or adapted housing for the disabled – a right granted by the Housing Act 1988.

The ‘Green Paper’ was endorsed by the SLD Conference at Blackpool – after Mr Steve Charters, former Housing Committee Chairman for Tower Hamlets, had told its authors, quite accurately, that they had simply been ‘rehashing old ideas’ (*The Independent*, 26th September 1988).

The SDP: Plagiarism and Confusion. As a Labour MP, Dr Owen voted against the Right to Buy in 1980. His rump SDP now claims to support the Government's housing proposals. In their document *Opening the Doors to Better Housing* (London, 1987), the SDP describes the proposals as ‘highly significant’ and calls them a ‘forward strategy for all sectors of housing’ (p. 3). Yet all three SDP MPs voted against the Third Reading of the Housing Bill (27th June 1988).

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(A) THE ECONOMY

1. FAR-REACHING CHANGE

The Government's principal aim has been to encourage the development of a more broadly based industrial structure in Scotland to meet the needs of the 1990s and beyond. Great success has been achieved. As Mr Malcolm Rifkind has said, Scotland now has a modern, dynamic economy:

‘The new High Technology industries are thriving in central Scotland. The north-east leads western Europe in oil related technology and Edinburgh has blossomed as a major financial centre of Europe’ (*A Vision for Scotland*, p. 12).

The traditional industries – steel, coal and shipbuilding – now employ a relatively small proportion of the work-force – some 25,000 people altogether. Three-quarters as many people again – 43,000 – are employed in electronics, an industry that hardly existed in Scotland 20 years ago.

So during the 1980s there has been a fundamental change in the nature of Scotland's economic life. As Mr Rifkind has said, this change puts Scotland in a good position to face the challenge of the future:

‘We have a better industrial balance and a broader economic base which offers a more secure prospect for long-term stability’ (Scottish Grand Committee, 19th July 1988).

Key Indicators of Economic Success. A series of indicators testify to the success of Scottish industry:

- Manufacturing productivity in Scotland increased by 5·7 per cent per annum between 1979 and 1987, almost 50 per cent faster than the growth of productivity in the UK as a whole. Over this period Scottish manufacturing productivity growth outstripped that of any of our major competitors, including Japan or Germany.

- By early 1988 manufacturing output was some 3 per cent above the level of mid-1979.
- At the beginning of 1988 the output of the Scottish electronics industry was at its highest ever level, having more than trebled since mid-1979.
- Scottish service sector employment increased by 68,000 between June 1979 and June 1988.
- The number of self-employed in Scotland increased by 45,000 between June 1981 and June 1987. That increase follows three decades in which the number of self-employed people in Scotland remained virtually static.
- Average weekly earnings for men in Scotland were £233·30 in April 1988 – higher than in any other part of the UK, except the South-East and the North-West.
- The number of companies registered in Scotland increased by nearly 15,000 between December 1979 and December 1987.

2. INDUSTRY AND EMPLOYMENT

Traditional Industries. As the dramatic recovery of British Steel has shown, traditional industries can still have a very important role to play in a dynamic, modern economy. Commenting on the importance of such industries, Mr Rifkind has said:

‘Our traditional industries have provided a firm base for our economic prosperity and given us an international reputation for performance and reliability which still works to our advantage. Provided they can attune themselves to market conditions and continue to operate competitively there is no reason why these industries should not continue to occupy an important place in our economy’ (Scottish Grand Committee, 19th July 1988).

Shipbuilding. Worldwide over-capacity and shortage of orders in the shipbuilding industry, coupled with fierce competition from the Far East, have affected Scottish shipyards profoundly, just as they have hit yards throughout the UK and Europe. However, Yarrow Shipbuilders on the Clyde, one of the UK's largest naval shipyards, has proved its ability to compete by winning an order for three Type-23 frigates for the Royal Navy. The future of the Govan Shipyard has also been secured by the decision of Kvaerner Industries of Norway, an operator and manufacturer of gas-carrying ships, to take over the yard. Kvaerner have recently announced a £15 million investment programme to update the yard's facilities.

Steel. The steel industry in Scotland is in better shape for years now that British Steel has become one of the world's most competitive and efficient producers of steel (see p. 96). In 1987–8 its profits were £410 million.

The prospects for steel-making in Scotland, have, therefore, improved markedly since the early 1980s. In December 1987 the Chairman of British Steel, Sir Robert Scholey, said that, subject to market conditions, there would continue to be a commercial requirement for steel-making at the company's Ravenscraig plant for at least the next seven years. Because of the serious over-capacity in hot-strip steel which existed in both Britain and

the Community at the time, this guarantee did not cover Ravenscraig's hot-strip mill. However, in a recent statement Sir Robert Scholey has made clear that:

‘with the further strengthening of market conditions since December 1987 there is no reason for the Corporation at present to make plans to close the Ravenscraig Strip Mill’ (quoted at Scottish Grand Committee, 19th July 1988).

Oil. Despite fluctuations in the price, North Sea oil continues to make a substantial contribution to Scotland's economy. Confidence in the industry has recovered after the fall in oil prices in 1986. Efficiency has been substantially improved since 1987 as companies pursued cost reductions in their field development plans. In the first nine months of 1988, a total of 121 exploration and appraisal wells in the North Sea were started. Drilling in the UK area during this period was almost 70 per cent higher than in the equivalent period of 1987.

Total oil-related employment in June 1988 is estimated to have been between 76,000 and 89,000. Companies wholly related to North Sea oil and gas had 53,678 employees.

Electronics has been one of Scotland's major new growth industries in recent years. Between 1977 and 1987, the value of the output of the electronics industry in Scotland almost tripled in real terms. Total sales are estimated to have reached £2.9 billion in 1985, representing over 15 per cent of UK electronic industry sales and 15 per cent of Scottish manufacturing sales. In mid-1987 the Scottish electronics industry employed just under 43,000 people. Although much of the strong growth in recent years has been due to investment by foreign firms, it would be wrong to think of the Scottish electronics industry merely as an assembly operation. Over recent years the demand for skilled manpower in electronics has increased at a considerably faster rate than employment in the industry generally.

The Service Sector. As in the UK, service industries in Scotland have come to account for a larger share of total employment and output in the 1980s. Today Scotland's service industries employ about 1.3 million people – equivalent to 68 per cent of total Scottish employment – a very similar proportion to the figure for the UK as a whole. In the nine years to June 1988, there was an overall increase of some 68,000 in total service sector employment.

Wholesale distribution, hotels, catering and financial services have all created large numbers of new jobs in recent years. In 1987 some 13.4 million domestic and 1.4 million foreign visitors came to Scotland, spending a total of almost £1.9 billion. The fact that service sector employment rose by 15,000 in the year to June 1988 alone shows the strength of the Scottish economy and its service sector.

Financial Services. The Scottish financial services sector, concentrated in Edinburgh and Glasgow, has performed particularly well in the 1980s. Edinburgh is the largest UK financial centre outside London, managing more than £50 billion of funds; it has been expanding more rapidly than any other sector of the Scottish economy.

With the increased application of information technology and the operation of the financial services industry on a global scale, firms are finding that they no longer need do business from the overcrowded and expensive confines of the Square Mile. Some financial services companies are now re-locating to Scotland. One company, Broker Services, with a staff of 145 chose Glasgow:

‘because of the excellent telecommunications and computer networks. It also highlighted the good supply of first-class office accommodation at one quarter the cost of the City of London, and the ready availability of a wide range of well qualified staff with a low turn-over rate and substantial salary savings’ (*The Independent*, 12th September 1988).

Over 70,000 people are now employed in financial services in Scotland, Financial *and* business services now employ over 174,000.

Inward Investment. Good labour relations, a pro-business Government and a skilled and flexible labour force have enabled Scotland to become a major European centre for foreign investment. Since the formation of the ‘Locate in Scotland’ organisation in 1981, Scotland has attracted foreign investment of £2.6 billion, safeguarding or creating some 50,000 jobs. The electronics sector has been a particular beneficiary of this surge in overseas investments. As *The Independent* has pointed out:

‘More than 300 electronics firms, mainly from the US, have located in Scotland, largely due to the familiarity with the language, aggression of the Locate in Scotland investment agency, skills of the work-force and history of good labour relations ... Even the fiasco over the proposed car plant in Dundee ... switched to Spain by Ford in the light of union hostility to a single union deal, has not harmed Scotland's growing reputation as a hi-tech base’ (22nd September 1988).

Recent announcements by electronics firms include Comaq Computers (£16.6 million, 350 jobs, Renfrew), OKI Electric Company (£20 million, 370 jobs, Cumbernauld) and JVC of Japan (£27 million, 650 jobs at East Kilbride).

The Scottish reputation for medical excellence is responsible for growth in another sector, health care. The American firm HCI is to build a £137 million, 260-bed hospital in Clydebank which will create 4,000 jobs, many of them highly skilled, by 1991. And Volvo, the Swedish lorry manufacturer, is planning to boost the work-force at its Irvine plant to about 400, lifting vehicle output to 4,500 units a year.

A Revived Economy: Falling Unemployment. In 1988 unemployment fell by 42,000, the largest yearly fall since 1973. The Scottish unemployment rate is now in line with the European average and below the rates of a number of our European competitors, including France, Italy and Belgium. Long-term unemployment has fallen even more quickly than unemployment as a whole. In the year to October 1988, it fell by 25,400 to 110,800.

Employment and Training. The Government has committed over £100 million to the Youth Training Scheme (YTS) in Scotland. In 1988–9, 45,000 young people benefited from the scheme. Around half of those who participate enter employment within three months of leaving YTS.

The Restart Programme was introduced in July 1986 to improve the job prospects of long-term unemployed people and now covers those unemployed for 6 months or more. In Scotland, 91 per cent of those interviewed under the programme were offered the chance to participate in one or more of a variety of measures designed to help people back into work.

The new Employment Training scheme (ET) has brought together all the previous adult training programmes in one integrated scheme. Priority is being given to the 18–24 age group who have been unemployed for over six months and to those under 50 who have been out of work for more than two years. ET offers up to 12 months' training and participants are paid a premium of £10 to £12 a week over their benefit entitlement. £200 million will be spent in Scotland, providing 80,000 places over the next year. Scotland's share of the national ET places available (over 14·1 per cent) is well above Scotland's percentage of GB unemployment which is 12·8 per cent.

3. REGIONAL POLICY

The Enterprise Initiative. In January 1988 the Government announced its new Enterprise Initiative. The main changes in Scotland are:

- an end to automatic Regional Development Grants;
- increased provision for Regional Selective Assistance (RSA);
- two new grants to support investment and innovation by companies with fewer than 25 employees in development areas;
- an expansion of business development services which will be administered by the Scottish Development Agency (SDA) and the Highlands and Islands Development Board.

The aim is to promote enterprise and wealth creation by targeting assistance on the small and growing firms which have created most of Scotland's new jobs in the 1980s. The provision of a range of consultancy services covering areas from marketing to exporting will help firms seek out and exploit new market opportunities.

Scottish business has responded well to the Enterprise Initiative. Scotland has taken up virtually all of its planned consultancy scheme allocation for 1988–9. In the nine months to December 1988 the Scottish Office received applications from well over 1,000 Scottish businesses for consultancy advice under the Enterprise Initiative.

Regional Selective Assistance. No reduction is planned in funds from the Scottish Office for Regional Selective Assistance. The Government will continue to offer generous incentives for projects which provide clear industrial and employment benefits. 65 per

cent of Scotland's working population is in development areas, which receive the highest level of assistance, compared with 15 per cent of the working population for Great Britain as a whole.

Scottish Enterprise. On 6th December 1988, Mr Rifkind announced a major reform of the organisations providing advice, assistance and training to business in Scotland. A new organisation, Scottish Enterprise, brings together the functions of the SDA and the Training Agency in Scotland. Scottish Enterprise is designed to meet the twin challenges of the 1990s – the Single European Market and the possibility of skills shortages – by combining training with economic regeneration. An integrated system of training and enterprise promotion will be provided by a network of employer-led local agencies, able to respond appropriately to local needs and to offer ‘single-door’ access to employers and the community in general. As Mr Rifkind has said:

‘Enterprise creation and the growth of existing business are inextricably bound up with developing the skills of the work-force. Industry is now prospering and able to shoulder its full responsibility for investing in the skills of its work-force. Employers have to rediscover fully a sense of ownership of the system of training and enterprise creation. It is my hope that the proposals I am announcing today will constitute a quantum leap forward in this process ... Our proposals involve the creation of a new national body, Scottish Enterprise, whose main role will be to consider strategic issues relating to enterprise, employment creation and training and a network of employer-led local agencies, which will be responsible for stimulating the growth of self-sustaining enterprise, encouraging the creation of viable jobs and improving the skills of the work-force in each area’ (*Hansard*, 6th December 1988, Col. 187).

Scottish Enterprise will be managed by a Board of 10 members, at least six of whom will be drawn from business and industry.

The network of employer-led local agencies (perhaps 22 in total) will have several functions. They will:

- analyse the needs of local labour markets;
- design and modify training and business development services to meet local needs;
- appoint sub-contractors by competitive tender to deliver training locally and to monitor the quality of that training;
- encourage employers to increase their contributions to the cost of training programmes;
- provide advice and support for businesses.

It is proposed that the agencies will consist of representatives from the private sector (about two-thirds), Enterprise Trusts, further and higher education colleges, other providers of training, trade unions and voluntary organisations. For the first-time training in Scotland will be carried out entirely through a Scottish body, funded by, and answerable to, the Secretary of State for Scotland.

Scottish Enterprise will receive a broadly equivalent level of funding to that which would have been provided for the SDA and the Training Agency – about £½ billion in all – with a further £50 million for the Highlands and Islands.

The aim of the Government's reforms is to create an even more dynamic Scottish economy in which investment and training are private sector-led and financed. The proposals have been widely praised. Even Mr Campbell Christie, Scottish TUC General Secretary, was quoted as saying that he welcomed Scottish Enterprise 'unreservedly' (*Glasgow Herald*, 8th February 1989).

(B) AGRICULTURE

The State of the Industry. With a gross output of £1.4 billion and 49,000 employees, agriculture is one of Scotland's most important industries. In 1987–8, Government support amounted to £338 million, £5 million more than in 1986–7. In recognition of the hard geographical and climatic conditions which restrict the use of agricultural land, the Government has designated 90 per cent of Scottish agricultural land as 'Less Favoured Areas'. Scotland has 60 per cent of the UK total of LFAs. It was announced in July 1988 that Scotland is to receive £760,000 from the European Agricultural Guidance and Guarantee Fund (FEOGA).

More Government Help. In April 1988, the Government launched the Agricultural Development Programme (ADP). This five-year, £38 million project is designed to improve the structure of agriculture in the islands off the north and west coasts by increasing the efficiency of farm and croft businesses. There has been a strong response from all the areas covered by the Programme; a total of 1,200 applications has been received under the farm development scheme and over 1,300 under the livestock development scheme.

Land Use/Forestry. One of the ways in which the Government is implementing its policy to reduce the total amount of agricultural land is through the new Woodland Grant Scheme, announced in March 1988, which provides support for private forestry. The scheme is designed to assist the establishment and restocking of broad leaved, conifer and mixed woodlands.

The March 1988 Budget took commercial woodlands out of the tax system; no tax relief is now available on planting and no tax is liable on the tree-felling. The development came in response to public concern at the increased planting in and around the Flow Country of Caithness and Sutherland. In June 1988, Mr Rifkind announced that the whole area should be left unplanted in recognition of its environmental importance.

Encouraging Diversification. In January 1988, the Government launched the new diversification capital grant scheme. Grant rates of 25 per cent (more for young farmers) will be available up to a maximum of £35,000. Eligible projects include the establishment of on-farm facilities such as tourist accommodation, craft manufacture and farm shops.

Set-Aside. Government proposals to implement the EC Set-Aside (or ‘extensification’) scheme designed to encourage reductions in cereals and beef production were announced in December 1987. Lord Sanderson, Minister of State for Scotland with responsibility for agriculture, has urged farmers to join the scheme. He said:

‘I see this scheme as very relevant to many Scottish farmers, particularly those who are likely to be affected by future reductions in prices and EEC support for arable crops. It will offer them an alternative to the increasingly difficult task of maximising returns from cereals and other supported crops, particularly in areas which are not ideally suited to arable production for reasons of geography and climate’ (14th June 1988).

Fisheries. The fishing industry now employs over 8,000 people; three times that number work in ancillary industries. The total value of fish landings in Scotland by UK vessels in 1986 was £228 million, an increase of £13 million (6 per cent) over 1985.

Fish Farming now makes a very significant contribution to Scotland's economic development. The salmon sector alone provides 1,200 jobs, and further expansion is expected by the 1990s. In 1987, 16,000 tonnes of salmon were farmed, valued at £60 million. Production in 1988 was expected to rise to around 25,000 tonnes.

(C) URBAN REGENERATION

Tackling the Worst Housing Estates. On 29th March 1988, Mr Rifkind announced a major initiative aimed at revitalising Scotland's worst housing estates. Known as ‘New Life for Urban Scotland’, it represents the Scottish element of the Government's ‘Action for Cities’ programme – the most ambitious venture ever undertaken to revive run-down areas. The aim of the Government's policy – in Scotland as elsewhere – is to create a coherent strategy involving all urban initiatives, and so build on the many successes already achieved.

Particular attention is being concentrated on the large peripheral housing estates, whose residents have suffered most from social and economic deprivation, who have the least choice in their housing, who have the least say in the running of their communities, and who are most dependent on state benefits and services. The Government wants to help renew the self-confidence of these areas, and to give their residents greater incentive to help themselves.

The Government's detailed objectives in the ‘New Life for Urban Scotland’ proposals are:

- a. to increase economic activity in the estates;
- b. to improve the ability of residents to compete for available jobs, through training measures;
- c. to improve the local environment;
- d. to improve both the quality of housing and the selection of housing tenure;

- e. to improve health, educational and recreational facilities;
- f. to reduce crime levels and the fear of crime.

Excellent progress has already been made in smaller-scale, local initiatives in peripheral estates at Barlanark (Easterhouse, Glasgow), Forgewood (Motherwell) and Tulloch (Perth). Pilot schemes in these areas attracted £27 million of private sector cash.

The Scottish Office is working in conjunction with the SDA, Scottish Homes, local authorities, the private sector, and, most importantly, the communities themselves to develop detailed objectives for each of the local programmes at the four areas which have been earmarked for the first stage of the initiative. These are:

- Castlemilk in Glasgow;
- Ferguslie Park in Paisley;
- Wester Hailes in Edinburgh;
- Whitfield in Dundee.

As Mr Rifkind said when he announced the programme:

‘We expect these new initiatives will make a major contribution to tackling the characteristic problems of urban decay and will set a pattern for urban regeneration in Scotland into the 1990s’ (quoted in *The Scotsman*, 29th March 1988).

A substantial contribution is being made by the Government. In 1989–90, spending on the Urban Programme in Scotland will be £57 million – a rise of almost 30 per cent.

Harnessing Public and Private Resources. The success of this initiative will, however, depend above all on the maintenance of a constructive and close partnership between government agencies and the private sector. They have been working together well for some years achieving significant progress in urban renewal in Scotland. There have been many success stories – thanks to considerable private investment made possible by ‘pump-priming’ with public money.

- *The Inverclyde Initiative.* Its successes include development of a 22-acre site at Custom House Quay. When completed, this will include retail shops, a hotel and leisure facilities providing some 800 jobs.
- *The Govan/Kinning Initiative* – which includes the site of the Glasgow Garden Festival, started in April 1988. To date, £5 million of SDA money has attracted 180 jobs in 14 companies. The five-year target is 1,100 jobs and £15–20 million of private sector cash.
- *The Coatbridge Project* – which has so far attracted a £10 million shopping and housing development, a £4.5 million distribution centre for Boots the Chemists, providing 250 jobs, and the Coatbridge Business Centre with 33 new small firms.
- *The Dundee Project.* New developments created by it include the refurbishment of two old Dundee mills for residential use. The Dundee Waterfront will bring a £3 million Heritage Centre and 1,000 jobs.

- *GEAR (Glasgow Eastern Area Renewal)*. In just over 10 years the East End of Glasgow has been transformed into an area with new confidence and vitality. Seven organisations – the SDA, Strathclyde Regional Council, Glasgow District Council, the Scottish Special Housing Association (SSHA), the Housing Corporation, Greater Glasgow Health Board, and the MSC – have participated. More than two-thirds of GEAR residents now live in new or improved homes. The project has been particularly notable for the way it has involved the local community. It has attracted £250 million of private investment.

Extent of the Conservative Commitment. It is important to stress the considerable funds that are already devoted to urban renewal – some £500 million in 1988–9, over and above £1 billion of capital expenditure by local authorities. This total includes:

- £90 million from the Housing Corporation;
- £45–50 million from the Scottish Special Housing Association;
- £62 million from the SDA;
- £44 million from the Urban Programme;
- £250 million for training.

(D) THE COMMUNITY CHARGE

Old and New Compared. The present rating system leads directly to irresponsibility and over-spending, as Mr Rifkind has emphasised:

‘At the moment a local authority which wishes to increase its expenditure can appeal to the electorate and can receive an endorsement for higher expenditure from an electorate, the majority of whom will not pay a penny towards the cost of that increased expenditure. That is not local democracy’ (Scottish Grand Committee, 28th April 1986, Col. 3).

Local voters ought to have a direct stake in their local authority's spending decisions. This can be achieved by:

- i. A tax base wide enough that the burden is not unfairly concentrated on too few shoulders.
- ii. A clear link between changes in expenditure and changes in the local tax bill.

These two crucial elements are completely missing from the present system:

- 60 per cent of the adult population in Scotland contribute nothing to the cost of local government.
- 750,000 adult Scots *in employment* contribute nothing to local government costs.

Things will be very different when the Community Charge is introduced. 3·85 million people will be due to pay the Community Charge or a proportion of it.

Furthermore, as a property tax, rates provide no real link between the amounts individuals have to pay and their consumption of local services. Most local government services, such as education, housing, and libraries, are provided for people, not property.

Reaching Crisis Point. There was a massive public outcry over rating revaluation in 1985. In many cases the effects were extremely severe. For example:

- Martin Irons, owner of a restaurant, said his rates bill had soared from £1,900 to £8,000. He said: 'it means there is no way we can continue' (Quoted in *The Observer*, 17th March 1985).
- A village shop-owner in Renfrew district estimated he would need another £10,000 a year turnover to cover his rates increase of £724, on top of which Renfrew District Council planned to charge him £7 a week to remove his rubbish (*The Sunday Times*, 23rd June 1985).

More than 100,000 households faced rates increases of more than a third. Revaluation was not entirely to blame – the increases were due in part to councils' spending decisions, but – and this is the crux of the matter – it was impossible for hard-pressed taxpayers to distinguish between the two.

Central Arguments for the New System. The main justification for the Community Charge, to be introduced in April 1989, is that it will provide a clearer link between local council spending and the costs of that spending to the voter.

A larger proportion of the people who use council services will pay for them directly. Thus, if a council chooses to raise its level of spending, the implications for the voter will be easily seen – a higher Community Charge. If they choose to lower council spending, the local people will pay a lower charge. For example, if the Community Charge had been in operation during the financial year 1988–9, the budgets proposed by the three political groups on Lothian Regional Council and Edinburgh District Council would have produced these figures: Labour £401·00; SLD £357·50; and Conservative £310·00 (Quoted in *The Scotsman*, 11th March 1988).

The Compilation of the Community Charge Register. Registration for the Community Charge is proceeding as planned. Preliminary figures supplied by Community Charge Registration Officers show that on average over 99 per cent of adults in Scotland have registered. The registration came into force on 1st October 1988.

No Justification for High Community Charges. Scottish local authorities will receive a 9·8 per cent increase in revenue support grant (RSG) for 1989–90. This is a very generous settlement, well over the rate of inflation. In November 1988, the Scottish Office released figures for estimated Community Charges if councils kept their spending within reasonable limits. But when actual budgets were set in January 1989, it became clear that councils were setting unnecessarily high Community Charges in order to finance substantial increases in expenditure.

As Mr Lang pointed out:

‘If ... councils do set charges higher than my estimates, we should be in no doubt that the reason will be that they have chosen to increase their spending. Their Charge payers will be entitled to ask them why this was necessary, in areas where existing standards of service are clearly deemed by many people to be entirely satisfactory’ (12th January 1989).

Councils will have to answer to their electorate for high charges.

Business Rates. Over the years Scottish businessmen have suffered from the excesses of high spending Labour local authorities. In the last five years the increase in the retail price index has been just 25 per cent, but the increase in business rates bills in Scotland has been 50 per cent. In order to end this unfairness, the Government is introducing index-linking of business rates from April 1989 so that industry and commerce will be able to budget with a greater degree of security. The impending revaluation will bring further benefits to businessmen, as Mr Lang has made clear:

‘Further improvements will be made in 1990, when we have the results of the next revaluation. They will reveal substantial progress on the next stage of our programme, the harmonisation of valuation practice north and south of the border. This is an essential step in bringing rates in Scotland into line with England and Wales ... The essential message on harmonisation is that for the vast majority of business a high degree of harmonisation will be achieved, not in the 1990s, but in 1990. In widely-publicised correspondence last autumn the Prime Minister reaffirmed the Government's commitment to moving to a common non-domestic rate poundage in all areas. That stage of our policy will follow the process of harmonisation ... to complete the process of bringing fairness to Scottish business. We intend to deliver and we are now well on our way to doing’ (*The Scotsman*, 10th February 1989).

A rebate system will help those on low incomes. Mr Ian Lang, Minister of State at the Scottish Office, has described how it will work:

‘Rebates of up to 80 per cent will be available to those on low incomes. They will be calculated on a basis which takes account of personal circumstances such as disability. Those receiving income support will receive the maximum rebate and the levels of income support will be raised to take account of the average 20 per cent minimum contribution’ (*Hansard*, 27th October 1987, WA, Col. 81).

The rebate scheme was extended on 14th April 1988 to cover 1.2 million people in Scotland. As Mr Rifkind stressed:

‘The rebate scheme will now benefit a large group of low earners who would not have benefited from the scheme as previously proposed, and will give large rebates to all those who would have benefited. In this way it goes beyond anything that is done at present for ratepayers’ (15th April 1988).

(E) HOUSING

Conservative Aims. Scotland needs more and better homes. That can only be achieved by introducing real choice, particularly for those now living in local authority housing. The central Conservative aim is therefore to create the conditions in which progress can be made. As Lord James Douglas-Hamilton, Minister for the Environment at the Scottish Office, has said:

‘Few would deny that the very size of the public housing sector in Scotland adds to the problems facing it. Large sums have been spent in the past on council housing under successive governments. In the main, the result has been the creation of over-large council house empires which are difficult to run efficiently or sensitively. The problem with such areas is not primarily lack of resources. Mistaken social planning at the design stage, coupled with poor subsequent management have contrived in too many areas to create a uniquely depressing and alienating environment’ (Speech to the Scottish House Builders' Association, Edinburgh, 19th February 1988).

The Government has taken action – through the Housing (Scotland) Act 1988 – to break local authority domination in the public sector, and to give people real choice. At the same time more people will be given the chance of becoming homeowners. The Conservative housing strategy therefore has four key features:

- i. the continued encouragement of home ownership;
- ii. the promotion of the private rented sector;
- iii. the introduction of greater freedom of choice for council tenants;
- iv. the creation of a new agency – Scottish Homes – to oversee the operation of ‘Tenants' Choice’ and encourage greater private sector investment in housing.

The Growth of Home Ownership. As the 1987 Conservative Manifesto pointed out:

‘Nowhere has the spread of ownership been more significant than in housing ... it gives people a stake in society – something to conserve. It is the foundation-stone of a capital-owning democracy’ (*The Next Moves Forward*, June 1987, p.11).

The proportion of owner-occupiers in Scotland has risen from 35 per cent in 1979 to 44 per cent today. The Government's Right to Buy policy, introduced in 1980, has made a major contribution to this increase. The maximum discount now stands at 60 per cent for a house and 70 per cent for a flat. Over 132,000 council homes have been sold to sitting tenants – more than 10 per cent of the total stock. In addition, the Scottish Special Housing Association has sold off 20,000 homes – nearly 20 per cent of its original housing stock.

Reviving the Private Rented Sector. Since the war, there has been a dramatic decline in the supply and quality of housing in the private rented sector in Scotland, as in the rest of

the country. In order to reverse this trend, it is essential that potential landlords be given the necessary financial incentives to bring property on to the market.

This will be achieved under the provisions of the Housing (Scotland) Act 1988 which will enable private landlords to charge rents on new lettings that will give them a reasonable return on their investment. Such lettings will be either on an assured tenancy basis (rents being freely negotiated between landlord and tenant with security of tenure for the latter) or on a short tenancy basis (the tenant having no statutory security beyond the period of the tenancy, but with a right of registration available to both parties). The objectives have been summed up by Lord James Douglas-Hamilton:

‘The Government's proposals to revitalise independent renting in Scotland are designed to let private landlords obtain an adequate return on their investment while providing tenants with reasonable security’ (Scottish Liaison Committee of the Building Societies Association, Edinburgh, 18th March 1988).

Tenants' Choice. The great benefits this major reform will bring have been described by Lord James Douglas-Hamilton:

‘Our Bill gives tenants the opportunity to exercise choice by seeking a new landlord and new forms of tenancy, if they so wish, without moving out of the house in which they live. This will mean that tenants, whether as individuals or in groups, can invite a new landlord to take over the house they live in. Or, if they wish, they can group together and take over the houses themselves, as some groups of tenants have already done very successfully in Glasgow and others in other parts of Scotland have plans to do so’ (Shelter (Scotland) Housing Conference, Glasgow, 6th February 1988).

These proposals will add major new rights to those already granted to tenants under the Tenants' Charter (Tenants' Rights Etc. (Scotland) Act 1980), which first gave them the right to buy, along with security of tenure and the right of succession. Tenants will no longer face the stark choice between buying their house and renting from the council, which has been the reality for so many of them in the past.

Scottish Homes – to be established under the 1988 Act – will be the housing equivalent of the Scottish Development Agency. It will unite the functions hitherto carried out by the Scottish Special Housing Association (SSHA) and the Housing Corporation in Scotland (HCiS). Scottish Homes will, therefore, have the expertise and the powers to tackle problems all over Scotland in co-operation with local authorities and the private sector. And as Lord James Douglas-Hamilton has said:

‘Scottish Homes will be at the forefront of the drive to offer tenants new choices and new opportunities’ (Speech at the Opening of Scottish Special Housing Association's development, Dundee, 26th February 1988).

In addition to catering for its own tenants, Scottish Homes will have a significant role in assisting other public sector landlords to expand the range of choice open to their tenants.

It will be able to enter into partnerships to help them improve the condition of their housing, particularly in the most run-down estates. Private sector involvement will be encouraged in appropriate areas such as investment in housing association projects.

Large-scale Transfers. Local authorities already have the powers to request disposal of a proportion of their housing stock. The Housing (Scotland) Act 1988 sets out the criteria which the Secretary of State may take into account in approving any such applications, and the conditions which he may attach to an approval. Before the Secretary of State gives his consent to an application for disposal of housing stock, he must be satisfied that the tenants have been properly consulted and that the majority are in favour of the change.

Cash Incentives. Local authorities will be allowed, subject to the Secretary of State's approval, to give grants to their tenants to assist them to purchase property in the private sector or to extend existing property (e.g. to provide 'granny flats'). These measures should free council accommodation to be used to house the homeless.

Negative Valuations. Some houses in the public sector in Scotland have not been maintained in a satisfactory state of repair. Such houses are currently a liability to the authority, not an asset. By transferring the house to a new landlord the local authority is relieving itself of the liability to meet such costs. It is possible that the cost of necessary repairs would provide an effective disincentive for new landlords to purchase the most poorly maintained housing. Since it is the tenants in just such housing who would be most likely to wish to transfer to a more efficient landlord, the Government believes that it is important not to create unfair impediments by refusing negative valuations.

The Five New Town Development Corporations have a good record in providing, managing and maintaining their housing. So far they have sold off 32 per cent of their original stock either voluntarily or under the Right to Buy. In May 1988, the Secretary of State announced a review of Scottish New Towns to determine how, and when, they should be wound up. Although no decisions have yet been reached, the earliest practicable date at which they could begin to be wound up would be 1990.

An amendment to the Housing (Scotland) Act 1988 will allow New Town Development Corporations to dispose of their housing assets to a wide range of alternative landlords before they are wound up. On 26th October 1988, the Scottish Office published a consultation paper, *The Scottish New Towns – Maintaining the Momentum*, inviting comments on the various issues involved.

(F) EDUCATION

The Strategy. Reforms passed by this Government early in its life gave parents new rights of choice and made major improvements to the school curriculum. The Parents' Charter, introduced by the Education (Scotland) Act 1981, allows parents to choose the school they want their children to attend, and ensures a better flow of information about

the performance of individual schools. The Assisted Places Scheme is currently helping about 2,600 pupils from families with modest incomes to attend independent schools. Between 1979–80 and 1986–7 total spending per pupil increased from £651 to £1,426 – a rise of 31 per cent in real terms.

New developments aimed at helping youngsters prepare for modern working life include the Standard Grade examinations, 16+ Action Plan and Technical and Vocational Education Initiative (TVEI). Details of the changes can be found in *The Campaign Guide 1987*, p.442.

But it is also essential that parents should be able to channel the interest which they have in their children's education directly into the school system; their commitment is a vital ingredient in achieving and maintaining high standards. That is why a further major reform of the education system has been made.

School Boards will be established in every school (except the very smallest) with a majority of elected parent members under the School Boards (Scotland) Act 1988. Every board will have a majority of elected parent governors.

Describing the powers of the Boards, Mr Rifkind said:

‘Boards [will have] rights to information and to make representations about the running of their schools ... Parents have a right and a need to be thoroughly informed about all aspects of the running of the school ... The boards are also given rights to involvement in the appointment of senior staff at their schools’ (*Hansard*, 12th April 1988, Col. 41).

Half of those sitting on appointment committees for senior staff will be drawn from school boards; and boards will be able to add, or remove, names from shortlists for appointments of head teachers. They will also have expenditure plans for books and equipment submitted to them by head teachers for approval.

It may be that boards will want to take on further responsibilities. The legislation enables them to do so as Mr Rifkind explained:

‘As they become familiar with what is involved in running a school, some boards will very likely want to take a greater hand in it themselves. We see no reason why they should not do so within reasonable limits. Equally we do not see any need to force the pace. We expect that there will be a natural evolution ... Broadly speaking, additional functions may be delegated either by agreement between the board and its authority, or by the board seeking the approval of the Secretary of State, if its authority does not agree to delegation. However, before appealing to the Secretary of State, the board must have the support of the majority of parents in a ballot on the principle of proposed delegation’ (ibid.).

Mr Rifkind went on to give examples of the additional functions a board might be given:

'It could seek powers over the responsibility for selecting staff below the level of assistant head teacher. It could seek responsibility for charging for the use of school premises out of hours, or for maintenance of school premises. It could seek responsibility for discipline and school rules, and for associated matters, and for determining the format of reports to parents. Most importantly, a board could seek the responsibility, if it so wished, for all matters covered by the running cost budget for a school. Clearly that power would give a board the kind of overall responsibility for finance that is permissible under the Bill. In each of those cases, it would arise only where the school board wished to exercise such powers. If the education authority disagreed the board would need the direct endorsement of the parents as a whole' (ibid., Cols. 41–2).

Assessment. The importance of assessment is already generally recognised by teachers in Scotland, but in some schools, especially primary schools, there is no consistent approach.

The Government believes that a properly structured programme of assessment is needed in order to identify the strengths and weaknesses of individual pupils.

The primary curriculum will be reviewed in order to ensure that all primary school pupils benefit from a balanced curriculum. New guidelines will be produced for each subject area studied by 5–14 year-olds. A new pupil report card will be introduced to keep parents fully informed of each child's progress. And there will be new guidelines for the assessment of pupils in all areas of the curriculum. Pupils in Primary 4 and Primary 7 will be tested in English and Mathematics. Tests will be set by teachers drawing from national data banks of test material.

The Self-Governing Schools etc. (Scotland) Bill. Under this legislation, which is now before Parliament, schools in Scotland will be given the right – already enjoyed by their counterparts in England and Wales – to opt out of local authority control. Those schools which do opt out will become government-funded, non-fee-paying institutions, run by a board of governors consisting of parents, teachers and other community interests.

The board of governors will be elected by parents and teachers at the school, and will include a larger number of representatives from the community than local authority school boards. The board will be able to allocate the resources available for the running of the school and will be able to introduce new approaches to aspects of the curriculum and methods of teaching.

New Technology Academies. Plans are now being made for the establishment of new technology academies which will extend choice further and be of particular help to families in some of the main areas of urban deprivation.

A non-profit making company will be set up jointly by the Government and sponsors to manage each technology academy; the company will then appoint a governing body to run it. The sponsor will make a substantial contribution to the capital costs; the Government will meet the running costs.

It is important for the competitiveness of industry that closer relations be developed between business and industry and this is one of the major objectives of the Government in its reform of further education colleges. The proposals, which will enable and encourage college councils to be innovative and responsive to the needs of the labour market, were broadly supported during the recent consultation exercise and enthusiastically endorsed by the colleges themselves.

Further Education: Closer Links with Employers. The composition of further education college councils is to be changed in order to expand employer representation. In future at least one half of college councillors will be employers. No more than one-fifth of the members will be drawn from the local authority. The remainder will be made up of other interested bodies.

Most aspects of college management will be delegated to the college councils from education authorities. They will have extensive financial control and will be able to retain a proportion of income earned by the college. College councils will also be in charge of selecting their own staff although the education authority will be involved in the selection of the principal and will continue to be the employer of college staff. Control of capital expenditure will remain with education authorities, along with certain other powers.

(G) HEALTH

Extra Spending. Because of the success of Conservative economic policies, the Government has been able to increase spending on the NHS in Scotland by some 34 per cent in real terms since 1979. Total spending on the Scottish Health Service in 1988–9 will be £2,755 million (compared with £1,053 million in 1979–80).

In 1987–8 expenditure per head on the Health Service in Scotland was £448 compared to an estimated £204 in 1979–80.

Scotland's Advantages. The Health Service in Scotland has done even better than the NHS in England in recent years.

- In 1986–7 expenditure per head in Scotland was £415 compared to £336 in England.
- In 1985 there were over 11 staffed beds per 1,000 people in Scotland, and only 7 in England.
- There are over 40 per cent more staff per head of population in Scotland than in England.

Hospital Building. Since 1979, capital investment in the NHS has allowed 54 major new hospital developments to be completed, providing some 6,231 beds. These include major new district general hospitals such as: Paisley (£53m.); Crosshouse (£30m.); Raigmore (£30m.); and the new block at Glasgow Royal Infirmary (£56m.).

A further 32 major developments are under construction, or in the course of being commissioned. These will provide 4,484 more new beds.

Spending on the capital programme will be about £125 million in 1989–90, and is planned to remain at that level for each of the following 2 years.

Manpower. There are now more doctors and nurses in the Scottish Health Service than ever before. The number of hospital consultants has risen by 10 per cent since 1979, and the number of qualified nursing staff by 32 per cent.

More Treatments. By far the best measure of the success of the NHS is the service provided to patients.

- Day cases are up almost 95 per cent since 1979 – from 81,500 to nearly 160,000.
- The number of operations performed is up almost 41 per cent from 315,000 a year to over 440,000.
- The number of in-patients treated is up almost 15 per cent from 735,000 a year to 843,000.
- The number of patients treated per bed is up almost 20 per cent from 12·6 to 15·2. Out-patients' attendances are up almost 8 per cent from 5,200,000 to 5,670,000.

Waiting Lists. £3·5 million was set aside in 1987 to tackle waiting lists; a further £3 million was made available in 1988, enabling 30,000 out-patients to be seen or tested, and 8,600 more inpatients and 3,760 more day-cases to be treated. It is estimated that waiting lists fell by 5 per cent between March 1987 and March 1988.

£4·5 million will be spent in 1989 on another major initiative to reduce waiting lists. This is a 50 per cent rise on the current year's allocation.

Competitive Tendering. Recent improvements in the efficiency of in-house operations have produced substantial savings, but maximum value for money can only be ensured by seeking tenders from outside bodies. Contracts awarded after competitive tendering should save over £14·5 million in the next three years. These resources can then be used to improve direct patient care.

(H) TRANSPORT

Roads. The Government has undertaken a major programme of road building and improvement in Scotland since 1979. Almost £760 million has been invested; as a result 24 miles of motorway, 98 miles of dual carriageway and 248 miles of other trunk roads have been built. 29 bypasses have been completed, a further six are under way with 34 more in the course of construction. In all 89 major road schemes – valued at £820 million – are at various stages of preparation.

Since 1979–80 spending on road maintenance has increased by 80 per cent in real terms.

The most important recent developments are as follows:

- The £9.5 million contract for the A9 Dornoch-Firth road bridge was awarded in March 1988.
- The contract for the final phases of the East Fife regional road, worth £16.5 million was awarded in March 1988.
- Work on the Dunblane bypass began in December 1988.
- The Forres bypass was opened in September 1988.

The Conservative Manifesto for the 1987 General Election stated that it was the Government's intention to 'upgrade Scotland's main link with the South, the A74, to a motorway' (p.40). This will involve upgrading 60 miles between Millbank and the English border at an estimated cost of £200 million. Feasibility studies are currently under way.

The Scottish Bus Group. On 27th January 1988, Mr Malcolm Rifkind announced his intention to privatise the Scottish Bus Group (SBG) in accordance with the commitment in the 1987 Manifesto. Under the Transport (Scotland) Bill, now before Parliament, the SBG will be broken up into eleven companies: Lowland; Eastern; Strathclyde; Highland; Fife; Northern; Midland; Western and Clydeside; Central and Kelvin; Scottish Citylink; and SBG Engineering.

As Mr Rifkind said;

'This pattern of privatisation is designed to create viable companies on the basis for sustained and balanced competition within the Scottish bus market to the benefit of bus travellers' (*Hansard*, 30th November 1988, Col. 708).

As far as the ferry company, Caledonian MacBrayne, is concerned, the Government has decided that the best arrangement is for it to become a company owned in the first instance by the Secretary of State. A new Board will be asked to explore the possibility of transferring to the private sector the Gourock-Dunoon and Wemyss Bay-Rothesay routes. As regards the other services, Mr Rifkind said:

'I will ask [the Board] to examine carefully existing practices in order to find efficient and cost-effective ways of delivering the present standard of service. No options for the longer term will be excluded subject to the over-riding proviso that they must ensure at least the present quality of service to the islands' (*ibid*).

(I) LAW AND ORDER

Spending and Manpower. Total spending on law and order will amount to £741 million in 1989–90 – having risen in real terms by 64 per cent since 1978–9. The police force has expanded fast; a further increase next year will take the total number of police officers to over 13,800.

Drug Abuse. The Government's comprehensive strategy against illegal drug misuse was strengthened in April 1988 when the Criminal Justice (Scotland) Act 1987 came into force. This gives the courts tougher powers to deprive drug pushers of the proceeds of their activities. In addition, Customs and Excise Officers throughout Scotland will be able to detain people suspected of attempting to smuggle drugs concealed within their bodies.

All eight Scottish police forces now have specialist drug units.

Crime Prevention. Four schemes have been announced under the new Scottish 'Safer Cities' programme linked to the Government's plans for urban regeneration in key areas: Castlemilk in Glasgow; Ferguslie Park in Paisley; Wester Hailes in Edinburgh; and Whitfield in Dundee.

Day Fines. The Government is anxious to reduce the number of offenders who are sent to prison for failing to pay fines. A consultation paper was published in October 1988 on the adoption of a system like that in West Germany under which a fixed amount is paid per day. A pilot scheme is to be conducted to find out whether a system could be developed in which courts can set fines at levels which both reflect the seriousness of the offence and relate realistically to the offender's means.

Prisons. £90 million has been allocated for the Scottish prison service in 1989–90.

72 building schemes are either at the planning stage or in progress under the Government's £30 million programme for the upgrading of Scottish prisons. The programme includes the replacement of Peterhead Prison, redevelopment at Barlinnie Prison and major improvement works at Dumfries, Edinburgh and Inverness Prisons.

(J) DEVOLUTION

The Conservative Position. The Conservative Party remain opposed to all the forms of devolution that have been suggested by the Opposition. The Conservative approach is to take practical action to improve the government of Scotland in specific areas where it is needed (for details, see *The Campaign Guide 1987*, p. 446).

Mr Rifkind restated Conservative policy in a major speech to the Aberdeen Chamber of Commerce on 15th April 1988. He began by making a number of introductory points:

- 'For the modern Scot the objective must be to maintain the integrity of the United Kingdom while retaining and enhancing the national identity and culture of Scotland'.
- 'Any constitutional change, to be in Scotland's real interests, would have to be common to the United Kingdom as a whole'.
- 'It is inevitable that unilateral devolution for Scotland alone would lead to the provincialisation of Scotland and its marginalisation within the United Kingdom'.

- ‘As Unionists, as well as Conservatives, we attach importance to Scots Law, to the national church, to our universities, to our Scottish banks and financial institutions, to our learned societies, to the contribution of Scottish regiments to the British Army, and to our ceremonial heritage. These express the Scottish identity and Scottish values, having stood the test of time and, for the most part, blossomed during the period of Union’.

Mr Rifkind went on to comment on the crucial economic dimension:

- ‘Scotland with a population of only 5 million could not provide a sufficient market for its own produce nor an incentive to overseas investment that would ensure the employment and prosperity that is required’.

The Secretary of State then set out the four central principles that would shape Scottish Unionism in the late-1980s and beyond:

- ‘Our unshakeable belief that the peoples of these small islands share a common destiny and that both their shared and distinctive social and economic interests require and justify a common Crown, Parliament and economic structure’.
- ‘The unity of the Kingdom is strengthened by diversity and does not require uniformity’.
- ‘The Union neither requires nor would benefit from the Anglicisation of Scotland’.
- ‘The ethos of modern Unionism can best be expressed by the belief that the Union must remain a partnership of its constituent territories and Scotland must enjoy all the benefits as well as the responsibilities of full partnership’.

At the level of theoretical political debate the Conservative case is thus clear and unequivocal. As regards practical politics, the Conservatives will go on pursuing a very different kind of devolution – to the people of Scotland themselves. Conservative policies in Scotland, as in the rest of the UK, are designed to give the Scottish people more real power and responsibility than any Assembly ever could. For example:

- Over 106,000 Scottish families have bought their council homes.
- Twice as many Scots own shares now as compared with 1979.
- The replacement of the unfair rating system with the Community Charge will bring greater accountability to local government.

Summing up the Conservative approach, the **Prime Minister** said:

- ‘As long as I am Leader of this Party, we shall defend the Union and reject legislative devolution unequivocally ... We have endorsed a very different policy – a policy far bolder and more imaginative than that of our opponents. Not devolution to politicians and bureaucrats but devolution to the Scottish people themselves’ (Scottish Conservative Party Conference, Perth, 13th May 1988).

(K) OPPOSITION POLICIES

1. THE LABOUR PARTY

Devolution. The Labour Party fought the General Election promising to ‘legislate in the first parliamentary session to establish a democratically elected Scottish Assembly’ with substantial fiscal powers, including the power to levy taxation to ‘meet Scottish needs’, and control over health, education, housing, local government, the law and a number of other areas (*Scotland Will Win*, May 1987, p 3).

Labour remains committed to this promise – preferring to forget that in the 1979 referendum on devolution two-thirds of the Scottish electorate either voted against or did not vote at all.

Further details of Labour's plans emerged in the ‘White Paper’ on devolution following a unanimous conference decision by the 1987 Labour Assembly to give an ‘unequivocal commitment to a Scottish Assembly’ (*Labour Weekly*, 2nd October 1987.) Their ‘Paper’, which goes far beyond the ill-fated Scotland Act 1978, proposes that a Scottish Assembly would be elected every four years and would have the ability to vary the income tax rate set by the Chancellor of the Exchequer (*The Times*, 18th November 1987). The role of the Secretary of State for Scotland would change dramatically.

Neither Labour's Manifesto commitment nor its recent ‘White Paper’ attempt to resolve the acute constitutional problems that were highlighted by the last Labour Government's disastrous attempt to impose devolution on Scotland (for further comment, see *The Campaign Guide 1987*, p.447). These constitutional difficulties have, in the past, not been lost on Mr Kinnock. He expressed the case against devolution best when he declared in 1976:

‘We will get guaranteed disharmony, disunity, conflict and competition throughout the whole of Britain ... The dominant issue of politics in Britain will be ... the jealousies of region against region, nation against nation, argument against argument. That will be ... very bad news for Britain’ (Speech to the Labour Party Conference, Blackpool, 28th September 1976).

In a speech on 29th December 1988, Mr Roy Hattersley reaffirmed Labour's policy on devolution. Scotland would be given one of the ‘eight or nine regional assemblies’ that Labour would establish as part of a plan to transform the way the United Kingdom was governed – and undermine its unity (*The Independent*, 30th December 1988).

Post-Govan. Since the SNP victory in the Govan by-election, the unity of the Labour Party on constitutional reform has been shattered.

The General Secretary of the Scottish TUC, Mr Campbell Christie, has said:

‘There was nothing sacred about the Act of Union which was a crooked deal if ever there was one and we should not shy away from examining its current relevance. When we have won an Assembly we can go on then, if people want it, to examine the option of independence’ (*Glasgow Herald*, 17th November 1988).

In a further departure from official Party policy, Mr Christie made a personal appeal for proportional representation, an option also favoured by Robin Cook but rejected very recently by Mr Kinnock:

‘Proportional Representation doesn't solve the very difficulty that people are trying to confront – the disproportionate nature of government’ (*The Scotsman*, 19th December 1988).

Mr Kinnock, at the same time, reiterated his opposition to electoral pacts which have been advocated by Mr John Reid MP, and by Mr Alan Adams MP (the latter regards it as a device for wiping out Conservative MPs in Scotland (*The Sunday Times*, 27th November 1988). Mr Adams has also said that he would be willing to discuss his ‘wee olive branch’ with Mr Jim Sillars, the SNP victor at Govan (*The Scotsman*, 14th November 1988).

Mr John Home Robertson has set up a new ‘ginger group’ of 10 Scottish Labour MPs to push the case for a Scottish Assembly more vigorously. This is in addition to Scottish Labour Action, another similar group within the Party. Mr Home Robertson, has criticised the Party's junior Spokesman on Scottish Affairs, Mr John Maxton, MP, accusing him of ‘dogged pursuit of the NUNGE strategy – “Nothing until the next General Election”’. (*The Scotsman*, 8th December 1988). He continued: ‘perhaps people suffering from ostrich-vision should not write about headless chickens’ (*Scotland on Sunday*, 11th December 1988).

Mr Norman Hogg MP joined in the bickering to support Mr Robertson:

‘I totally support everything he said and it had to be said. We have to address the Scottish people to what is really important and not get drawn into this debate. Independence is not an idea that will lead Scotland anywhere except an economic backwater’ (*Scotland on Sunday*, 11th December 1988).

The post-Govan turmoil in the Labour Party has already resulted in the formation of a break-away Scottish Socialist Party. The former Labour leader of Edinburgh District Council, Mr Alex Wood, joined the new Party ‘without political doubts or regrets’ (*Glasgow Herald*, 12th January 1989).

The Community Charge. The Labour Party in Scotland gave its official backing to the ‘Stop-It’ campaign, designed to disrupt the process of registration for the Community Charge. It was a dismal failure. Preliminary figures supplied by Community Charge Registration Officers showed that, on average, over 99 per cent of adults in Scotland have registered. The register came into force on 1st October 1988.

In the autumn of 1988 a split developed within the Party between those who support non-payment and those who oppose it. At a special one-day conference in Govan on 17th September 1988, the Scottish Labour Party voted against a mass campaign calling for non-payment of the Community Charge, although in an attempt to appease hardline non-payers, the statement condoned illegal action, 'recognising that many individuals ... may make their own personal stand by not paying' (*Scotland on Sunday*, 18th September 1988).

In defiance of this policy a campaign in support of non-payment was later launched by three rebel Labour MPs – Mr John McAllion, Mrs Maria Fyfe and Mr Dick Douglas based on the so-called 'Committee of 100'. Certain MPs are apparently intending to break the law themselves without joining the committee.

However, the Labour president of the Convention of Scottish Local Authorities, **Mr Eric Milligan**, has warned the rebels that:

'The more successful your campaign is, the less money will make its way through the system for local government' (*The Scotsman*, 7th October 1988).

Nevertheless, Labour councillors on Glasgow District Council and Lothian Regional Council have said they will not pay the Charge (in the latter case, after setting the highest Community Charge in Scotland).

Despair. In the House of Commons, as in Scotland itself, the Labour Party has resorted to desperate tactics:

- Mr Dennis Canavan has called for Scottish Labour MPs to use 'guerilla tactics' in the Commons, declaring that 'it is not enough to say we are going to carry on with the conventional kind of orthodox Parliamentary opposition, according to the hallowed traditions of Westminster' (*The Sunday Telegraph*, 14th March 1988).
- The Chairman of the Scottish Labour Party, Mr Bill Spiers, has called for a fundamental assault on the Government's right to govern in Scotland: 'If that means we do not play by the old rules of the game, if that means that we continually push and challenge the very democratic legitimacy of this Government, then so be it; we are playing for very high stakes' (*The Independent*, 24th November 1987).
- **Mr Dick Douglas MP** has even threatened his fellow MPs who have qualms about law-breaking with deselection. He has said: 'I now feel that they are the ones with the problems because they will have to answer to their constituency parties. We all have to face reselection and they will have to defend their position on the poll tax' (*Militant*, 18th March 1988).

2. THE SLD

Devolution. The SLD dealt with Scottish affairs in a mere one sentence in their policy document, *A Democracy of Conscience*, published in January 1988.

Their one sentence of policy contained nothing new. It merely repeated the commitment made in the 'Alliance' 1987 Election Manifesto to 'establish an elected Scottish Parliament and Welsh Senedd, and elected regional assemblies in England'.

According to their latest statement of policy, their aim now is a 'renegotiation of the Treaty of Union. We need more than an Assembly, we need a Parliament' (*The Scotsman*, 14th November 1988).

But some members seem to want to go further than this. Mr Malcolm Bruce has admitted that a significant number of members of the Scottish SLD want the Party to look seriously at the case for Scotland being an independent nation within the European Community (*The Scotsman*, 10th November 1988).

Collapse of Support. After a lacklustre campaign, Mr Malcolm Bruce was elected Leader of the Scottish Liberal and Social Democratic Party, defeating Mr Archy Kirkwood. Afterwards **Mr Bruce** declared:

'We are back in business and we mean business. We have a distinctive political identity which will display a keen radical edge, ready to challenge the other political parties in Scotland to robust debate' (*The Scotsman*, 6th August 1988).

One month later, SLD support had slumped to an all-time low of 2 per cent according to an opinion poll in *The Glasgow Herald* on 7th September 1988. Two months later, Mr Bernard Ponsonby, SLD candidate at the Govan by-election, managed to lose his deposit.

Siding with Labour. The name of the new party may have changed, but its left-leaning inclinations certainly have not. The SLD in Scotland tried to form a cross-Party alliance with Labour to fight the Community Charge in Scotland – a tactic which failed when the SNP refused to join in (*The Guardian*, 12th April 1988).

3. THE SDP

In 1988 the SDP launched a manifesto for Scotland, *SDP Scotland-The Independent Force*, which outlines the SDP position on a number of issues.

Apart from the usual calls for local income tax in place of the Community Charge, the SDP propose:

- The creation of a Scottish development agency to fund and assist housing projects, unaware apparently that the Government is establishing such a body under the Housing (Scotland) Act 1988.
- The establishment of a 'stronger and much more independent single-tier local government' (*The New Social Democrat*, April 1988).

The manifesto also supports the Government's plan to allow local authority tenants to opt out of local authority control.

Dr Owen's SDP remains strangely silent on the subject of devolution – despite the fact that its leaders stood for election in June 1987 on a manifesto proposing the creation of a Scottish Assembly.

4. THE SCOTTISH NATIONAL PARTY

Independence in Europe. As Miss Isobel Lindsay of the SNP National Executive, has pointed out:

‘There are two contradictory arguments currently being used by the SNP. One line suggests that developments in the European Community, especially those which will come with the Single European Act, will make Westminster increasingly irrelevant for Scotland as more and more decisions are taken in Brussels. The other argument is ... that the Single European Act pose[s] no threat to Scottish sovereignty’ (*Scots Independent*, September 1988).

The SNP's policy of independence within the European community is full of such inconsistencies. The Single Market which will be completed in 1992 will bring free trade and boost enterprise. Yet Mr Sillars and the dominant left-wing in the SNP are still firmly wedded to the discredited philosophy of excessive government control. Mr Jim Fairlie, former senior vice-chairman of the SNP, has warned:

‘1992 is about the free market economy. To those of you who think of yourselves as Socialists, have you given any thought to what you are being asked to give up?’ (*The Scotsman*, 17th September 1988).

Much of the SNP's policy would be incompatible with the Single European Act. As Miss Lindsay has said:

‘Proposals to protect and develop Scottish interests in monetary policy, industrial development, land, monopolies and mergers, oil etc. will no longer be valid’ (*Scots Independent*, September 1988).

However, even if the SNP did reconcile itself to the free market within the EC, it is hard to see how Scotland's national interest would be advanced by the silencing of its voice in Westminster as an historic partner in the Union in exchange for a position in Brussels as the third smallest nation in the Community with only 1.5 per cent of the EC's population. Miss Lindsay has made it clear that:

‘In the new weighted voting system for the Commission which applies to many vital decisions, Scotland would have only 3 votes out of 79. We would also, of course, be on the outer-most periphery. Anyone who talks in glowing terms of Scotland's capacity to influence key economic decisions in the EC is being more than a little unrealistic’ (*Scots Independent*, September 1988).

In any case, the whole policy of independence in Europe is based on a dishonest assumption – that Scotland would have an automatic right of membership of the EC. In fact, entry would have to be negotiated and could be vetoed by any one of the member states.

The Non-Payment Campaign. On 22nd September 1988, the Scottish National Party launched its campaign to recruit an ‘army’ of 100,000 volunteers to break the law by refusing to pay the Community Charge. However, the Party leadership has consistently refused to reveal how many names it has gathered. Certainly, their confidence in finding 100,000 people committed to non-payment is hard to reconcile with the high level of registration for the Community Charge. An opinion poll in October 1988 showed that no more than 8 per cent of eligible residents in Scotland did not intend to pay the Community Charge. This marks a sharp decline in support for non-payment which was found to be running at 31 per cent, according to an opinion poll conducted in March (*The Scotsman*, 14th October 1988).

The Drift Leftwards. The June 1988 edition of the *Scots Independent*, published by the SNP, points out the growing similarities between the general stance of SNP and that of the Labour Party.

‘Our constant references to the English Tory Government and anti-Thatcherism makes us appear to be a tartan version of the British Labour Party’.

Irresponsibility is becoming – to an increasing extent – the hallmark of the SNP. On 4th June 1988, at their national council meeting in Aberdeen, they committed themselves to two campaigns of civil disobedience: against the Community Charge and the dumping of nuclear waste. The SNP takes pleasure in behaving irresponsibly. After a stunt during the Chancellor's Budget speech, which was given official party backing, Mr Alex Salmond, Deputy Leader of the SNP, stated:

‘We are giving fair warning that we will indulge in these tactics again if the circumstances arise. We are totally united in our willingness and preparedness to strike hard, but we do not wish to telegraph our intentions’ (*The Scotsman*, 23rd March 1988).

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(A) THE ECONOMY

A Mood of Great Optimism. The transformation brought about by Conservative policies in the last ten years has created a new sense of confidence in the economic future of Wales. As the Secretary of State for Wales, Mr Peter Walker, has said:

‘Throughout the world, in the United States, Japan and Europe, Wales has become renowned for its determination to achieve high productivity and good labour relations. Wales has a team spirit without parallel. Government, local government, unions, and employers unite in creating a new Welsh economy’ (Welsh Office Press Release, 18th October 1988).

Assessments of the Welsh economy today contrast sharply with those made ten years ago. For example, reviewing its last year's work, the Welsh Development Agency (WDA) reported: ‘The success of these efforts has been reflected in the remarkable buoyancy of the Welsh economy, which is now one of the fastest growing regions in the United Kingdom. Increasingly, the problems now being faced are those of success’ (Annual Report 1987–8, p. 6). In early 1979, however, the WDA chairman was writing in extremely bleak terms: ‘In a year in which the United Kingdom continued to be beset by economic problems, the work of the WDA, as a body concerned with stimulating industrial expansion, was inevitably constrained’ (Annual Report 1978–9, p. 5).

A Modern Economy. Wales is no longer dependent on heavy industries such as coal and steel. These industries will never again provide the huge number of jobs they once did. The new growth areas are light manufacturing, electronics and the service industries. The Government has clearly seen the need to diversify the Welsh economy and has acted decisively. Now Wales attracts a high level of industrial investment from home and abroad and has a rapidly expanding commercial sector.

However, *the steel and coal industries* have won for themselves a new role in the Welsh economy. The transformation in the fortunes of the steel industry – which seemed almost inconceivable ten years ago – has been spectacular. The Welsh steel plants made a major contribution to British Steel's £410 million profit in 1987–8: they are now amongst the most profitable and modern in the world. Substantial investment has accompanied a dramatic increase in productivity: last autumn British Steel announced a £75 million investment at Port Talbot on a second continuous slab casting machine, and a £59 million investment at Llanwern on a new line for coated sheet steel.

Uneconomic coal mines have been closed, as under previous administrations. Record productivity rates have now been reached in the South Wales coalfield: in July 1988 a productivity rate of 3.39 tonnes per manshift was reached – the highest in the coalfield's history. Contracts are expected by Spring 1989 for the development of the Margam drift

mine. The mine, which will operate with six day a week production, will cost some £90 million and create 850 mining jobs.

New Industries. The most obvious result of the new confidence in the future of the Welsh economy has been a rapid flow of new investment. The most remarkable instance of this occurred in October 1988 when Ford chose Wales as the location for the largest ever single investment (£725 million, about £700 for every household in Wales) made by a motor manufacturer in Britain, and the largest ever investment in Wales. 2,500 jobs will be created or safeguarded at Bridgend and Swansea and 3,500 people will be employed in constructing and installing the new plant. It was the most spectacular example of a general trend:

- Indigenous Welsh firms are also expanding. Race Electronics (of Talbot Green, Mid Glamorgan) has embarked on a three-year expansion project which will create 1,100 jobs. Developments which could create up to 2,000 additional jobs in the next four years are now in the pipeline.
- One of Britain's biggest toy-makers, Bluebird Toys, is to set up a factory at Merthyr bringing 400 permanent and 200 seasonal jobs in a £12.4 million investment.
- In December, the security systems firm Remsdaq announced a 300 job development on the Deeside Industrial Park, Clwyd.
- Kawneer UK, manufacturers of aluminium architectural systems, also announced a new development in December which will create 300 jobs in a £10 million investment at Llantrisant.

Overseas Investment. Businessmen from overseas have also identified Wales as one of the most attractive industrial locations for the 1990s. They are attracted by a good workforce, excellent transport facilities, and a pleasant environment in which to live. About 20 per cent of all inward investment projects come to Wales – the highest share in Britain (and significantly higher than the South-East of England's 16 per cent). Since 1983 about £2 billion worth of inward investment has been secured at a steadily increasing rate: in 1986 £176 million was secured; in 1987 £240 million; and in the first 10 months of 1988 alone (excluding Ford) a remarkable £352 million. There are now over 250 overseas firms operating in Wales employing nearly 50,000 people.

Financial Sector. As the Welsh economy has diversified in the 1980s, the financial services sector has expanded impressively. In 1981 fewer than 50,000 people were employed in the banking, insurance and finance sector (5.3 per cent of employees in Wales); in 1987 the figure was 65,000 (7.4 per cent), a 30 per cent increase.

Wales is now a first class location for the financial, as well as industrial, sector. Many companies have either relocated or expanded their operations in Wales. The TSB Trust is embarking on a multi-million pound office development at Newport (initially bringing 400 jobs). A further 500 jobs will come as the National Provident Institution enlarges its Cardiff operation. The expansion of the mortgage branch of the Banque Nationale de Paris will bring 163 jobs to Cardiff in a £3 million investment. Rothschilds have also

decided to open an office in Cardiff; the newly appointed Managing Director in Wales, Mr Glynne Clay, summed up the confident opinion of many businessmen: 'The opportunities are greater in Cardiff and Wales than elsewhere. It is the most exciting part of the country to be in at the moment' (*Western Mail*, 13th September 1988).

Government Assistance. The Government has played an active role in encouraging existing and new businesses to take advantage of the opportunities created by the transformed Welsh economy. In 1988–9 the level of assistance given to Welsh industry was increased by 39 per cent – £54 million – over previous plans, taking the total to £194 million. A further increase to £212 million is planned in 1989–90.

The Welsh Development Agency has done much to strengthen the economy by building factories, reclaiming derelict land, attracting investment from home and abroad and by providing a range of business services. Every year since 1981 lettings of WDA factories have increased. The Agency has been given a massive increase in its resources for property development – up by 65 per cent since 1987–8. £52 million has been allocated for 1989–90 – 18 per cent more than in 1988–9. The annual average completion rate of new factory floor space since 1979 has been nearly double that under Labour.

In June 1988 the largest ever single reclamation programme in Wales was announced: more than 4,000 acres will be brought back into productive use at a cost of £45 million. When added to existing schemes, this brings the total that has been allocated for land improvement in Wales to about £90 million.

Altogether £130 million will be available to the WDA in 1989–90. This will allow the Agency to undertake record derelict land clearance, environmental improvement and factory building programmes.

Unemployment. After falling for 32 months in succession, seasonally adjusted unemployment stood at 109,900 (9.2 per cent) in January 1989 – lower than any time since December 1980. In the last year alone unemployment has fallen by nearly 26,000; and since May 1986 it has dropped by 62,000. This dramatic fall has been made possible by strong economic growth. As Mr Walker has said:

'The figures reflect the wide range of activities that are taking place throughout the Principality. The inward investment that is coming in, the new businesses that are being created, the very substantial volume of construction work and the removal of derelict land all combine to produce these excellent figures' (Welsh Office Press Release, 15th December 1988).

The number of self-employed people has risen significantly from 115,000 in 1981 to 151,000 in 1987 (an increase of over 30 per cent). One in seven of the employed labour force in Wales is self-employed compared to one in nine in Great Britain as a whole.

Rural Economy and Tourism. A further recovery in farm incomes took place in 1987: they rose by an estimated £10.3 million to £57.3 million (the highest level since 1984,

and higher than 1983). The extension of Less Favoured Areas in 1984 to cover 80 per cent of all agricultural land in the Principality has been of particular benefit to Welsh farmers. Since Welsh agriculture is particularly dependent on livestock, it has benefited from the Sheepmeat regime – negotiated in 1980 – which is now under review. Total assistance to Welsh agriculture from Government and EC sources amounted to £121.3 million in 1986–7.

The Government has done much to help diversify the rural economy. Rural Enterprise – and the grants scheme DRIVE – were launched in 1986 to encourage tourism, craft projects and the renovation of property for commercial and business use. The WDA and Mid Wales Development (the latter's budget was increased by 20 per cent – £1.5 million – in 1988–9) are charged with increasing the number and variety of employment opportunities. Between April and September 1988 MWD allocated nearly 260,000 square feet of factory space compared to 148,000 square feet in the same period the previous year. Grants worth £944,000 were made which are expected to attract £7 million of private investment and 550 jobs.

Tourism is now a billion pound industry in Wales with £700 million coming from staying visitors and £300 million from day visitors. The Welsh Tourist Board estimates that 90,000 are now employed in the industry. Development proposals by the Welsh Tourist Board are expected to lead to investment of over £100 million over the next five years, creating over 4,000 permanent jobs and increasing total earnings from tourism to £1.3 billion a year.

Transport. The economic recovery of Wales has been assisted by a very substantial road programme. Over £1 billion has been spent on the improvement and maintenance of trunk roads and motorways in Wales since 1979. 22 miles of motorway and 112 miles of trunk road have been built.

The Severn Bridge is being strengthened and resurfaced at a cost of £56 million. Plans for a new crossing for the mid-1990s have been published and the necessary surveys are being carried out.

The creation of a dual carriageway on the A55 between Chester and Bangor is proceeding rapidly; 40 of the 60 miles have been completed bringing new prospects of prosperity to North Wales. Five projects are currently under construction at an estimated cost of £245 million, including the Conwy Crossing – the first immersed road tunnel to be built in the UK.

Bus deregulation has been a great success in Wales. Annual registered bus mileage in Wales increased from 59 million in 1985–6 to 66 million in November 1987. The Principality's largest bus company – National Welsh – has made its first profit for about 30 years, with passenger numbers up by between 5 and 10 per cent (the first increase since the mid 1950s). As the Company's Chairman, Mr Lyn Davies, remarked: 'The Transport Act gave us an enormous stimulus to not only survive, but to prosper and foster profitable growth' (*Western Mail*, 18th August 1988).

(B) URBAN REGENERATION

The Valleys. The Government is determined that the economic transformation that is taking place should benefit all areas including the old traditional industrial heartlands. 'The Valleys: A Programme for the People' was launched in June 1988 to accelerate the considerable improvements that have already occurred.

The Programme. The initiative contains some 50 proposals including:

- a record WDA factory building programme with £14.5 million being spent in 1988–9 and a further £25 million in the next two years;
- a record programme of derelict land clearance costing some £42.5 million over three years and clearing 2,500 acres;
- a new business centre (costing more than £700,000) at Methyr Tydfil accommodating a WDA office for the Valleys;
- a £2.5 million centre for Quality Enterprise and Design to be situated at Treforest Industrial Estate (to serve the whole of Wales);
- plans to improve 32,000 homes and for at least 10,000 new private sector and housing association properties to be built;
- a record level of Urban Programme assistance with nearly £15 million being provided for projects in the Valleys in 1988–9.

This Programme is quite unprecedented. It covers all aspects of community life from the economy to health, housing and the environment – and it involves both the Government, and the private and voluntary sectors. As Mr Walker has emphasised:

'Government has a vital role to play in removing the dereliction from the past, encouraging new industrial and commercial activities, improving housing and so on ... But success will not be achieved just by the action of Government. It can only come from the enthusiasm and energy of the people of the Valleys and it is their efforts, their enterprise and their energy which will transform the Valleys ...' (Welsh Office Press Release, 14th June 1988).

A Welcome in the Valleys. The levels of Government aid expected over the next three years could create over £1 billion of private investment and 25,000 to 30,000 additional jobs. The extent of the benefits that the Valleys are likely to derive has been widely acknowledged. For instance, the magazine of the Welsh Council for Voluntary Action stated that 'the Government's Initiative will undoubtedly prove to be a vital trigger in efforts to revitalise the Valleys' (*Network Wales*, July 1988). The SLD and Plaid Cymru have also welcomed the initiative; only the Labour Party has been equivocal. The then Shadow Welsh Secretary, Mr Alan Williams, dismissed the Programme as 'a combination of the ancient, the inadequate and the irrelevant' (*Hansard*, 14th June 1988, Col. 164). This view was repudiated by a member of Labour's own Trade and Industry team, Mr Richard Caborn, who singled out the initiative saying 'it does illustrate the potential for developing a unified regional plan' (*Western Mail*, 23rd September 1988).

Building on Achievement. Much valuable work has already been done in the Valleys under the Conservative Government. In the eighteen months up to the launch of the new initiative in June 1988, unemployment in the Valleys fell by about 27 per cent – faster than the fall in the UK or in Wales as a whole. A recent Labour Market Information Report – produced by the Department of Employment – shows that between September 1986 and September 1987 the South Wales Valleys witnessed a sudden upsurge of activity in manufacturing (excluding metal goods). In this period the number of jobs in manufacturing jumped in Mid and South Glamorgan by 8,000 to 83,000 – and the bulk of these new jobs came to the Valleys.

Between 1979 and the launch of the Valleys Programme, the WDA built about 350 factories and some 2,900 acres of derelict land were reclaimed. Housing standards also rose: some 45,000 valley homes were improved and the number of homes lacking basic amenities fell by half.

The decision to hold the 1992 Welsh Garden Festival at Ebbw Vale means that the festival will be located – symbolically – on the site of the old steelworks at Victoria Heights. The project is likely to cost around £30 million and create up to 2,000 jobs.

The Work Continues. Since the launch of the Valleys Programme several projects and new investments – some unconnected with the Programme – have been announced:

- In October the WDA approved the largest reclamation project ever undertaken in Wales. A grant-aid package of some £6 million will allow for the reclamation of 700 acres of derelict land on the eastern fringe of Merthyr Tydfil. This will permit the complete regeneration of Dowlais, one of the cradles of the Industrial Revolution in Wales.
- New investments continue to come into the Valleys: Blue Bird Toys at Merthyr and Kawneer at Llantrisant (see p. 463) and most recently the announcement by Britcair – manufacturers of advanced medical dressings – of a 122 job expansion at Rhymney.
- Under the Valleys Programme, £5.5 million is being injected into the health service in the Valleys in 1989–90. More than £4.5 million will be spent on improving local hospital provision in four locations – Ebbw Vale, Treorchy, Aberdare and the Amman Valley.
- A three-year ‘Teamcare-Valleys’ programme is to be launched to improve the delivery of primary health care in the Valleys.

Unemployment in the valleys fell by more than 5,000 in the first seven months of the initiative.

Cardiff Bay. The Cardiff Bay Development Corporation (CBDC) was established in April 1987. Cardiff was once the world's leading coal-exporting port, and the site of that former enormous enterprise will be transformed to create new opportunities for the future. The aim of the CBDC is to establish Cardiff as one of Europe's leading maritime cities. It is proposed to form a large lake behind a £90 million barrage: the new

waterfront will create immense potential for generating economic, housing, cultural, leisure and tourism developments. Total investment is likely to be around £1.5 billion in the next ten years; some 30,000 jobs are expected to be created.

Overall Progress in Cardiff. Cardiff has already benefited from extensive redevelopment including a new shopping centre, an international concert hall, and the construction of an international hotel. The city will have a world Trade Centre by 1991. The complex, costing £15 million, will offer a full range of business facilities and will connect Cardiff to a network of trade centres, linking 800 cities in 64 countries. A four-star, 141 bedroom hotel is also being constructed at a cost of £4.5 million. Cardiff's prestige will also grow as a result of the £21 million development plans for the National Museum of Wales. The east wing will be completed and a large extension in the centre courtyard will double the space available for the display of art.

Swansea has also benefited from considerable redevelopment. The city's internationally acclaimed Maritime Quarter beat over 120 other developments in October to win an award from the Royal Institution of Chartered Surveyors. The Maritime Quarter – with its £50 million marina – contains about 1,000 homes, berths for hundreds of yachts, a museum and many shops. A new Holiday Inn is also near completion at a cost of £6 million. It is estimated that the whole maritime development has brought over 900 jobs to Swansea. Further developments are now being considered for the eastern side of the city.

(C) HOUSING

Better Standards. The Government's main priority has been to improve the existing housing stock in Wales. Since 1979 £446 million has been spent on the renovation of private housing and £428 million on the renovation of public housing. Altogether, this is an average of £95 million per year compared to an average of £29 million per year under Labour. The 1986 Welsh House Condition survey (published in May 1988) showed that:

- major improvements have taken place since the last survey in 1981;
- the proportion of houses falling into the worst repair category has been reduced from 14 per cent to 5 per cent;
- the proportion of houses without basic amenities (such as a fixed bath or inside WC) has been reduced by half since 1981.

The Growth of Home Ownership. The level of home-ownership has traditionally been higher than the UK average; but it has increased still further since 1979 – from 59 per cent to 68 per cent of the housing stock. In the last ten years nearly 60,000 council houses and flats in Wales – about 18 per cent of the total stock – have been sold. And more council tenants are applying to buy their own homes today than at any time since 1981.

Private Housebuilding. The private sector is now building more homes in Wales than at any time since the mid 1970s. There were nearly 8,000 house completions in the private sector in 1987, an increase of 13.5 per cent on 1986.

More Choice and Better Services. The 1988 Housing Act establishes a separate Welsh housing corporation – ‘Housing for Wales’ (or ‘Tai Cymru’) – which will come into being in April 1989. It will carry forward the valuable work already done by the Housing Corporation in Wales. Since 1979 nearly 15,000 homes have been built or renovated by housing associations in Wales: this represents an average of 1602 per year compared with 440 per year under Labour. ‘Housing for Wales’ will receive 19 per cent more resources in 1989–90 than the Housing Corporation in Wales last year.

Rural Development. Over the last three years the Housing Corporation in Wales has devoted on average about a quarter of its resources to rural areas. This is a very substantial commitment given that only 12 per cent of the population of Wales live in rural areas. Indeed, in 1987–8 almost a third of homes provided by housing associations were in rural areas. Moreover, as the Parliamentary Under-Secretary of State for Wales, Mr Ian Grist, has emphasised: ‘Housing for Wales will devote a substantial proportion of its development programme to rural areas’ (*Hansard*, 5th December 1988, Col. 4).

The Priority Estates Project (PEP) has been a resounding success in Wales. First established in Wales in 1984, the PEPs have provided a better standard of service and improved the quality of life for many council tenants. The projects involve setting up management teams and local repair teams and encouraging tenants to play a part in running their estates. A recent report (‘PEP in Wales – A Review 1984–7’) found that the projects have led to increased tenant satisfaction, quicker repairs, shorter turnover times for reletting houses and increased rent income for the councils.

More Participation. Increasing choice and involving tenants in the management of their housing are central to Conservative policy. In May 1988 the Welsh Office announced the establishment of a Tenants Participation Advisory Service. It will be an independent adviser to both tenants and landlords and will give expert help and advice to enable them to make the most of the new opportunities created by the 1988 Housing Act.

(D) HEALTH

A Record of Commitment. A successful and growing economy, created by Conservative policies, has allowed the Government to increase spending on the NHS in Wales by about 40 per cent since 1979 – after allowing for inflation. This growth in expenditure is set to continue. Spending on health and personal social services will increase by £142 million in 1989–90, bringing the total to £1,315 million. This represents a cash increase of nearly 10 per cent. As Mr Walker said:

‘This total package will also make possible improvements in care for those with mental handicaps, the elderly and those suffering from mental illness. We will also be able to develop breast and cervical cancer screening, measures against AIDS and continue our promotion of a healthy life-style’ (Welsh Office Press Release, 21st December 1988).

Regrading. An additional £48 million has been provided in 1988–9 to meet the cost of the nurses' clinical grading structure.

Hospital Building. An enormous hospital and community health building programme has been carried out under this Government – costing more than £530 million at today's prices. Wales has been provided with a range of modern hospitals, such as Bridgend (£25.3 million), Morriston (£20.3 million), Wrexham (£17.4 million), and Bangor (£37 million). A new hospital is being built at Llanelli at a cost of £27 million. Community hospitals have been built at Mold and at Ystradgynlais.

Manpower. There are now more front-line staff than at any time in the history of the NHS in Wales. Compared to 1979 there are now:

- 13 per cent more nursing staff;
- 18 per cent more medical and dental staff;
- 14 per cent more registrars;
- and 27 per cent more consultants.

More Treatments. The NHS in Wales is now treating 99,000 more in-patients than in 1979 (an increase of 28 per cent, compared to an increase of 6 per cent under the last Labour Government); and 88,000 more out-patients (an increase of 21 per cent compared to a 3 per cent fall under Labour).

Better Services. Patient services have been substantially improved.

- There were 2008 hip replacement operations in 1987, compared to 1541 in 1979 – an increase of 30 per cent.
- The perinatal mortality rate has dropped from 15.6 per 1,000 births in 1979 to 9.2 in 1987.
- A sum of £1.157 million has been provided in 1988–9 in Wales to fight drug abuse – there has been a six-fold increase in such provision since 1985–6.

Kidney Treatment. The Welsh Office has pioneered the development of subsidiary renal units away from the main centres at Swansea, Rhyl and Cardiff. This has substantially increased the rate of new patients receiving dialysis in Wales. In 1979, kidney dialysis therapy was running at under 19 new patients per million of the population in Wales – the lowest rate in Britain. Now, more than 55 new patients per million are treated – the best in the UK and amongst the best in Europe.

Community Care. The Welsh Office has done a great deal to develop services within the community. Its Elderly Initiative brings new ideas and methods to the care of the elderly at a time when the number of old people in the community is increasing (£1.6 million has been allocated in 1988–9). The Welsh Mental Handicap Strategy, which was launched in 1983 to develop new patterns of service and prevent avoidable admissions to institutional care, is now admired internationally as being a leader in its field – a record £18.5 million has been allocated to it in 1989–90. The Welsh Mental Illness Strategy was launched last

year to bring similar improvements to the care of the mentally ill. As Mr Grist has emphasised:

‘In all these initiatives it is our aim to keep people in the community where they can live their lives as fully as possible with the help of family and social workers. Indeed, one of the main thrusts of our policy is to investigate the role of the community care outside our hospitals’ (Speech to the Welsh Conservative Conference, 17th June 1988).

Cancer Screening. A computerised call and recall service for cervical cancer screening is now in operation throughout Wales – and the age for such screening has been reduced to 20. A director has been appointed to organise the breast cancer screening service in Wales. The Government hopes the service will be available throughout Wales by 1990. £1.2 million has been allocated in 1988–9 to support its implementation.

Promoting Better Health. Wales is again leading the field when it comes to promoting healthier life styles. The Welsh Health Promotion Authority was set up in April 1987. £2.057 million has been allocated to it for 1989–90 – 15 per cent more than in 1988–9 and 70 per cent more than in 1987–8. The Authority has taken over responsibility for the highly successful Heartbeat Wales campaign. Responsibility for the AIDS programme and for matters relating to alcohol abuse, smoking, nutrition and exercise also falls to the Authority.

(E) EDUCATION

Raising Standards. As the Welsh economy continues to grow a skilled and well educated work-force becomes ever more essential. Levels of attainment have improved: by 1988 only 16 per cent of pupils in Wales left school without any GCE or CSE grades, compared to more than 25 per cent in the years up to 1980. The success of the new GCSE has been endorsed in a report by HMI Inspectors (*Some Aspects of Education Provision in Wales 1986–7*) which stated that ‘in most subject departments, the introduction of GCSE has resulted in an observable improvement in the quality of pupils’ experiences. GCSE Schemes ... have helped to provide better breadth, balance and relevance in pupils’ curricula’ (pp. 15–16).

Expenditure. These improvements have been supported by a record level of spending per pupil: after allowing for inflation, spending per pupil rose by nearly 28 per cent in secondary schools and by 21 per cent in primary schools between 1978–9 and 1986–7.

TVEI. The highly successful Technical and Vocational Education Initiative, which aims to widen the curriculum of 14–18 year-olds by relating their courses more closely to the needs of employers, is being expanded at a cost of £45 million. This should extend the scheme to every school and college in Wales by 1992.

The Business and Education Initiative was launched in May 1988 with three aims: to give 10 per cent of teachers a chance to gain business experience, every year; to give

every young person a minimum of two weeks' work experience before leaving school; and to ensure that every trainee teacher is taught to appreciate the needs of employers and the importance of school-industry links.

Higher Education. A total of £39.4 million is being devoted to local authority higher education in 1989–90 – a 7.7 per cent increase on 1988–9. More students are going on to higher education, as the Minister of State for Wales, Mr Wyn Roberts, has remarked:

‘There has been an enormous growth in student numbers in higher education since 1979. The growth has been most dramatic in local authority colleges; in 1979, there were 8,300 students in such colleges in Wales; last year, there were 13,700 students – an increase of over 60 per cent’ (Speech at Ysgol David Hughes, Anglesey, 22nd April 1988).

The Way Ahead. The Education Reform Act builds on these improvements further. There are specific provisions for Wales:

- For the first time Welsh will be given a statutory place in the curriculum. Welsh will be a core subject in those schools where more than half the subjects are taught wholly or partly through the medium of Welsh. In other schools it will be a foundation subject (except where an exemption is granted by the Secretary of State).
- A Subject Working Group on Welsh has been established to recommend appropriate attainment targets, programmes of study, assessment and testing to cover the diverse courses in Welsh which will be demanded in different parts of Wales. A similar group has been set up to make arrangements for the inclusion of Welsh history in the National Curriculum.
- A Curriculum Council for Wales has been set up to keep all aspects of the curriculum under review, to give advice to the Secretary of State on matters concerning the curriculum, to recommend and carry out research and development connected with the curriculum, and to publish and disseminate information relating to the school curriculum in Wales.

(F) WELSH LANGUAGE

A Record of Commitment. Direct Government support for the Welsh language has increased by over 700 per cent in real terms since 1979–80. £4.6 million has been allocated for 1989–90 – a 40 per cent increase on 1988–9. The Government has given Welsh a statutory place in the school curriculum for the first time (see above) – an important vote of confidence in the language.

In December 1987 the Secretary of State set up a working group to advise him on the Welsh language. In July 1988 the group called for the establishment of a special board to co-ordinate the promotion of the language. The Secretary of State accepted the proposal.

The Welsh Language Board (Bwrdd yr Iaith Gymraeg). Reflecting the Government's commitment to a coherent and comprehensive language policy, the Board has been set the practical tasks of:

- developing voluntary codes of practice on the use of Welsh in the public and private sectors;
- advising on the use of Welsh in public administration;
- investigating complaints, and discussing such complaints with the parties involved and advising on practical solutions where possible;
- reviewing and reporting on grant supported activity;
- liaising with statutory and non-statutory bodies on language issues;
- advising the Secretary of State on matters relating to the Welsh language and considering specific issues referred to it by the Secretary of State.

Planning Regulations. A Welsh Office Circular issued in December makes it clear that policies which relate to the needs and interests of the language may be counted among the material considerations in planning decisions. The Circular stresses that where the use of the Welsh language is a component of the social fabric of a community its implications should be taken into account.

The Government's Vision. The enormous commitment given to the language is designed to allow it to flourish; it is not a mere rearguard action to ensure its partial survival. As Mr Walker has stressed:

‘My aim is to see that the 1990s is a decade in which the Welsh language is no longer thought of as a language under threat, but is respected throughout the world as a language which an ever increasing number of Welshmen can enjoy through the literature and the poetry that is part of the Welsh inheritance’ (Welsh Office Press Release, 20th July 1988).

A New Welsh Language Act? There have been calls for a new language act to replace the 1967 Welsh Language Act which established the principle of equal validity between English and Welsh (the Act sprang from the report of the Hughes Parry Committee on the Welsh Language, established by a Conservative Government in 1963). Now that the Welsh Language Board has been set up to examine ways of strengthening the Welsh language, it would be premature to bring forward new legislation. Committed supporters of a new language Act have welcomed the establishment of the Welsh Language Board. The former leader of Plaid Cymru, **Mr Dafydd Wigley MP**, called Mr Walker's decision ‘the most far-reaching ever made by a Welsh Secretary’ (*Daily Post*, 21st July 1988). The former Liberal Leader in Wales, **Mr Geraint Howells MP**, called the Government's initiative ‘a substantial step in the right direction’ (ibid.).

Public Support. The Government's policy has the support of the people of Wales, according to a survey conducted by Beaufort Research in September 1988. Of those polled, 67 per cent were in favour of the establishment of the Welsh Language Board with only 9 per cent against.

(G) LOCAL GOVERNMENT

Reform. Under the present discredited rating system, only 700,000 people in Wales pay full rates out of an electorate of 2.1 million. If the Community Charge had operated in 1988–9, with the current level of spending the average charge in Wales would have been £151 – considerably lower than the average for England. At the moment, 67 per cent of the cost of local authority expenditure in Wales comes from central Government, 19 per cent from business, and only 14 per cent from the domestic ratepayer.

1989–90 Provision. Current expenditure for 1989–90 has been set at £1,785 million, an increase of 8.8 per cent on current provision for 1988–9. Capital provision for 1989–90 has been set at £450 million, an increase of 8.2 per cent on 1988–9. This settlement will allow local authorities to work effectively, as **Mr Walker** said:

‘It is a realistic settlement which enables councils in Wales to contribute to the accelerating economic and social regeneration of the Principality. I am sure that they will do so in a responsible manner by keeping control of spending, budgeting for the low rate rises that are clearly attainable and continuing their encouraging progress towards greater efficiency’ (*Hansard*, 8th December 1988, Col. 448).

(H) OPPOSITION POLICIES

1. LABOUR PARTY

Despite gaining four seats at the General Election, the Labour Party recorded its second lowest vote in Wales since 1935. Since the election the Labour Party has found it increasingly difficult to deal with the obvious benefits brought to Wales by Government policies; it has become confused and divided.

Division. Last summer a remarkable row broke out when Mr Roy Hughes, a Welsh Affairs Spokesman of five years' standing, declared that he was ‘thoroughly dissatisfied’ with the performance of the then Shadow Welsh Secretary, Mr Alan Williams (*Western Mail*, 16th June 1988). Mr Hughes resigned in July and declared that the behaviour of Mr Williams was ‘essentially an exercise in ego building’ (*Western Mail*, 27th July 1988).

In the Shadow Cabinet elections, Mr Williams suffered a double snub: while he was defeated, his colleague and pre-decessor, Mr Barry Jones MP, was elected. This left Mr Kinnock with little choice but to relieve Mr Williams of the Welsh portfolio in favour of Mr Jones. But this did not end the division within the Welsh Labour Group: **Mr Paul Flynn MP** attacked Mr Kinnock's decision and described the sacking as ‘a cruel and unjustified blow’ (*Western Mail*, 5th November 1988).

Calming Down. Mr Williams simply dismissed nearly everything the Government did. This approach merely discredited Labour's position as the evidence of economic success

spread throughout the Principality. Now **Mr Jones** has fundamentally altered Labour's tactics in Wales. He has said: 'We are not satisfied with the rate of progress, but we do know there have been achievements and where they have been to the benefit of our people' (*Western Mail*, 12th November 1988).

Confusion on Devolution. Lacking fresh ideas, many Labour politicians are trying to resurrect the dead issue of devolution. Over half the Welsh Labour MPs now support the establishment of a Welsh Assembly. The Welsh Labour Party Conference last year decided to launch a consultation exercise on devolution.

For a time Mr Kinnock tried to resist the mounting pressure for devolution (see below). His line was in accordance with the 1987 Welsh Labour Manifesto which stressed the importance of maintaining the unity of the United Kingdom, promising that 'change in Wales will proceed in step with the leading regions of England' (*Wales Will Win*, p. 7). However, the demand for a commitment to devolution grew following the Govan by-election. Mr Jones, the Labour Spokesman, refused to be rushed: 'I think it is very early days to link Govan and Wales on the subject of devolution' (*Western Mail*, 18th November 1988). But that did not stop Mr Hattersley stating that Wales will be provided with an assembly 'if it is the wish of the nation' (*Western Mail*, 31st December 1988). In a second speech he said quite firmly that Wales would be given an assembly (*The Guardian*, 1st February 1989). Mr Hattersley's increasingly pro-devolution remarks were welcomed by Plaid Cymru's Chairman Dr Dafydd Huws (*Western Mail*, 21st January 1989). In the end Mr Kinnock, once the arch-critic of devolution, succumbed.

Like the other opposition parties, Labour has made no commitment to hold a referendum before introducing devolution – which is hardly surprising given that Wales voted four to one against in 1979.

Mr Kinnock and Devolution. In his October 1974 election address, **Mr Kinnock** promised that:

'We will meet the genuine demands for new democratic developments with an elected Welsh Assembly'.

Yet he passionately opposed the last Labour Government's devolution proposals. He accepted that there was no significant support for devolution:

'Can we as socialists, as democrats, can we as trade unionists and Labour Party supporters put our hands on our hearts and say that we really do have the assent of the people of Britain for this irreversible and monumental constitutional change? Can we really say that? We cannot say it' (Labour Party Conference, Blackpool, 28th September 1976).

He argued that devolution would 'smash beyond healing' the unity of Britain, and he rejected 'the ridiculous and defeatist idea that you can beat separatism by feeding it with a new parliament and a new nationalist administration' (*South Wales Echo*, 25th February

1978). Even last year Mr Kinnock argued that the needs of Wales would not be met 'if they divided the country and produced institutions with grand titles that were all dressed up with nowhere to go' (*Western Mail*, 1st July 1988).

Mr Kinnock's recent remarks represent a humiliating *volte-face*. He now insists that 'Wales will get devolution' (*Western Mail*, 28th January 1989). Although the precise form of devolution is yet to be determined, Mr Kinnock has emphasised that 'devolution is a distinct policy of merit in itself' (*ibid.*, 27th January 1989). It is clear that a Welsh assembly would follow the Scottish model where 'a power to tax if the assembly wishes to exercise it' will exist (*ibid.*). This stands in complete contrast to Mr Kinnock's previous view that if powers of taxation were devolved 'the fracture of the United Kingdom has begun' (*ibid.*, 11th January 1978).

Mr Kinnock claims – incredibly – that his position has been consistent, and that he only opposed the particular type of devolution offered in 1979. An editorial in the *Western Mail* has dealt effectively with this argument:

'Those who followed the (devolution) campaign will find it hard to recall any constructive alternatives offered by Mr Kinnock and company. Whether or not the Labour leader is trying to rewrite history is an exercise in semantics. However, the public perception is that Mr Kinnock has, certainly until now in Wales, steadfastly avoided the devolutionary bandwagon ...' (30th January 1989).

2. THE SLD

The outlook for the merged party in Wales is not promising: the 'Alliance' vote dropped by twice the average for the UK as a whole at the last election. **Mr Alex Carlile MP** has admitted that the SLD lacks credibility, adding: 'We will not achieve it by being merely middle-class, middle-income, middle-brow and middle-aged, although I am at least three of these things. We will have to be a much broader party' (*Western Mail*, 24th October 1988).

Devolution. The 1987 'Alliance' Election Manifesto proposed a Welsh Senedd with power to raise taxes and pass legislation (no referendum was promised). The SLD have not altered this devolution policy which provides for an even stronger assembly than that so decisively rejected in 1979. **Mr Geraint Howells MP** has said: 'You can't compare 1979 with anything. What the people of Wales were offered was more or less an insult. It was only an executive assembly with no powers at all' (*Western Mail*, 30th June 1988). So Mr Howells argues that the people of Wales rejected devolution in 1979 because it did not go far enough.

Divided on Nuclear Power. The SLD's policy of halting the development of nuclear power is openly contested by the Party's President in Wales, the former Labour and SDP MP, **Mr Tom Ellis**, who has argued that 'nuclear energy possesses over-whelming environmental advantages' (*Western Mail*, 17th August 1988). Mr Ellis spoke out against the Party's policy for a moratorium on nuclear power stations at the national Conference.

3. THE SDP

The SDP has only a very marginal position in Welsh politics. Its attempts to reach understandings with other parties have been spurned. The SLD rejected any attempt to strike a deal for the European elections. Initially Plaid Cymru seemed interested in some form of co-operation, but it has turned against the SDP because of the attacks made by Mr Geoff Drake, the SDP Chairman in Wales, on its campaign against the Community Charge.

Devolution. Last year Dr Owen outlined the party's qualified support for devolution:

‘We are still committed to Scottish and Welsh devolution. I think it is inevitable and right. I am very happy to move as fast as the Welsh people want it to move. But I think the pattern of devolution will be different in Wales to that in Scotland – not legislative and not as far reaching. Devolution in Wales causes deep ambivalence. We will see how it goes’ (*Western Mail*, 16th September 1988).

Mr Drake, however, is much less cautious. According to him, ‘the recent Govan by-election victory has given new momentum for the case for devolution in Wales’ (*Western Mail*, 5th December 1988).

Nuclear Power. The issue of nuclear power separates the SDP from the other minority parties in Wales. As Mr Drake has said, ‘while we recognise the hazards of nuclear power, we also recognise the long-term problems of dependence on conventional power’ (*Western Mail*, 3rd October 1988).

4. PLAID CYMRU

U-turn on Europe. Despite gaining an extra seat, Plaid secured a mere 7.3 per cent of the vote in 1987 – less than at any time since 1966. Plaid's President Dr Dafydd Elis Thomas **MP**, is trying to improve the party's fortunes by modernising its image. In particular, Dr Thomas has called for a stronger commitment to Europe (despite the party's outright opposition to the EC until 1984), arguing that the ‘European elections must represent nothing less than a historical shift in the role of the party ... Politically the replacing of Britain by Europe in the context of our campaigning must be thorough-going’ (*Western Mail*, 29th April 1988). This view has outraged many members such as Mr Cith ap Henri, the Party's Transport Spokesman, who has said ‘parts of the party are being swept along in a misplaced enthusiasm for the EEC, an organisation which is the death-knell of the language and the nation’ (*ibid.*).

Immigration. But it is the question of immigration which has really torn the party asunder. Dr Thomas has described calls for controlling immigration a ‘dangerous fantasy’, adding ‘we cannot on the one hand demand more inward investment to create employment and diversify the economy, and at the same time object to people moving in’ (*Western Mail*, 5th July 1988). The Chairman of Plaid's Swansea branch, Mr Jonathan

Edwards, retorted: 'By my reckoning only two people in the whole of Plaid Cymru agree with him' (*Western Mail*, 19th July 1988). Dr Thomas also caused uproar when he compared R.S. Thomas (the poet who praised the courage of the holiday-home arsonists) to the French National Front leader, M. Le Pen. The Party's Vice-president, Mr Dafydd Iwan, was reported to be so enraged with Dr Thomas' position on immigration that he did not know whether he could remain in the party (*Western Mail*, 5th July 1988).

As Dr Thomas manoeuvres for position, a hard-line nationalist backlash is distinctly possible. Mr Ned Thomas, a leading nationalist intellectual, has argued that 'the immigration question is so complex and desperate as possibly to be beyond the reach of a constitutional party to solve' (*Planet*, August/September 1988, p. 5). Others have questioned the party's adherence to constitutional methods. According to the sociologist and nationalist, Mr Glyn Williams 'we have seen ... how a political party once it is part of the constitutional process ... finds it impossible to say certain things. Plaid Cymru's patriotism, if not its nationalism, has collapsed. Now it is apparent that the best thing that could happen to the nationalism of Wales would be for Plaid Cymru to lose its three seats' (*ibid.*, p. 6).

The Community Charge. The Party's annual conference in October 1988 unanimously adopted a 'can't pay, won't pay' motion with party officials insisting that this did not necessarily involve breaking the law: support would be given only to those genuinely unable to pay. However, after the Govan by-election, this policy was changed by the Party's National Council in an attempt to imitate the SNP. A 'Committee of 100' will now lead a 'can pay but won't pay' campaign. So far none of Plaid's MPs has joined the Committee but Dr Thomas has kept his options open in the past:

'I am willing to support a campaign provided it is a mass campaign. I would support a mass action which is properly organised, but I do not support individual action' (*Western Mail*, 29th October 1988).

Nuclear Power. Plaid's conference in October passed a firmly anti-nuclear motion calling for the immediate closure of Trawsfynydd power station. Dr Thomas, whose constituency includes the station, thinks it ought to remain open as long as it remains safe – a stance which clearly puts him out of line with his Party. However, he has stressed that he opposes the construction of any new nuclear power stations. The Party's policy has been totally rejected by its Chairman, Dr Dafydd Huws, who has argued that nuclear power is the 'cleanest, safest and increasingly the most economical form of electricity generation' (*Western Mail*, 29th October 1988).

19. NORTHERN IRELAND

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(A) THE POLITICAL LANDSCAPE

1. INTRODUCTION

Following the Act of Union of 1801, the whole of Ireland became part of the United Kingdom. This situation lasted until 1921 when the country was partitioned; 26 counties seceded from the Union to form the Irish Free State (which became a Republic in 1949), while 6 counties of Ulster opted to remain within the United Kingdom and became Northern Ireland.

For the past century politics within the Province have been dominated by one overriding issue – the question of the Union with Great Britain. This is a clear expression of the different national aspirations of two communities representing two different traditions underpinned by religious differences. The Unionist majority – which consists of over a million Protestants and a significant number of the Province's 500,000 Catholics – sees itself as British and is determined to preserve Northern Ireland's present constitutional position. The Nationalist minority, however, which consists of the majority of Catholics sees itself as Irish and wishes, at some point in the future, to establish a sovereign united Irish State independent of Britain. Within the Nationalist community a small minority supports the aims and terrorist methods of the Provisional IRA.

It is the existence of two communities and the deep divisions between them that lies at the heart of the Northern Ireland problem and the so-called 'troubles'. Clearly, given the relatively small change in the ratio of Protestants to Catholics and the level of Catholic support for the Union, the two traditions will, for the foreseeable future, continue to determine the nature of the political debate in the Province. As a result, any attempt to achieve political stability within Ulster must be based on the need to reconcile the two communities. This formed the basis of the Anglo-Irish Agreement signed in November 1985.

2. NORTHERN IRELAND PARTIES

Northern Ireland retains a separate party structure from the rest of the United Kingdom and none of the mainland parties organise there (see below p. 485). Before the Anglo-Irish Agreement was signed, the distinctive feature of electoral politics was a battle among parties to command majority support *within* their respective communities.

On the Unionist side this was essentially an attempt by the Rev. Ian Paisley's Democratic Unionist Party (DUP) to supplant the Ulster Unionist Party led by Mr James Molyneux. Although this looked distinctly possible in the early 1980s, so far it has only occurred briefly in European elections and – by the narrowest of margins – in the 1981 District Council elections. However, the General Elections of 1983 and 1987 re-established the dominance of the Ulster Unionist Party.

Since 1985, the Ulster Unionists and the DUP have put aside their rivalry in order to unite in opposition to the Agreement (though this 'alliance' has come under frequent strain). As a result the two parties fought the 1987 General Election on a joint manifesto and did not stand against each other.

On the Nationalist side there remains bitter rivalry between the SDLP, led by Mr John Hume, and Sinn Fein. Before 1985 Sinn Fein attracted an increasing proportion of the Nationalist vote, giving rise to fears that it might become a serious electoral force. Since the Anglo-Irish Agreement was signed, however, the SDLP has increased its share of the vote both in the 1986 by-elections (where it gained Newry and Armagh from the Ulster Unionists) and the 1987 General Election (where it gained South Down from Mr Enoch Powell, though it failed to regain West Belfast from Sinn Fein). Sinn Fein's share of the Nationalist vote has fallen from 43 per cent in 1983 to 35 per cent in 1987.

Northern Ireland Elections 1983–7. The table below shows the relative strengths of the Northern Ireland parties at the General Elections of 1983 and 1987, the 1984 European elections and the 1985 District Council elections. The figures in brackets refer to the number of MPs, MEPs and councillors returned for each party.

	General 1983	European 1984	District 1985	General 1987
Ulster Unionist	34.00 (11)	21.5 (1)	29.8 (190)	37.8 (9)
Democratic Unionist	20.00 (3)	33.6 (1)	23.4 (142)	11.7 (3)
SDLP	17.90 (1)	22.1 (1)	17.6 (102)	21.1 (3)
Sinn Fein	13.40 (1)	13.3	11.8 (59)	11.4 (1)
Alliance NI	8.0	4.9	7.1 (34)	10.0
Others	6.7 (1)*	4.6	10.3 (40)	8.0 (1)*

* Mr James Kilfedder, Leader of the Ulster Popular Unionist Party. The Party has no formal organisation, does not recruit members and only functions in North Down.

The Ulster Unionist Party (or Official Unionist Party as it has been popularly styled in recent years) is today rather smaller than in the days when it governed Northern Ireland – which it did without interruption under the Stormont system from 1921–1972. Its MPs at Westminster took the Conservative whip until 1974, when they resigned it because of acute differences over policy. The Party's governing body – the Ulster Unionist Council – remains entitled to representation on the Central Council and Executive Committee of the

National Union of Conservative and Unionist Associations. It has not sent any representatives since 1986, in protest at the Anglo-Irish Agreement.

Traditionally, the Ulster Unionist Party has favoured a return to devolved government in Northern Ireland on the old Stormont model of majority rule. It has consistently opposed any return to the power-sharing arrangements between Unionists and Nationalists established by the 1973 Sunningdale Agreement.

Over the past few years, the Party has been beset by an argument between devolutionists and a growing number of integrationists (i.e. those who believe that Northern Ireland should be governed as closely as possible in line with the rest of the United Kingdom). It was the failure to resolve this argument which led to the formation of the separate Campaign for Equal Citizenship in 1986 by Mr Robert McCartney.

Recently the Unionist Party Leader Mr Molyneaux has adopted an increasingly integrationist stance – though he rejects the idea that national parties should contest elections in the Province. At the Party's annual conference last November – invoking the memory of the Unionist leader, Sir Edward Carson – he said:

‘Carson was unenthusiastic about home rule in any form and he consistently urged that if decentralisation was necessary, it should be done on the basis of parity within the United Kingdom. ... We are not going to veer from the heritage of our Carson Unionism’ (Portrush, 19 November 1988).

His approach is based on the policy document published in 1984, *The Way Forward*. This outlined proposals for administrative devolution, through the re-establishment of an upper tier of local government in the Province.

As far as the Anglo-Irish Agreement is concerned, little has come from Mr Molyneaux's hints, in May 1988, that he might be prepared to talk to the Taoiseach of the Republic of Ireland, Mr Charles Haughey. Instead he now proposes that an alternative to the Agreement is to be found in the Anglo-Irish Intergovernmental Council, established in 1981. As he has said:

‘Unionists could and would co-exist with the 1981 structure, but the 1985 Agreement was designed to face down and eradicate Unionism’ (Speech to the Friends of the Union, 29th October 1988).

This idea, however, was immediately castigated by the DUP Press Officer, Mr Sammy Wilson.

Mr Molyneaux's approach has also been criticised by a section of his own Party, led by the leader of the Unionists on Fermanagh Council, Mr Raymond Ferguson. He proposed a motion at the November 1988 conference, supported by Mr Ken Maginnis, MP for Fermanagh and South Tyrone, calling on the Unionist leadership to have talks with constitutional Nationalists, but this was heavily defeated. In addition, Mr Maginnis has

rejected integration and called for devolution with 'shared responsibility' and a redefinition of Ulster's position within the Union.

The Democratic Unionist Party has been traditionally the more militant and hard-line of the two main Unionist Parties. It was founded in 1971 by the Rev Ian Paisley with the object of being 'right wing in the sense of being strong on the constitution, but to the left on social policies' (quoted in W. D. Flackes, *Northern Ireland: A Political Directory* (1983), p. 76).

Despite a brief flirtation with integration in the early 1970s, the DUP is firmly committed to devolution based on majority rule. In his speech to the DUP's most recent annual conference in September 1988, Mr Paisley suggested the election of an assembly to work out the future structure of government for Northern Ireland, which would then be put to a referendum. However, he has made it clear that a number of preconditions would have to be met before talks could take place, such as the suspension of the Anglo-Irish Agreement and the closing down of its Secretariat in Belfast (DUP Conference, 17th September 1988). Furthermore, despite his strident claims to be a Unionist, Mr Paisley has hinted that if the outcome of the conference were rejected by Her Majesty's Government then he would be forced to consider an independent Northern Ireland. As he has said:

'It would be the hardest possible option but, in the circumstances, our only option' (ibid.).

The Alliance Party was formed in 1970 by Unionists of a liberal disposition. It prides itself on being non-sectarian and on attracting votes from both communities. It has long stressed the need for reconciliation, which it believes can best be achieved by power-sharing. Its leader, Dr John Alderdice, has claimed that its latest policy proposals, published in September 1988, could produce a new settlement to replace the Agreement. He envisages an 85 seat assembly with an executive appointed by the Secretary of State. The executive would then take its place in a tripartite Anglo-Irish Council (*The Irish Times*, 15th November 1988).

However, the influence of the Alliance Party is limited by the fact that it only commands the support of between 8 and 10 per cent of the electorate. Over the last few years it has developed close relations first with the former 'Alliance' parties in Great Britain and now the Social and Liberal Democrats. Along with Progressive Democrats from the Irish Republic, the Alliance Party and the SLD plan to fight the European elections on a common manifesto. The two Parties have been urged to begin merger negotiations (*The Times*, 27th September 1988).

SDLP. Since the 1970s the Social Democratic and Labour Party has been the dominant voice of constitutional Nationalism in Northern Ireland. The Party has always made it clear that any devolved assembly must be based on the principle of power-sharing. In addition Mr John Hume, leader of the SDLP has been adamant that there can be no purely internal settlement in Northern Ireland but there must be an 'Irish dimension'. He has proposed an all-Ireland constitutional conference at which the subject under

discussion will be 'how we share this island to our mutual satisfaction' (*The Irish Times*, 28th November 1988). As an inducement to Unionists he has suggested a pre-conference meeting which would clear the way for the larger conference. While pursuing this strategy, Mr Hume has not seen any value in putting forward concrete proposals on devolution.

Mr Hume spent much of 1988 engaged in talks with the President of Sinn Fein, Mr Gerry Adams. The aim was to find ways of persuading the republican movement to call off violence. However, these talks ended in September 1988 with no sign of agreement between the two parties. Since then Mr Hume has reaffirmed his hostility to violence and the Provisional IRA:

'Leaders of Sinn Fein have been saying recently that their Nationalist nightmare has not ended. They are dead right because they and their military wing are the major part of that nightmare. ... It is they who carry out the greatest infringements of human and civil rights whether it is their murders, their executions without trial, their kneecappings and punishment shootings, their bombings of jobs and people' (*Irish Times*, 28th November 1988).

Sinn Fein. There is no distinction between Provisional Sinn Fein and the Provisional IRA. The IRA council usually has at least one member of PSF's Executive serving on it and leading Sinn Fein figures such as Mr Danny Morrison and Mr Martin McGuinness have an IRA background. Sinn Fein remains unequivocal in its support for violence. As its President, Mr Gerry Adams, has said:

'Sinn Fein and the IRA have the same objectives. The IRA is engaged in armed struggle. Sinn Fein would not only defend the IRA's right to wage armed struggle but have the job increasingly of popularising support' (*The Guardian*, 4th November 1983).

Until 1981 Sinn Fein relied solely on the so-called 'armed struggle' but at its annual conference that year it decided to contest future local government elections (and subsequently decided to put up candidates for Parliamentary elections too). In November 1986 it dropped its policy of abstention from elections in the Republic of Ireland. However, the results of the General Election of February 1987 in the Republic represented a major defeat for Sinn Fein; it failed to win a seat in the Dail and its share of the vote was a mere 1.9 per cent. It remains committed to boycotting British institutions.

Sinn Fein's support for violence exists uncomfortably alongside its espousal of a form of community politics. It exploits the consequences of social and economic hardship in areas such as West Belfast, which the IRA has helped to create. Sinn Fein's ultimate aim is the establishment of a 32-county socialist republic in Ireland. It propagates the false analysis that the Northern Ireland problem is the so-called British presence and as soon as Britain withdraws politically and economically from Ulster a peaceful Ireland would emerge. Sinn Fein also shows contempt for the legitimate rights of Unionists. Its policy document, *Persuading the British – A Joint Call*, asserted:

‘we are restating the nationalist and democratic position that the Unionists have no right to maintain partition and the union in opposition to a national majority’ (*The Irish Times*, 19th September 1988).

Seeking Agreement on Devolution. Some form of devolution within the United Kingdom remains the form of government most likely to command widespread support throughout the Province. Of course, the problem so far has been to find agreement on the type of devolution that would prove generally acceptable. Legislative devolution is rejected by those Unionists who seek full integration with Great Britain. Nationalists represented by the SDLP wish to see devolution, but with an Irish dimension – because their ultimate objective is some form of united Ireland. It is the lack of agreement on devolution which has caused direct rule to last so long (it was introduced in 1972 and was only briefly interrupted by the power-sharing executive in 1974).

However, the Government continues to seek ways of breaking the deadlock. As Mr Tom King, Secretary of State for Northern Ireland has emphasised:

‘It is clear from the history of the past 15 years that lasting agreement on devolution is difficult to achieve. It requires adjustments on the part of everyone. Those adjustments will not be easy to make or make quickly. Nevertheless, I continue to believe that movement towards, or to, devolution would best serve the interests of all the people of Northern Ireland’ (*Hansard*, 29th June 1988, Col. 411).

(B) THE CONSERVATIVE APPROACH

1. THE GOVERNMENT OF NORTHERN IRELAND

Maintaining the Union. The Conservative Party has an historic commitment to the principle that Northern Ireland's constitutional status is a matter for the people of the Province themselves to decide. In every General Election since Northern Ireland was created, candidates representing parties supporting the continuance of the Union have won well over 60 per cent of the vote. As Dr Brian Mawhinney, Parliamentary Under-Secretary of State for Northern Ireland, has said,

‘Northern Ireland's status as part of the United Kingdom is thus based on the clearly expressed wish of the majority of the population, approximately two-thirds of whom see themselves as British in the same way as those in other parts of the United Kingdom’ (Philadelphia, 12th September 1988).

The Conservative Government of 1970–4 enshrined the Party's commitment to the Union in Section 1 of the Northern Ireland (Constitution) Act 1973, which states that:

‘In no event will Northern Ireland or any part of it cease to be part of ... the United Kingdom without the consent of the majority of people of Northern Ireland voting in a poll’.

Provision was also made – under the Northern Ireland (Border Poll) Act 1972 – for the wishes of the Northern Ireland electorate to be tested at intervals of ten years by a border poll. So far only one such poll has been held, in March 1973, and this recorded a majority of 97·8 per cent in favour of continued membership of the United Kingdom, though on a low turn-out of 58 per cent.

Consequently, Northern Ireland must continue to be governed as an integral part of the United Kingdom unless – at some point in the future – a majority decides otherwise. This is hardly likely, as Mr King has said:

‘I see no prospect of its [Northern Ireland's] situation changing at all. I believe that a majority will wish to remain part of the United Kingdom’ (Belfast, 4th November 1988).

The Prime Minister too, has made it clear that the position of Unionists is in no way under threat, as many of them like to believe,

‘The Unionist community, firmly loyal to the Crown and the United Kingdom, represent a proud tradition of devotion to the Union which everyone in these islands should respect. ... They have a right to feel secure about Northern Ireland's position in the United Kingdom’ (*Hansard*, 26th November 1985, Col. 749).

2. POLITICAL DEVELOPMENT

Direct Rule. The Government of Ireland Act 1920 established a separate Parliament for Northern Ireland, with legislative powers over local matters. Direct rule was first introduced in 1972 following the suspension of Stormont, and reintroduced in 1974, subject to annual renewal, following the collapse of the power-sharing executive. Under direct rule Parliament may legislate for Northern Ireland by Order in Council, and the separate Northern Ireland Government Departments (created under the 1920 Act) are subject to the control of the Secretary of State and five junior ministers at the Northern Ireland Office.

Devolution. Despite the fact that direct rule has now had to be renewed fourteen times, it is intended to be temporary. It is accepted that direct rule works reasonably well. However, it does not allow the elected representatives of Northern Ireland to decide policies for Northern Ireland. That is why the Government is seeking to re-establish a devolved administration which can reflect local concerns and priorities. Mr King has explained why devolution would be preferable to direct rule:

‘With every year of direct rule that passes it becomes ever clearer that the elected representatives of the Province lack adequate opportunity to participate in, and take responsibility for, decisions about the future of Northern Ireland. A devolved legislative assembly would offer people from Northern Ireland control over local services across the Province and real authority over, for example, priorities for education, industrial development, personal social services and the environment. Those are all matters for

which local elected representatives should take responsibility' (*Hansard*, 29th June 1988, Col. 411).

The Government has made it clear that any devolved administration would have to be widely acceptable to both sections of the Northern Ireland community in order to ensure political stability. (Majority rule on the old Stormont model would be unacceptable to Nationalists and would therefore be inherently unstable.) A devolved administration with cross-community support would contribute to reconciliation in Northern Ireland and isolate the terrorists and their supporters. As Mr King has said:

'One of the most important reasons for seeking movement towards devolution ... is that two traditions have to live together in Northern Ireland. Sectarianism has to be rooted out of the Province. It is no good political leaders criticising sectarianism on the streets when all too often the main political parties appear to be trapped within its confines and are not seen to be giving any leadership in working constructively together with the other tradition' (*ibid.*).

Integration. Within the Ulster Unionist Party integration has been increasingly favoured as a possible option for the government of Northern Ireland. It is argued that integration would lead to the defeat of terrorism as it would close the door for ever on the possibility of a united Ireland. Integrationists reject legislative devolution completely and believe that Northern Ireland should be governed as closely as possible in line with the rest of the United Kingdom from Westminster.

Specifically, they argue that, for administrative purposes, Northern Ireland should – like an English county or Scottish region – have two-tier local government. This could mean a regional council – with similar powers to a county council – at Stormont, and additional powers for Northern Ireland's 26 district councils. Furthermore, they believe that legislation at Westminster should be by Bill rather than Order in Council, and that as far as possible legislation for England, Wales, and Scotland should cover Northern Ireland. Many of them would also like to see a Grand Committee at Westminster on the model of the Scottish Grand Committee.

However, though it is supported by a large section of the Ulster Unionist Party, this option is not favoured among the other main parties. Successive opinion polls have shown that it would command very small support among the Catholic community. For example in an opinion poll published in *The Belfast Telegraph* on 4th September 1988, only 5 per cent of Catholics said integration was their preferred form of government for the Province. As Dr Mawhinney has said:

'I do not believe what is called integration would best serve the interests of the people of Northern Ireland not least because it would close the door on a devolved form of government. I believe also that there is no evidence that integration could achieve widespread acceptance. For that reason alone, I cannot regard it as the way forward' (*Hansard*, 7th July 1987, Col. 261).

Integration could lead to greater instability. For instance, it could appear to constitutional Nationalists that the British government refused to recognise their legitimate aspirations and that the only means to achieve change was through violence. In this way, by ignoring the aspirations of a significant minority of the population, Britain would be playing into the hands of the IRA.

3. IMPROVING THE PERFORMANCE OF LOCAL GOVERNMENT

Rooting out the Supporters of Violence. Sinn Fein's decision at its 1981 annual conference to put up candidates in future local government elections, represented a victory for the dual strategy outlined by Mr Danny Morrison, who, in a now infamous phrase said:

‘But will anyone here object if, with a ballot box in one hand and an armalite in this hand we take power in Ireland?’ (Quoted in W. D. Flackes, *Northern Ireland: A Political Directory*, p. 198).

At the subsequent local government elections in 1985, Sinn Fein candidates won 59 seats. Of these, no fewer than 11 had served long prison sentences for terrorist offences. Obviously, the presence in local government of convicted terrorists – from whichever community – causes widespread revulsion.

The Government responded to public concern by proposing in a discussion paper, *Elected Representatives and the Democratic Process in Northern Ireland* published in October 1987, that council candidates should be required to make a declaration against violence. The Elected Authorities (Northern Ireland) Bill, now before Parliament, introduces such a declaration. It is not an oath; it simply amends the existing form which council candidates sign before they are nominated.

Candidates at district council and Assembly elections will be required to subscribe to the following:

‘I declare that, if elected, I will not by word or deed express support for or approval of –

- a. any organisation that is for the time being a proscribed organisation specified in Schedule 2 to the Northern Ireland (Emergency Provisions) Act 1987; or
- b. acts of terrorism (that is to say, violence for political ends) connected with the affairs of Northern Ireland.

,

The declaration will be subject to civil procedure; electors, a council, councillors or a council will be able to take action in the courts against anyone believed to be in breach of

it. Anyone found guilty will automatically be disqualified from council office for five years.

The Bill also changes the present rules on disqualification for council office following a criminal conviction. At present, those sentenced to three or more months' imprisonment, without the option of a fine, are disqualified for a period of five years from the date of conviction. In future, such persons will be disqualified both while imprisoned and thereafter for five years from the date of discharge.

Explaining the Bill, Mr Richard Needham, Parliamentary Under-Secretary of State for Northern Ireland, said:

‘The declaration against terrorism is crucial to our efforts to bring about stability in local government in Northern Ireland. Councillors who openly support the bomb and the bullet threaten the effective working of the district councils. The declaration is designed to prevent them in the future from exploiting council office in this way and it will be enforceable. Support for terrorist activities in Northern Ireland is incompatible with the democratic process by which councillors are elected’ (London, 24th November 1988).

Bringing stability to local government is also a necessary pre-requisite both for devolved government in the Province and for the involvement of able young men and women in political life. As Mr Needham has said:

‘Local government needs able young men and women who start their careers in the political foothills of council work. But it is becoming increasingly difficult to attract candidates while the shadow of the gun hangs over the council chamber’ (*The Daily Telegraph*, 25th November 1988).

Extending the Franchise. The Elected Authorities (Northern Ireland) Bill also contains measures to extend the franchise for district council elections to ‘I’ voters. These are the 10,500 or so people, who are at present able to vote in ‘Imperial’ (i.e. Parliamentary) elections but not in district council elections as a result of a special residence requirement contained in legislation passed by the Northern Ireland Parliament in 1962. Such a restriction does not apply anywhere else in the United Kingdom. Although the rules have been widely perceived as discriminating against Nationalist voters, the change will benefit both sides (including a substantial number of servicemen's wives).

Other Proposals. Removing the supporters of violence from council chambers will not, of course, solve all the problems of local government in the Province. Consequently, in November 1988 the Government published a consultative paper on ways of improving the procedures of councils and councillors to promote greater stability, accountability and acceptability across the political spectrum in Northern Ireland.

4. THE CONSERVATIVE PARTY ORGANISATION

Historical Background. Before 1886 both Conservative and Liberal associations existed in Ulster, but that situation changed dramatically following the introduction in that year of Gladstone's first Home Rule Bill. Conservative and Liberal Unionists alike united in common hostility towards Home Rule, and began to see themselves first and foremost as Ulster Unionists. Conservative associations were quickly subsumed by the Ulster Unionist movement and Ulster Unionists began to organise themselves into a separate group – though not a party – in the House of Commons. The separate organisation was confirmed by the formation of the Ulster Unionist Council in 1905 and the establishment of devolved government in 1921 (though links between the Conservative and Unionist Party and the Ulster Unionist Party remained strong until the 1970s, see above p. 478).

In this way the separate party system arose out of the wishes of the Ulster people. They were not expelled from mainstream political parties, but devised a separate organisation as the best means of defending their interests. The continuation of the separate party system has often been seen as highlighting the major differences between politics in Ulster and in the rest of the United Kingdom. Politics in the Province remain dominated by the question of the Union with Great Britain, and this is reflected in the division of Ulster parties into Unionist and Nationalist.

The Campaign for Equal Citizenship (CEC) was formed in 1986 by Unionist supporters of integration who wished to persuade the major British political parties to organise in Northern Ireland. Led by Mr Robert McCartney – a former member of the Ulster Unionist Party Executive – CEC argues that the Northern Ireland electorate is effectively disenfranchised because it is unable to vote for a party which will form its government. In addition, CEC argues that the sectarian nature of local parties encourages political and religious divisions in the Province. However, such an analysis ignores the fact that local parties are a reflection of the wishes of Ulster people.

North Down Conservative Association. The most recent pressure for the Conservative Party to organise in Northern Ireland has come from a group calling itself the North Down Model Conservative Association. This was formed by some members of the CEC in June 1988; in November it applied for affiliation to the National Union of Conservative and Unionist Associations. After long and serious consideration by the Executive Committee of the National Union, it was decided to reject this application.

Reasons for Rejection. A number of arguments militated against acceptance of the North Down application. It is clear that North Down is not an isolated case; five more associations – Lagan Valley, South Belfast, East Belfast, East Londonderry and Strangford – are in the process of being established. If they were accepted a whole new Conservative area organisation would be needed in the Province. Yet, an opinion poll published by *The Belfast Telegraph* on 5th October 1988 suggests that it is unlikely that Conservatives would win any Parliamentary seats. But the entry of Conservative candidates could improve the chances of SDLP or Sinn Fein candidates being elected.

Most importantly, the North Down application had implications for the Government's policy in Northern Ireland. The Government's policy is to establish devolved government

in Northern Ireland with support throughout the community. However, the leading activists in the North Down association have in the past made it clear that they do not support devolution or the Anglo-Irish Agreement. They therefore are in disagreement with the two main aspects of a Conservative Government's policies towards their part of the Kingdom. As Mr King pointed out:

‘While dissent or criticism is obviously not unknown in the [Conservative] Party, it is hardly the basis on which to apply for membership. It really is not sufficient simply to claim to be Conservatives. Some real evidence of public commitment and support for the Government's main Northern Ireland policies is necessary’ (London, 9th November 1988).

5. THE ECONOMY

In recent years Northern Ireland's economy has suffered from two major problems. First, there has been the long-term decline in those industries – shipbuilding, agriculture, textiles and clothing – on which Ulster's economy was built up in the nineteenth century. Second, the terrorist campaign of the Provisional IRA, which dominates news coverage of the Province and distorts the picture which people elsewhere have of it, acts as a deterrent to new investment. These special problems have given Northern Ireland the highest unemployment rate in the United Kingdom.

Encouraging Enterprise. Against this background, the Government has introduced a number of measures to help rebuild Ulster's economy and create new jobs. For example, Mr Peter Viggers, Parliamentary Under-Secretary of State for Northern Ireland, announced recently expenditure plans totalling some £376 million pounds for 1989–90 in the areas of trade, industry, energy and employment. Of this, £127 million pounds will go to the Industrial Development Board (established by the Government in 1982) which provides financial assistance to companies wishing to set up or expand in Northern Ireland. It also has important programmes to improve competitiveness and to promote research and development, marketing and export opportunities. The Industrial Development Board has proved to be an outstanding success and in the past year has secured some £300 million of new investment. A further £32 million – the highest total ever – has been granted to the Local Enterprise Development Unit, which is responsible for the promotion and development of small firms.

These measures represent a substantial commitment to Ulster's economy. Mr King has outlined the Government's overall approach.

‘Our economic policy is to create the climate in which industrial businesses have the incentive to grow, and to give them every encouragement. ... We are not feather-bedding companies nor trying to shield them from world competition, but offering every encouragement and assistance to go and compete and win’ (Belfast, 30th September 1988).

Moreover, as part of the Government's range of industrial incentives, industrial premises pay no rates and capital investment attracts grants of up to 50 per cent. Given the Province's record of high productivity, good industrial relations combined with a skilled work-force, these incentives make Northern Ireland an increasingly attractive location for investment – especially at a time when there are shortages of skilled labour in the South-East. As Mr King has said:

‘My own view is that Northern Ireland now has the best opportunity it may ever have had for attracting new investment into the Province’ (*Hansard*, 29 June 1988, Col. 403).

Significantly, a number of companies have announced new investments in the Province recently. For example, in December 1988 the Industrial Development Board secured a £90 million investment from the French firm Montupet – the largest initial investment ever made by an overseas company in Northern Ireland. The project is expected to create around 1,000 new manufacturing jobs in West Belfast.

Privatisation. As part of its policy to promote enterprise and encourage competition, the Government announced in June 1988 plans to privatise the Harland and Wolff shipyard. Public ownership has not solved Harland and Wolff's problems: it has continued to make heavy losses and has become increasingly dependent on Government assistance. Between 1966 and 1975 (when the company was nationalised) it received some £60 million of public funds. Since 1975 it has received some £485 million, around £260 million of it in the past five years. In addition, since 1975 the work-force has fallen from 9,500 to just over 3,000.

The Government believes that the future of Harland and Wolff will best be secured by returning it to the private sector where it can operate on a commercial basis and its potential be fully maximised. As Mr King has said:

‘I passionately believe that through private ownership and by the private sector approach there is a better prospect of a brighter future than will ever come through a continuing dead dependence on public support and subsidy, which tends only to enfeeble and enervate companies’ (*Hansard*, 28th July 1988, Col. 617).

The Government's decision has been supported by the Board of Harland and Wolff and the Northern Ireland Chamber of Commerce.

At present, the Government is engaged in discussions with a number of companies who have expressed an interest in buying the yard. In addition, the Government has encouraged the management of the yard to develop its plans for a possible management/employee buy-out. No deadline has been set for the receipt of bids, but the Government is anxious to make progress as quickly as possible so that the future position of the yard can be secured.

As far as the aircraft manufacturer, Short Brothers, are concerned, the Government first announced in December 1984 that it was a candidate for privatisation. The Government's

object is to transfer the company to the private sector as a single unit. It has made it clear that particular importance will be attached to the terms and conditions which prospective purchasers are prepared to make in regard to issues affecting the long-term future of the company. So far, three firms – Bombadier, MBB and GEC/Fokker – have been asked to submit final proposals for the purchase of the firm.

The Government has also made clear its intention to privatise Northern Ireland Electricity, and as a first step has commissioned a study of how it might be achieved.

No Threat of Economic Withdrawal. It has been claimed by Labour – and some Northern Ireland politicians – that privatisation represents an economic withdrawal from Northern Ireland. Nothing could be further from the truth. Privatisation is a major element in the Government's economic policy for the whole of the United Kingdom, and the best future for all manufacturing industries lies in the private, not the public, sector. As Mr King has said:

‘The silliest remark of all is to suggest that because we want Northern Ireland industrial policy to follow the same lines as Great Britain and to gain the same benefits, that this is a policy of economic withdrawal’ (Belfast, 26th September 1988).

Unemployment. The greater buoyancy in the Northern Ireland economy during the past year has been reflected by a fall in the level of unemployment. It currently stands (December 1988) at 15.7 per cent of the work-force. The Province now has its lowest level of seasonally adjusted unemployment since January 1985.

Fair Employment. Despite legislation passed in 1976, one of the major problems facing the minority community is that those who belong to it are still two and a half times more likely to be unemployed than Protestants. Having published proposals in its White Paper, *Fair Employment in Northern Ireland* (Cm. 388, May 1988), the Government has now brought forward a new Fair Employment Bill, with the aim of combating *all* forms of job discrimination in Northern Ireland. A new Fair Employment Commission with wide powers will be established to promote equality of opportunity and investigate employment practices. A Fair Employment Tribunal will adjudicate on individual complaints of religious or political discrimination and enforce the Commission's directions (with powers to impose cash penalties of up to £30,000). The Bill also requires employers to monitor their work-force and take what action may be necessary to secure fair participation by both Catholics and Protestants. The Commission will provide employers with advice on how to broaden their range of applicants and to increase the numbers employed from under-represented groups.

As well as giving a fair deal to both Catholics and Protestants in employment matters, the Bill should benefit Northern Ireland by making it an even more attractive location for investment – especially from American companies which currently employ around 10,000 people in the Province. However, the Bill is not a response to the campaign of support for the so-called MacBride principles in the United States; the Government has always sought to tackle all forms of discrimination in the Province.

Public Spending. Despite the improvement in the Northern Ireland economy, the Province's special economic and social problems mean that it is still necessary to provide generous assistance from public funds. In the year 1987–8 public spending stood at some £4.9 billion. Further substantial increases will be made in the years ahead. Total public spending will rise from £5.5 billion in 1989–90 to £5.7 billion in 1990–1 and £5.9 billion in 1991–2.

These significant increases underline the Government's commitment to the Province. Spending on the Royal Ulster Constabulary will increase next year by some £30 million emphasising the Government's determination to combat terrorism. A further £24 million has been allocated to the Industrial Development Board; £78 million for Health and Social Services; and an extra £82 million for education.

Extra money has also been found for important local initiatives. In July 1988, the Secretary of State announced a £10 million grant for the 'Making Belfast Work' initiative. A further £55 million is to be allocated over the next three years. As Mr King has said:

'The Government is determined to make major inroads into the problems of the Belfast area and these sums will provide the essential frameworks for our efforts and those of others in the community who are working with us for improvements for all the people of the city' (Belfast, 30th November 1988).

Dramatic improvements have been made in the quality of life. The Northern Ireland Housing Executive has been particularly successful, especially in Belfast where the housing situation in the poorer parts of the city has been transformed. Northern Ireland's excellent network of roads has also been improved.

Northern Ireland's Subvention from Great Britain. High levels of public expenditure are made possible by the Northern Ireland subvention – that is the transfer of resources from Great Britain to the Province. In the financial year 1987–8 the Northern Ireland subvention was £1.57 billion.

6. EDUCATION

Raising Standards. Educational standards in Northern Ireland remain generally very high with a greater proportion of pupils achieving 'A' level passes than in England and Wales. However, more pupils in Northern Ireland leave school without a recognised qualification than in England and Wales. Consequently, the Government has published a discussion document *Education Reform in Northern Ireland – The Way Forward* (October 1988) setting out a number of proposals designed to improve further the quality of education. These proposals reflect closely the reforms for England and Wales enacted in the Education Reform Act 1988, including a national curriculum, testing, greater financial delegation to schools, open enrolment and the transfer of pupils to secondary education to be based on their records of achievement in primary school, including tests at ages 8 and 11.

Promoting Integrated Education. It is clearly in the long-term interests of Northern Ireland that more Protestants and Catholics should be educated together. At present most Protestants are taught in the state sector while most Catholics attend their own schools. However, there is an increasing demand among parents for schools to be integrated and the experience of Ulster's first integrated school, Lagan College – whose enrolment has risen from 28 when it opened in 1981 to over 500 – has shown how successful integrated education can be. Now, as part of the Government's education proposals, schools will be able to seek grant-maintained integrated status, so that children of all denominations can be educated together. Financial assistance will be given to new integrated schools in their early stages, and there will be a statutory requirement on the Government to promote integrated education. As Dr Mawhinney has pointed out:

‘The Government's fundamental position has always been to encourage integrated education where there has been a demand for it. Now, under the education reforms, the Government will take a more positive and supportive role. For the first time, there will be a statutory responsibility for my Department to foster the aims of integrated education’ (23rd November 1988).

Dr Mawhinney has made it clear that integrated education will not be forced on anyone who does not want it, but the Government's proposals reflect a growing trend in Ulster's schools.

(C) THE ANGLO-IRISH AGREEMENT

1. BACKGROUND

The Anglo-Irish Agreement – signed at Hillsborough Castle on 15th November 1985 – developed out of the unique relationship which exists between the United Kingdom and the Republic of Ireland. For example, there are no customs barriers between the two countries and Irish citizens living in the United Kingdom enjoy the same voting rights as British citizens. British citizens living in the Republic have enjoyed reciprocal rights since 1984.

The events which led to the signing of the Agreement began in December 1980 when Mrs Thatcher and Mr Haughey decided to hold regular Anglo-Irish summit meetings to consider the ‘totality of relations’ between the two countries. This resulted in the establishment of the Anglo-Irish Intergovernmental Council in 1981 at which meetings of ministers and officials can take place. Now, after the signing of the Anglo-Irish Agreement in 1985, the unique relationship between the two countries can be developed even further.

2. THE ANGLO-IRISH AGREEMENT: MAIN FEATURES

When the Government entered the negotiations with the Republic of Ireland which led to the signing of the Agreement, it had three main objectives: to reassure Unionists about Northern Ireland's constitutional status; to help the minority identify more closely with the institutions of Northern Ireland; and to improve cross-border co-operation between the United Kingdom and the Irish Republic. These objectives were – and remain – essential to the internal stability of Northern Ireland and the island of Ireland as a whole. The Agreement marked the full acceptance of them by the Republic of Ireland.

Northern Ireland's Constitutional Position. Although in the past the Irish Republic had accepted *de facto* Northern Ireland's status as part of the United Kingdom, it had been unwilling to recognise it in an international agreement. However, in Article 1 of the Anglo-Irish Agreement, the British Government gained from the Government of the Republic – for the first time – full legal recognition of Northern Ireland's right to self-determination. Both Governments now accept that ‘any change in the status of Northern Ireland would only come about with the consent of the majority of the people of Northern Ireland’ and that ‘the present wish of a majority of the people of Northern Ireland is for no change’.

This hardly represents a threat to the Union – as Ulster Unionists have suggested. On the contrary, they should recognise that Article 1 strengthens the Union.

Intergovernmental Conference. In order to help the Nationalist community identify more closely with the institutions of the Province and reduce their sense of alienation, the two Governments established the Intergovernmental Conference under Articles 2–8 of the Agreement. Through the Conference the Government of the Republic can put forward views and proposals on aspects of the administration of the Province which are of particular concern to the minority. Such areas include political matters; security and related matters; legal matters including the administration of justice; and the promotion of cross-border co-operation. The Conference is chaired by the Secretary of State for Northern Ireland, and the Foreign Minister of the Republic.

The Conference – which is served by a small secretariat in Belfast – does not have any decision-making powers nor does it give the Republic a say in the administration of the Province. There is no derogation from sovereignty; all decisions affecting Northern Ireland continue to be made by the Government of the United Kingdom.

As the **Prime Minister** has said;

‘This is not an agreement for the government of Northern Ireland. The government of Northern Ireland comes from the United Kingdom. So there is no change in that. It is an intergovernmental agreement to formalise some of the discussions that used to take place’ (*The Belfast Telegraph*, 17th December 1985).

Cross-Border Security Co-operation. Articles 6, 7 and 9 of the Agreement are designed to encourage greater co-operation in the fight against terrorism. Security matters are regularly discussed at meetings of the Intergovernmental Conference.

Other Features. The Agreement also deals with a number of other areas concerning Northern Ireland, such as support for devolution, economic co-operation, legal matters and the courts, and the creation of an Anglo-Irish Parliamentary body (the latter came into being in February 1989). (For a more detailed discussion of the Anglo-Irish Agreement, see *The Campaign Guide 1987* pp. 480–5.)

3. THE ANGLO-IRISH AGREEMENT: THREE YEARS ON

Security Co-operation. It is widely recognised that cross-border security co-operation between the Royal Ulster Constabulary and the Garda Síochána is now at its best ever. There is much greater contact between the two police forces which has led to improved co-operation in dealing with paramilitary racketeering and a better exchange of information than before the Anglo-Irish Agreement was signed. At the highest level, there are frequent meetings between the Chief Constable and the Garda. The commitment of the Garda to the common fight against terrorism has been demonstrated in a number of ways, but particularly by the number of arms caches which it has discovered in the Republic over the past two years. Mr King has stressed just how vital this is:

‘We face a serious threat in Northern Ireland at the moment which is considerably enhanced because of the new involvement of weapons which it is believed, on good grounds, come from Libya. The threat is clearly not just to Northern Ireland, but to the whole island of Ireland. In those circumstances, the closest co-operation with the Government of the Irish Republic is absolutely essential’ (*Hansard*, 25th February 1988, Col. 427).

Anglo-Irish Relations. The Intergovernmental Conference has proved to be an effective forum for discussing matters relating to Northern Ireland and Anglo-Irish relations in general. The Conference usually meets at frequent intervals and either Government may call for an emergency meeting. So far security issues have dominated the meetings, although other matters – such as the administration of justice and fair employment – are frequently discussed. Under the terms of the Anglo-Irish Agreement ‘determined efforts’ are to be made to resolve any differences between the two Governments.

Extradition. Since the Anglo-Irish Agreement was signed, the issue which has caused the most difficulties between the two countries has been extradition. Although the Irish Parliament ratified the European Convention on the Suppression of Terrorism in December 1987, it also passed the Extradition (Amendment) Act which made extradition from the Republic to the United Kingdom more difficult than before. However, at the time, the Irish Government gave assurances that if the Act proved unworkable it would be reviewed. In the light of the McVeigh and Ryan cases the British Government has asked the Irish Government to review it so that satisfactory extradition arrangements can be established.

Administration of Justice. Concern continues to be expressed by politicians in Ulster about the use of non-jury Diplock Courts to try terrorist offences in the Province. They argue that three judges should preside instead of one as at present and that this will boost Nationalist confidence in the administration of justice. The Government does not see the need for any change. Diplock Courts maintain the highest standards of justice, and conviction rates are roughly the same as in the ordinary criminal courts.

Position of Nationalists. A number of measures have been introduced – though not all stemming from the Agreement – which have increased the confidence of the Nationalist community in the institutions of Northern Ireland. They include the repeal of the Flags and Emblems Act (which gave special protection to the Union Flag); the establishment of an independent commission for police complaints; the Fair Employment Bill, the extension of the franchise for assembly and district council elections; the establishment of the International Fund for Ireland; and the publication of an RUC code of conduct. The improvement in the position of the minority has been noted by Dr Garret Fitzgerald, the Irish Prime Minister when the Agreement was signed:

‘The major fact about the Anglo-Irish Agreement today is that ... greater progress has been made in convincing the nationalist minority that they and their children have a future in their own land than happened for decades previously’ (*The Times*, 7th October 1987).

Position of Unionists. Despite the guarantee given in Article 1, Ulster Unionists continue to oppose the Agreement. However, Unionist opposition has altered radically since the initial ‘Ulster says no’ campaign and the partial boycott of Westminster. Following the General Election of 1987 a series of ‘talks about talks’ took place between the two Unionist leaders, senior officials of the Northern Ireland Office and the Secretary of State. These talks ended in May 1988. During the course of the discussions the Unionist leaders presented their ‘outline proposals’ for devolution which both the Prime Minister and the Secretary of State found constructive. Mr King has called for further talks, although the Unionists have yet to respond positively.

4. REVIEW OF THE AGREEMENT

Article 11 of the Anglo-Irish Agreement states that:

‘At the end of three years from signature of this Agreement, or earlier if requested by either Government, the working of the Conference shall be reviewed by the two Governments to see whether any changes in the scope and nature of its activities are desirable’.

The review process is now well under way; at the moment it is being carried out by senior officials from both countries. Ministers will be directly involved at a later stage. Mr King has invited comments from all the Northern Ireland Parties and the Northern Ireland Spokesmen of other Parties in the House of Commons. In an effort to include Unionists in the review process Mr King has said that he is willing to consider proposals

which go wider than the terms of reference in Article 11, although Mr Molyneux has so far rejected this suggestion.

(D) SECURITY

1. TERRORISM

The Provisional IRA is the main terrorist group in Northern Ireland, and represents the greatest threat to security. It believes that by carrying out a protracted terrorist campaign (the 'long haul' as it is referred to in republican circles), it can force the British Government into a political and military withdrawal from the province. The IRA's main targets remain members of the security forces and those whom it regards as servants of the British state, such as judges and civil servants. But the events of the past two years – such as the Enniskillen Remembrance Day atrocity and the bombing of a school bus in Co. Fermanagh – have shown that the IRA has no inhibitions about the targets it is prepared to attack.

Every IRA atrocity achieves the opposite of its intention; it strengthens rather than weakens the Government's determination that its evil campaign shall not succeed. The **Prime Minister** reminded the 1988 Conservative Party Conference of the sheer futility of the IRA cause:

'If the IRA think they can weary us or frighten us, they have made a terrible miscalculation. People sometimes say that it's wrong to use the word never in politics. I disagree. Some things are of such fundamental importance that no other word is appropriate. So I say once again today that this Government will never surrender to the IRA. *Never*' (Brighton, 19th October 1988).

The IRA campaign is based upon a complete rejection of democracy and of the wishes of the majority of the people who live in the Province. As Mr King has said:

'The great fallacy is to talk about British withdrawal without stopping to accept who exactly the British are. There are 1 million Unionists who are British and intend to remain so and yet the whole republican case is to pretend either that they do not exist or that their beliefs are somehow easily set aside, and not as deeply held as Irish Republican views' (Belfast, 26th September 1988).

The IRA likes to propagate the idea that if the British Government were to embark on a 'withdrawal' from Ulster the violence would stop immediately and a stable Ireland would emerge. Nothing could be further from the truth. Ulster Unionists would refuse to enter into a united Ireland and would seek to establish an independent Northern Ireland; they would continue to be a focus for IRA attacks. Moreover, the IRA would turn its attentions to the overthrow of the Irish Government to which it is opposed. *The Green Book*, which sets out rules for IRA members, is unequivocal in its hostility to the Irish Republic:

‘The Irish Republican Army, [and] its leadership, is the lawful government of the Irish Republic; all other parliaments and assemblies claiming the right to speak for and to pass laws on behalf of the Irish people are illegal assemblies, puppet governments of a foreign power and willing tools of an occupying force’.

The IRA's concept of a united Ireland is a 32-county socialist republic, dominated by the IRA. As *The Green Book* states:

‘[A volunteer] should examine his political motives bearing in mind that the army are intent on creating a Socialist Republic’.

The consequence of withdrawing British troops from Ulster would be a civil war on an horrific scale throughout the whole of Ireland, which would inevitably involve Great Britain.

2. SECURITY POLICY

Ulsterisation. Since the late 1970s security policy in Northern Ireland has been based on giving local security forces an increasing share of anti-terrorist operations. This policy – known as Ulsterisation – has resulted in a dramatic shift in the respective contributions made by the various security forces. The number of regular army troops deployed in the Province has fallen from over 21,000 in 1972 to approximately 10,000 today, while the RUC has grown from around 3,000 in the early 1970s to over 12,000. During the same period the Ulster Defence Regiment – a force raised locally – has declined from nearly 9,000 to 6,500.

The chief responsibility for security now rests firmly with the RUC – a policy referred to as ‘the primacy of the police’ – and the UDR. A security co-ordinating committee, which is chaired by the Chief Constable of the RUC, directs day-to-day policy, and reports to the Secretary of State. The Regular Army is used to reinforce the local security forces and carry out covert surveillance. A particularly noticeable aspect of the ‘primacy of the police’ has been the gradual reduction in the number of army patrols within Belfast and Londonderry and their replacement by the RUC. Any army patrols within sensitive areas are now accompanied by a member of the RUC.

All the security forces operate within, and are fully accountable, to the law. In carrying out its duties, the RUC has shown itself to be a highly professional and impartial force, particularly in policing IRA funerals and ‘loyalist’ parades in the aftermath of the Anglo-Irish Agreement.

Standing Firm Against Terrorism. Following an increase in the number of terrorist attacks during 1988 – which included the murder of 8 soldiers in a bus bombing at Ballygawley, the murder by ‘mistake’ of 3 members of the Hanna family in Londonderry, the attempted murder of Sir Kenneth Bloomfield, head of the Northern Ireland Civil Service and a spate of bombings in Belfast City centre – the Government has been conducting a review of security. Already, a number of new measures have been

announced which – in addition to the existing Emergency Provisions Act – will greatly assist the security forces and the courts in the fight against the IRA.

Criminal Evidence Order 1988. For some time members of terrorist organisations have been trained to refuse to respond to questions put by the police during interrogation, and this practice is being increasingly adopted by those suspected of other crimes such as racketeering. The Sinn Fein publication *Republican News* regularly publishes articles entitled, ‘Interrogation – Whatever You Say, Say Nothing’. Both the RUC and the Police Federation of Northern Ireland have argued that this is a handicap in the battle against terrorism and consequently the Government has changed the law relating to criminal evidence.

Now, as a result of the Criminal Evidence Order 1988, a judge and court will be able to draw on whatever inference appears appropriate, when a suspect has chosen to remain silent in circumstances in which he might reasonably have been expected to proclaim his innocence.

Cutting Remission. The new Prevention of Terrorism Bill, now before Parliament (see p. 386), contains provisions to reduce remission for convicted terrorists from half to one-third of their sentences.

Broadcasting Ban. Action has been taken by the Home Secretary (see p. 368) banning members of, and apologists for, groups which support terrorism from television and radio. Mr King welcomed the move:

‘Anyone who knows Northern Ireland ... will be aware of the encouragement and support that organisations such as Sinn Fein and the UDA draw from being able to be projected directly into people's homes and having their message of violence being broadcast by the national media. The Home Secretary is right to say that the time has come to bring this practice to an end’ (19th October 1988).

Internment. Following the Ballygawley bus bombing a number of Unionist politicians called for the re-introduction of internment without trial. It was last introduced in August 1971 by the then Northern Ireland Government and finally phased out in 1975 by the last Labour Government. Since then, it has been Government policy to deal with terrorism as far as possible under the ordinary criminal law – a policy known as ‘criminalisation’. To introduce internment at present could actually assist the IRA since it would make propaganda out of the fact that the Government had set aside the normal system of justice. Internment would probably increase sympathy among the Nationalist community for the IRA who would be seen as freedom fighters. This is borne out by the experience of the 1970s when internment coincided with the worst years of terrorist violence. Moreover, to be effective, internment would have to be introduced in the Republic; this is unlikely at present.

Nevertheless, internment is kept under review and if there were to be a serious deterioration in the security situation its reintroduction would not be ruled out.

3. SECURITY STATISTICS

Since the present troubles broke out in 1969, 2,655 people have been killed as a result of terrorism to June 1988. Of these 573 were members of the army (including the UDR), 253 were members of the RUC or RUC reserve, and the remaining 1,829 were civilians.

The table below shows the pattern of terrorist violence from 1985, when the Anglo-Irish Agreement was signed, to the end of 1988. 1972 was the worst year for violence since 1969, and the most recent figures show the improvement in the security situation which has occurred since then.

	1972	1985	1986	1987	1988
<i>Deaths</i>					
Civilian	321	25	37	66	54
Army/UDR	129	6	12	11	33
RUC/RUC 'R'	17	23	12	16	6
Total	467	54	61	93	93
<i>Injuries</i>					
Civilian	3,813	468	774	780	560
Army/UDR	578	33	55	104	229
RUC/RUC 'R'	485	415	622	246	218
Total	4,876	916	1,451	1,130	1,007
Shooting Incidents	10,628	196	285	489	358
Explosions	1,382	148	172	236	253
Nos. charged with terrorist offences	531	522	655	468	439

(Source: Northern Ireland Office)

(E) OPPOSITION POLICIES

1. LABOUR PARTY

Official Policy. During the 1970s bi-partisanship existed between the Labour and Conservative Parties on Northern Ireland's position as part of the United Kingdom and the need to uphold the rule of law in the Province (it was the last Labour Government which introduced the first Prevention of Terrorism Act in 1974 and updated the Emergency Provisions Act in 1978). However, in 1981 Labour damaged the consensus when, at its annual conference, it voted to campaign for a 'united Ireland achieved by peaceful means on the basis of consent'. This policy was reaffirmed by Labour's NEC in 1987 and, together with a commitment to repeal the Prevention of Terrorism Act and the Emergency Provisions Act, formed the basis of Labour's 1987 Manifesto commitments on Ulster.

Northern Ireland has not formed any part of Labour's policy review since the General Election. *Social Justice and Economic Efficiency* did not include any reference to Ulster, although space was found for a lengthy section on South Africa, Namibia and the problems of other African countries. However, in September 1988 Labour published a new official document entitled *Towards a United Ireland – Labour's Plan for Peace*. It made no substantive changes of policy; rather it outlined a strategy for the implementation of existing policy. In particular it called for major reforms within Northern Ireland and greater harmonisation between Northern Ireland and the Irish Republic.

However, Labour's whole policy of achieving 'unification by consent' betrays a complete lack of understanding of the aspirations of the vast majority of the people of Ulster who are determined to remain within the United Kingdom, Mr Kinnock demonstrated his naivety about the position of Ulster Unionists in a radio interview, when asked about the possibility of achieving unification by consent;

'Now, people say well, of course, you'll wait forever. I think that there is such a yearning for normality amongst the huge majority of the decent people of Northern Ireland in both communities that there is an understanding that ultimately, because people on both sides feel Irish, that is a possibility' (BBC Radio, *Today*, 25th August 1988).

Labour insists that the unification of Ireland is the only means of achieving peace. *Towards A United Ireland* states:

'We recognise that the National Question and hence the Border, is central to the 'troubles' and that only the resolution of that question can bring peace' (p. 7).

Yet, as has been pointed out above (p. 000) the removal of the Irish border would *not* lead to a cessation of IRA hostilities. And it would do nothing to resolve the historic quarrel between Unionists and Nationalists which long predates partition.

Mr Kevin McNamara, Labour's Shadow Northern Ireland Spokesman, has expressed his ambition to be the last Secretary of State for Northern Ireland (*The Irish Times*, 3rd August 1988). He has opposed the Government's legislation to deal with terrorism, and has even denounced the Emergency Provisions Act passed by the last Labour Government as 'an obnoxious piece of legislation which is both unnecessary and counter-productive' (Press Release, 2nd February 1988).

The Hard Left. But Labour's official policy does not go far enough to appease the Party's hard Left – who actively campaign for British withdrawal.

- Miss Clare Short – who resigned from Labour's front bench to vote against the Government's new Prevention of Terrorism Bill – has said that 'the "unity by consent" formula that the Party uses, fudges on whether Ulster Loyalists have a power of veto over an all-Ireland democratic settlement ... I do not accept the

- legitimacy of the six county state or partition' (Labour Committee on Ireland, Conference Bulletin 1988, p. 1).
- Mr Tony Benn went so far as to introduce a Bill into the House of Commons in March 1988 – supported by a number of Labour MPs – to terminate 'Her Majesty's jurisdiction in Northern Ireland' by the year 1990.
 - In the aftermath of the Enniskillen bombing Mr Ken Livingstone accused the Prime Minister of going to the remembrance service 'to exploit that terrible tragedy' and of sitting in a Cabinet which 'covers up acts of horror by her own security forces' (*Campaign Group News*, February 1988).
 - In December 1988 over 40 Labour MPs defied the advice of the Party leadership to abstain and voted against the new Prevention of Terrorism Bill and the Elected Authorities (Northern Ireland) Bill.

(For further details of Labour's opposition to the Prevention of Terrorism Act and its links with republicans, see pp. 386–7).

Time To Go. In an attempt to seize the initiative from the Labour leadership and mobilise support inside and outside the Labour Party for British withdrawal from the Province, Miss Short has launched her own campaign called 'Time to Go'. She accused the Labour leadership of 'maintaining the status quo on partition whilst waiting for the permission of the Orange Order before we can move on to re-unification' (Labour Committee on Ireland, Conference Bulletin 1988). Mr McNamara however has at least made it clear that he is opposed to the 'Time to Go' campaign, believing that 'it would create a political vacuum, in which the paramilitaries would flourish' (*The Irish Times*, 5th August 1988).

2. THE SLD

The former 'Alliance' parties fought the 1987 General Election on a carefully worded Manifesto which avoided all reference to the extreme policies supported by members of the old Liberal Party. These included the reunification of Ireland, regardless of the wishes of the majority in Northern Ireland and an EC peace-keeping force to take over the security role in Ulster (both were passed by the Liberal Assembly in September 1983). Instead the 1987 Manifesto accepted that the constitutional position of Northern Ireland would not change without the consent of the majority, and supported a power-sharing assembly, recognising 'that both Unionist and Nationalist traditions have their legislative place'. The Manifesto did, however, call for the reform of the Diplock Courts and, in the long-term, a confederal relationship between the UK and the Republic.

Since the General Election, first the 'Alliance' and now the SLD and SDP have been very quiet on Ulster. Indeed the SLD's policy document *A Democracy of Conscience* does not refer to the Province at all. The Party has concentrated on strengthening its links with the Alliance Party of Northern Ireland (see above pp. 000–000); they will be fighting the 1989 Euro-elections on a joint Manifesto (along with the Progressive Democrats from the Republic). However the former Liberal Party's extremism on Ulster is not dead: Mr Simon Hughes MP has signed Miss Short's 'Time to Go' charter.

3. THE SDP

The SDP has neglected Ulster, though Dr Owen has made some well-publicised comments. Soon after the Ballygawley bus bombing in August 1988, he claimed that in order to improve security the border between Northern Ireland and the Republic should be sealed – despite the fact that this is generally considered an impractical proposal.

Furthermore, Dr Owen has been critical of the Anglo-Irish Agreement, saying ‘that on the crucial area of cross-border security, the return has been woefully inadequate’ (*The Times*, 26th August 1988). He has called for the Agreement to be ‘recast’ and said that the Prime Minister ‘need not feel personally wedded to it’ (ibid.). Most recently, Dr Owen has jumped on the bandwagon of those campaigning for the mainland Parties to stand in Northern Ireland; he claims to be giving serious consideration to putting up candidates in the Province (*The Sunday Times*, 4th December 1988).

20. DEFENCE AND FOREIGN AFFAIRS

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(A) RESTORING RESPECT FOR BRITAIN ABROAD

1. A MODEL OF ECONOMIC SUCCESS

Britain today attracts greater respect abroad, and is able to exercise more influence in the world than for many years, because of the successful Conservative policies which have revitalised our economy. Britain's revival has not simply restored her status as a major economic power, but has made this country a model which is both admired and emulated throughout the world.

As the Foreign Secretary, Sir Geoffrey Howe, has observed:

‘Around the world our message that markets really work has become the established orthodoxy of the day. Whether in English or Chinese, in Russian or Japanese, the message is the same. The language of privatisation, of tax cuts, of free collective bargaining, of enterprise zones, of the abolition of price and exchange controls, of financial deregulation – all policies we pioneered – has become the ‘lingua franca’ of the new international economic order ... The world has become a huge market place for the export of our ideas. And with that has come renewed confidence and credibility for Britain in its dealings with other countries around the globe’ (*The Conservative Revival of Britain*, Conservative Political Centre, October 1988).

2. A CHAMPION OF COMMON SENSE

Britain is in a uniquely influential position in world affairs. It is the only country which is simultaneously a leading member of NATO, the Commonwealth and the European Community – while also being a permanent member of the United Nations Security Council.

The policies endorsed by successive annual economic summits of the Group of Seven leading Western powers reflect the British agenda – for example, free market economics, nuclear deterrence, and the fight against terrorism and drugs. As Sir Geoffrey Howe has said:

‘Examples of British leadership are to be found in Nigel Lawson's debt initiative for Sub-Saharan Africa, in Lord Young's initiative to bring more of world trade within the disciplines of the GATT, or in my own campaign for what I call disarmament in the agricultural subsidy war, so that protected over-production in the advanced world is diminished, and the third world is given a chance to develop an agricultural industry of its own’ (ibid.).

3. A STAUNCH ALLY IN NATO

Britain is the only member of NATO other than the United States which contributes to every level of the Alliance's defences, from strategic nuclear deterrence to the defence of Europe in the air, at sea and on the continent itself.

The Secretary of State for Defence, Mr George Younger, has stressed:

‘While the Conservatives remain in power, there can be no doubt about Britain's determination to make its full contribution to NATO, an alliance that has provided us with peace and security for forty years’ (Brighton, 11th October 1988).

4. STRENGTHENING THE WESTERN EUROPEAN UNION

The Western European Union (WEU) is a collective defence organisation which was founded in 1954 on the initiative of the then Conservative Government. Its membership has included Britain, France, West Germany and the Benelux countries. In recent years its importance has increased.

The organisation is significant for two reasons in particular. First, it provides a forum in which France, which is not a member of the integrated military structure of NATO, can take part in discussions about the collective defence of Europe. Second, it provides a means for strengthening the common European defence contribution to NATO. The European members of NATO already provide 90 per cent of NATO's manpower and artillery and 80 per cent of the tanks and combat aircraft in Europe, and 65 per cent of the major warships.

On 1st July 1988, Britain became the President of WEU for twelve months and in that capacity hosted the ministerial meeting of the organisation on 14th November 1988, at which a protocol was signed for the accession of Spain and Portugal to the WEU.

The WEU successfully co-ordinated common European naval patrols in the Gulf before the end of the Iran-Iraq war. Sir Geoffrey has said: 'we believe that a stronger and more active WEU will strengthen NATO as well. We see a role for the WEU in the protection of out-of-area [i.e. beyond Europe and the Atlantic] European security interests also' (*Hansard*, 25th November 1988, Col. 339).

(B) THE CONTINUING THREAT

Recognising Realities. The reform processes within the Soviet Union have been welcomed by the Conservative Government, and the Prime Minister has now met Mr Gorbachev twice in Moscow and twice in Britain. However, the Government recognises the continuing threat which the extent and power of Soviet weapons pose to the West. The Defence Secretary, Mr George Younger, has stressed that 'the West's need to maintain its security by preserving and modernising the structure, range and equipment of its forces will continue' (*Hansard*, 19th October 1988, Col. 916).

The Nuclear Shadow. The Soviet Union has deployed 1,385 Intercontinental Ballistic Missiles (ICBMs) compared to 1,000 deployed by the United States. The Soviet Union has 942 Submarine Launched Ballistic Missiles (SLBMs) deployed compared to 640 deployed by the United States (and 64 by Britain). And the Soviet Union is modernising its fleet of strategic bombers, of which it has 150 and the United States has 375.

Although the INF Treaty will result in the removal of the Soviet Union's current 4 to 1 superiority in nuclear warheads deployed on ground launched missiles with a range of

between 500 and 5,500 kilometres, the USSR will retain a more than 2 to 1 superiority in nuclear capable artillery pieces and a 15 to 1 superiority in short-range nuclear tipped rockets.

The Conventional Imbalance. The relative strengths of NATO and the Warsaw Pact in Europe from the Atlantic to the Urals are as follows:

	NATO (including France)	Warsaw Pact	Ratio
Total Soldiers	2,213,503	3,090,000	1:1.4
Main battle tanks	16,424	51,500	1:3.1
Anti tank weapons	18,240	44,240	1:2.4
Artillery pieces	14,458	43,400	1:3
Combat aircraft	3,977	8,250	1:2.07

(Source: *Conventional Forces: The Facts* (NATO November 1988))

Over the last ten years Warsaw Pact production of major weapons systems has consistently outstripped that of NATO:

Estimated Total Production 1977–86

	NATO (excluding France & Spain)	Warsaw Pact
Main Battle Tanks	11,550	28,900
Other Armoured Vehicles	19,150	48,800
Field Artillery, Mortars and Rocket Launchers	6,550	32,550
Tactical Combat and Interceptor Aircraft	6,750	9,400
Major Surface Warships	192	105
Attack submarines	64	67

(Source: *Statement on the Defence Estimates 1988*, Cm. 344–I)

Warsaw Pact arms production is by no means confined to the Soviet Union. Poland and Czechoslovakia between them produce many more tanks each year than Britain. Their output is now increasing and they are producing the sophisticated Soviet T–72 tank under licence.

The Continuing Soviet Build-up. Soviet defence expenditure is 50 per cent greater in real terms than it was in the early 1970s. It currently represents about 15 per cent of the USSR's GNP. This is more than twice as much as any NATO country and almost four times as much as the amount of Britain's GNP which is spent on defence.

The Warsaw Pact has expanded its land forces facing NATO from 165 divisions in the early 1970s to around 200 divisions. Over the same period it has deployed an additional 10,000 tanks and 15,000 artillery pieces while NATO has increased the numbers of its tanks and artillery only slightly.

Simultaneously, the Soviet Union has built an ocean-going fleet including four Kiev-class aircraft carriers, 60 destroyers, 30 missile armed frigates and 170 diesel-powered and 200 nuclear-powered submarines. A large Soviet aircraft carrier, possibly designed to carry conventional take-off and landing aircraft, is currently nearing completion. The Soviet Union is launching a new submarine every six weeks. Each day two new aircraft and eight new tanks are produced for the Soviet military.

The USSR is currently deploying many new strategic nuclear weapons systems, including the SS-25 mobile ICBM, the multiple warhead SS-N-20 and SS-N-23 SLBMs aboard the new Typhoon and Delta class submarines, and the AS-15 Air Launched Cruise Missile. Waiting in the wings are the ten warhead SS-X-24 ICBMs and the Blackjack strategic bomber. By the mid-1990s virtually the entire Soviet strategic nuclear force of the mid-1980s will have been replaced by newer modernised systems.

The Soviet Union has continued its extensive research programme into strategic defence and is modernising the only operational anti-ballistic missile system in the world (around Moscow).

Warsaw Pact forces are receiving large quantities of the new T80 tank, BMP-2 armoured infantry combat vehicle, Frogfoot ground attack aircraft, Hind attack helicopter and Fulcrum and Flanker fighters.

As Mr Younger has said:

‘We ignore the Soviet Union's military capability at our peril. Soviet leaders may have ceased threatening to bury capitalism, but they show no signs yet of throwing away the spade’ (*Hansard*, 19th October 1988, Col. 905).

Mr Gorbachev's Announcements. For years the West has been calling on the Warsaw Pact to reduce its massive superiority in conventional weapons. In his speech to the United Nations on 7th December 1988, Mr Gorbachev at last responded. He announced that by 1991 the Soviet Union would cut its armed forces by 500,000, and would withdraw 10,000 tanks, 8,500 artillery systems and 800 combat aircraft from Europe and Asia. These reductions are to include the withdrawal of six divisions numbering 50,000 men and 5,000 tanks from East Germany, Czechoslovakia and Hungary.

In January 1989 Mr Gorbachev announced that these cuts would involve a 14.2 per cent cut in Soviet defence spending. He said that of the 500,000 men to be withdrawn, 240,000 would come from the European front, starting in April 1989 (*The Independent*, 19th January 1989).

These are very significant reductions, and they were immediately welcomed by the Government. The **Prime Minister** said: 'we have welcomed the unilateral reductions in forces and armaments proposed by Mr Gorbachev as an important step towards securing a better balance of forces in Europe, in view of the Soviet Union's present overwhelming superiority' (*Hansard*, 8th December 1988, Col. 430).

However, the Soviet cuts must be set in context. They will merely reduce the existing Soviet superiority in tanks, for example, from approximately 3 to 1 to, at best, 2.5 to 1. The cuts will take the Soviet Union back to the levels of forces it possessed at the end of the 1970s – a decade of sustained increase in Soviet forces.

Mr Gorbachev announced in his speech that in future the Soviet Union will 'maintain our country's defence capability at a level of reasonable and reliable sufficiency' (*The Daily Telegraph*, 8th December 1988). He therefore implicitly admitted that, as the West has stated for many years, Soviet forces are currently far stronger than defensive requirements alone can justify. The **Prime Minister** has stressed, 'even after the reductions the Soviet Union will have 41,500 tanks compared with 16,500 for NATO, 35,000 artillery pieces compared to 14,000 for NATO. Therefore, there will still be a major asymmetry in the Soviet Union's favour' (*Hansard*, 8th December 1988, Col. 430).

The most appropriate means for NATO to respond to Mr Gorbachev's announcement is by tabling initiatives in multilateral arms control negotiations. It has already unveiled a radical new series of proposals (see p. 511 below).

(C) NUCLEAR WEAPONS: BRITAIN'S GUARANTEE OF PEACE

1. THE CONTINUING NEED FOR NUCLEAR DEFENCE

Nuclear weapons have helped to keep the peace in Europe for over forty years. Britain's contribution to the West's nuclear deterrent has existed for more than 35 years. Since the initiation of the programme for an independent British nuclear deterrent by the post-war Labour Government, each successive Government, both Labour and Conservative, has maintained and modernised that deterrent.

Nuclear weapons offer a deterrent capability which cannot be matched by any quantity of conventional weapons. No aggressor could ever consider the rewards of attack worth the risk of incurring nuclear retaliation. Even Mr Bruce Kent, Chairman of CND, has admitted, 'nuclear weapons may deter even a superpower from using nuclear weapons' (*Hendon and Finchley Times*, 30th January 1986).

While tens of millions of people died in two world wars fought with conventional weapons this century, and millions more have died in wars fought with non-nuclear weapons outside Europe since 1945, there has been no war between states armed with nuclear weapons. Indeed, the only state ever to have had nuclear weapons used against it (Japan in 1945) had no nuclear capability of its own.

A series of Gallup opinion polls has shown that a consistent two thirds of the British public believe that Britain should retain its nuclear weapons as long as the Soviet Union keep theirs (*The Daily Telegraph*, 25th October 1985, 15th November 1986, 29th May 1987 and Policy Research Associates Press Release, 19th November 1988).

2. BRITAIN'S NUCLEAR CONTRIBUTION TO NATO

NATO's strategy of flexible response requires a mixture of conventional and nuclear weapons to enable it to respond to any attack. The NATO Nuclear Planning Group, meeting at ministerial level in October 1988, reaffirmed that 'nuclear weapons will continue to make an essential contribution to NATO's strategy of deterrence for the foreseeable future' (Brussels, 28th October 1988).

Britain makes a number of very significant contributions to NATO's nuclear capability:

(a) *Britain's Independent Strategic Nuclear Deterrent*. Our Polaris (by the 1990s Trident) submarines are assigned to NATO, although the decision to fire their missiles is solely one for the British government to take. Together with the American and French deterrents, they ensure that a potential aggressor would have to be certain that three sets of national decision makers would not use nuclear weapons before it would risk aggression. NATO's Nuclear Planning Group has expressed its support and appreciation for the British contribution towards strategic nuclear systems which it sees as 'an essential element of the Alliance's deterrent posture' (ibid.).

(b) *Britain's Theatre and Tactical Nuclear Weapons*. Some British aircraft, ships and rockets are also capable of carrying nuclear weapons. These nuclear weapons, unlike Polaris or Trident, would not be targeted on the heartland of an aggressor. They are designed to be available, if required, to support British forces in the event of a war in Europe.

9 RAF strike attack squadrons of Tornado GR1 aircraft, and 2 of the Buccaneer, are capable of carrying free-fall British nuclear bombs as well as conventional weapons. Royal Navy Sea Harriers and Sea King helicopters and RAF Nimrod maritime patrol aircraft can carry nuclear depth charges, including US ones. The British Army of the Rhine has one regiment of Lance missiles and four regiments of artillery which are capable of firing nuclear warheads supplied by the United States.

The Government is currently considering whether to purchase or develop an air to surface missile to replace Britain's free-fall nuclear bombs.

(c) *Hosting American Nuclear Bases.* Britain also contributes to NATO's nuclear defence capabilities by providing bases for some American nuclear forces. American F-111 bomber aircraft, which are capable of carrying nuclear as well as conventional weapons, are based in East Anglia. American submarines carrying the Poseidon nuclear missile have a base at Holy Loch in Scotland.

The US Ballistic Missile Early Warning Radar System has an installation at Fylingdales in West Yorkshire. Finally there are Ground Launched Cruise Missiles deployed at RAF Greenham Common in Berkshire, although these will be withdrawn shortly under the INF Treaty. Those deployed at RAF Molesworth have already gone.

3. THE CASE FOR TRIDENT

Modernisation. The weapons carrying Britain's independent nuclear deterrent have had to be modernised several times over the last 35 years to ensure that the deterrent remains credible. In the 1950s a fleet of new V-Bombers was introduced by the RAF to carry Britain's nuclear bombs. In the 1960s they were replaced – under a Labour Government – by Polaris submarines of the Royal Navy once it became clear that these bombers could not be expected to penetrate Soviet air defences. In the 1970s the then Labour Government secretly spent some one billion pounds on the Chevaline modification of Polaris to ensure that these missiles could continue to reach Moscow.

By the 1990s the Polaris system will be obsolescent. The missiles and submarines will be worn out. Increasingly sophisticated Soviet missile defences will threaten the credibility of Polaris as a deterrent. In the 1990s, therefore, Britain must replace Polaris or unilaterally surrender its deterrent by default. In 1980 the Conservative Government chose the Trident system to replace Polaris.

The Advantages of Trident. In the 1990s Britain will replace its four Polaris submarines with four Trident ones. The Trident system will enable the Royal Navy to build on the twenty years of experience it has developed with Polaris.

Trident will offer some significant advances over Polaris. Because of improved maintenance techniques, it will be possible to guarantee that two out of the four submarines will be on patrol at any one time, one more than with Polaris.

Since Trident missiles have a much greater range than Polaris there will be far more ocean in which the submarines can hide. This helps to preserve the invulnerability, and thus the credibility, of the deterrent. Trident has always been a more cost-effective, invulnerable and credible deterrent for the 1990s than any other alternative.

A Minimum Deterrent. The Government has decided that each Trident submarine will carry 16 missiles, like each Polaris submarine. US Trident submarines carry 24 missiles

each. Furthermore, each Trident missile in British service will carry no more than 8 warheads, although the system is capable of carrying up to 14 warheads per missile.

Thus each British Trident submarine will carry a maximum of 128 warheads, against a theoretical possibility of 336. Britain will deploy far less than the maximum capability of Trident because ours is a minimum deterrent.

A British Deterrent. Though Trident missiles (like Polaris before them) are being purchased from the United States, the submarines and nuclear warheads are being built in Britain. To save money, Trident will be serviced at a facility in the United States, but the missiles only require servicing every seven to eight years – long enough to build servicing facilities in Britain in the unlikely event of the US withdrawing access to its facilities. Trident missiles will not require US assistance and information in order to be used. The decision to fire Polaris or Trident missiles would be entirely up to the British Government.

Over two-thirds – 68 per cent – of the cost of Trident will be spent in Britain. In 1990 the programme will provide 27,000 jobs in Britain directly and indirectly.

A Better Bargain. The latest (January 1989) estimate for the cost of Trident is £9.09 billion at 1988–9 prices. This is the third successive year that the estimate for the cost of Trident has fallen and the latest estimate is now 10 per cent – or some £1 billion – lower in real terms than the original 1982 estimate.

The £9 billion cost of Trident will be spread over 20 years – it will not cost £9 billion a year as some people appear to believe. On average it will represent only about 3 per cent of the British defence budget over the 20 years that it is being paid for – or about £450 million a year. Once Trident is operational and paid for, it is likely to remain in service for several decades, protecting Britain well into the next century.

No Impediment to Arms Control. Trident will pose no threat to East-West arms control. The United States and the Soviet Union have agreed in their Strategic Arms Reduction Talks (START) to exclude from consideration British and French nuclear weapons. Indeed, Mr Gorbachev has said, ‘let them increase ... and be further improved’ (Reykjavik, October 1986).

Although it will carry more warheads than Polaris in order to guarantee its effectiveness as a deterrent, Trident will still represent a smaller proportion of Soviet strategic warheads (even after a US-USSR 50 per cent cut) than Polaris did in 1970.

The Basic Choice. The first two Trident submarines, HMS Vanguard and HMS Victorious, are already under construction and will commence sea trials in the early 1990s. The first should come into service in the mid-1990s.

By the end of the next financial year (1989–90), some £3,246 million will have been spent on Trident. This represents more than a third of the whole cost. Even more will

have been committed in signed contracts. By the time of the next election little money would be saved by cancelling Trident. Labour's Defence Spokesman, Mr Martin O'Neill, has accepted this. He has told his colleagues 'they are deluding themselves if they believe that cancellation of Trident would release countless billions' (*Hansard*, 19th October 1988, Col. 918).

Any decision to cancel Trident would therefore not only reverse more than forty years of bipartisan consensus, but would also abandon casually a proven deterrent and billions of pounds of public money for no material gain.

4. MODERNISING NATO'S NUCLEAR FORCES

At a meeting of NATO's Nuclear Planning Group at Montebello in 1983, NATO Ministers agreed:

- to reduce NATO's nuclear warheads in Europe by 1,400. This has now been done, reducing NATO's stockpile in Europe to its lowest level for 20 years.
- on the need for improvements to maintain the responsiveness and effectiveness of remaining forces, which involves ensuring that they are kept up to date.
- to instruct the Supreme Allied Commander Europe to develop proposals to implement what Ministers had agreed.

Studies are still being conducted into the best means for keeping NATO's remaining nuclear forces up to date.

Following the INF Treaty, in December 1987, which bans all ground-launched nuclear weapons with a range between 500 and 5,500 km, NATO Ministers agreed at a Nuclear Planning Group meeting in The Hague in October 1988 that NATO's remaining conventional and nuclear forces 'will be kept up to date where necessary'. General John Galvin, Supreme Allied Commander in Europe, has stressed that 'modernisation is a fact of life ... in the modern world you have to update something if you are going to keep it' (*The Independent*, 12th December 1988).

In January 1989, Mr Gorbachev announced cuts in Soviet short range nuclear forces. While welcome, these do not match Western reductions in recent years. Since 1979, about 35 per cent of NATO's nuclear warheads in Europe have been withdrawn, reducing the total from 7,000 to 4,600. Sir Geoffrey Howe has pointed out that the USSR has 'a tremendous surplus' of these weapons (*Radio 4, PM*, 19th January 1989).

(D) STRENGTHENING OUR CONVENTIONAL DEFENCES

1. THE BOOST TO DEFENCE EXPENDITURE

The last Labour Government cut defence expenditure five times. Mr Kinnock rebelled against his Government to call for even deeper cuts (*Hansard*, 12th January 1977, Cols. 1479–80 and 1563). The 1979 Labour Manifesto promised yet further defence cuts. When the Conservative Government came to office, defence spending was at its lowest levels since the Korean War.

The new Conservative approach was seen immediately. From 1979–80 to 1985–6 the Government fulfilled a NATO commitment to increase defence spending each year by 3 per cent ahead of inflation. 95 per cent of this increase has been devoted to conventional forces – resulting in nearly £19 billion more for Britain's conventional forces than they would have received if spending had stayed at the levels inherited from Labour.

Britain's servicemen are now better paid than before, and the armed forces are receiving a steady stream of new equipment. The services will continue to benefit from the Conservative boost to defence spending for many years to come because many of the weapons ordered since 1979 have yet to enter service.

After the commitment to the annual 3 per cent increase in defence spending ended in 1986, the defence budget levelled off. But in 1988–9 it is still 18 per cent higher than it was in 1979. In his Autumn Statement in November 1988, the Chancellor of the Exchequer announced that real growth in the defence budget will resume in 1990. Over the next three years defence will receive an extra £1 billion a year, and by 1991–2 defence spending should be nearly 21 per cent higher in real terms than it was in 1979.

2. THE ROYAL NAVY

The Royal Navy remains the largest navy in Western Europe and the third largest in the world. It contributes 70 per cent of the ships available in the Eastern Atlantic and Channel with the ability to deploy overseas in time of war. The Armilla Patrol in the Gulf peacefully escorted British merchant vessels in the area for eight years. In the two years up to November 1988, over 1,000 merchant vessels were escorted. No vessel under British escort in the Gulf has ever been attacked.

Spending and Equipment. Since 1979 the Government has spent an extra £4 billion on the Royal Navy. It has ordered 64 major warships, worth more than £6 billion, and 75 naval combat aircraft. 25 warships are currently on order, including 3 nuclear-powered hunter-killer submarines, 4 Type-22 frigates, and 7 Type-23 frigates as well as 5 of what will be the most advanced class of mine hunters in the world.

A World-Wide Role. The Royal Navy continues to exercise and deploy around the world. In September 1987 20 warships and Royal Fleet Auxiliaries took part in the major NATO exercise Ocean Safari, and in November of that year some 39 ships took part in the largest British amphibious exercise since 1945 – Operation Purple Warrior.

Although the number of destroyers and frigates of the Royal Navy has declined since 1979, the Government remains committed to maintaining a fleet of around 50 of these

vessels. The latest frigates require less maintenance and manpower, and yet they have far more powerful weapons systems than those they will replace – so with these new vessels the Royal Navy will be stronger than ever before.

Frigates and destroyers are themselves only a part of Britain's total surface fleet, which together with our submarines makes up the balanced, powerful and modern Royal Navy of today.

In 1987 the Government authorised initial British participation in the NATO Frigate for the Nineties (NFR 90) project, and studies for the replacement of the amphibious assault ships Fearless and Intrepid. In 1988 3 Type-23 frigates were ordered.

3. THE ROYAL AIR FORCE

The RAF has been completely modernised since 1979, with the largest re-equipment programme for thirty years. Of the £19 billion extra that has been devoted to conventional forces since the Conservatives came to power, the RAF has received £8 billion.

285 Tornado aircraft have been ordered by this Government and 9 strike/attack squadrons have already been formed. The air defence variant is now entering service. 96 Harrier GR5 strike aircraft have also been ordered. These are now beginning to enter service.

Other aircraft ordered for the RAF have included 130 Tucano basic trainers, 7 E3 AWACS airborne early warning aircraft and 9 Tristar large transporter tankers.

Better pay and terms of service have helped reduce the annual number of pilots leaving the RAF by more than 20 per cent compared with the average under Labour.

In the 1990s the RAF will start to receive the European Fighter Aircraft, a highly agile combat plane fitted with the most advanced technology. It will replace the RAF's Phantoms and some Jaguars. It is being developed and built in collaboration with West Germany, Italy and Spain. A third of the work on all EFAs produced should be carried out in the UK.

4. THE ARMY

The British Army of the Rhine represents the largest contribution to NATO's defence of the continent made by any European country except West Germany.

The current BAOR peace-time strength of 55,000 will rise to 56,000 by the end of the decade. In the event of mobilisation the strength of BAOR would increase to over 150,000 through reinforcements from the UK.

New Equipment. The Government has spent over an extra £4 billion on the Army since 1979. 7 regiments of Challenger 1 tanks, 13 battalions of Warrior infantry combat vehicles and 10 battalions of Saxon armoured personnel carriers have been ordered. The Army will also be receiving in the near future the new SA 80 rifle, the high velocity Starstreak air defence missile, and the Multiple Launch Rocket System for the Royal Artillery.

Challenger 2 Tank. On 20th December 1988, the Defence Secretary, Mr George Younger, announced that Challenger 1 tanks now in service would be fitted with the improved CHARM gun and that Vickers Defence Systems has been given a £90 million contract to fund the development phase of the improved Challenger 2 tank, which will last to the end of September 1990. Mr Younger said: 'this will require it to demonstrate within the contracted time that Challenger 2 Mark 2 can meet the staff requirement and can be successfully developed and produced to the required standard so as to achieve the required in-service date, and at a price which the company has already offered us' (*Hansard*, 20th December 1988, Col. 283).

If the tank fulfills the precise criteria for performance and technical achievement which have been set out in the development contract, a production order for the Challenger 2, to replace the ageing Chieftain tank, will follow.

Increased Strength. An indication of the significantly increased strength of the Army since 1979 (produced by modernisation and the transfer of manpower from support to frontline posts) is that whereas BAOR had 8 armoured regiments in 1980 it will have 12 by the end of the decade.

Air Mobility Capacity. The Government has taken a number of steps recently to strengthen the air mobility capacity of the British Army of the Rhine. Following the successful conclusion of air mobility trials involving 6 Brigade in Germany, 24 Brigade converted to the air mobile role in April 1988. In addition to RAF Puma and Chinook helicopters, which continue to be provided in support of air mobility, a new Army Air Corps regiment consisting of anti-tank and utility Lynx and Gazelle helicopters, is to be formed as part of 24 Brigade. A troop transport version of the Anglo-Italian EH 101 helicopter is currently under development.

The Government has stressed repeatedly that both the helicopter and the tank have an essential role on the modern and future battlefield and that expenditure on both will continue to be substantial.

5. VALUE FOR MONEY

The Government's drive to maximise efficiency in the operations of the Ministry of Defence has been scoring notable successes:

- The proportion of service manpower devoted to 'teeth' as opposed to 'tail' functions has increased from 60 per cent in 1981-2 to 68 per cent.

- The Army's Lean Look programme aims to save 4,000 uniformed support posts by 1990. Half of them had been achieved by April 1988. The programme enables an increase in front-line capability without increasing total manpower.
- Since 1979 UK based civilian staff have been cut by 41 per cent – over 100,000
- The proportion by value of contracts let on a competitive basis rose from 35 per cent in 1983–4 to 53 per cent in 1986–7.
- Savings in the last year alone from competition have exceeded £100 million.
- The sale of surplus MOD land and buildings yielded £75 million in 1986–7 and is expected to yield well over £70 million in 1987–8. The target in both years was £64 million.

6. DEFENCE EXPORTS

Defence exports, aided significantly by the Ministry of Defence's Exports Services Organisation, are a major success story for British industry.

Defence exports have tripled in real terms since 1979; Britain is now the third largest defence exporter in the world. The net contribution of the defence equipment sector to the UK balance of payments is a surplus of over £1 billion a year.

In 1988, Britain secured a number of major export contracts. In July the Al Yamanah II agreement was reached with Saudi Arabia, under which Tornado and Hawk aircraft, helicopters, minesweepers, construction facilities for two airbases and training programmes will be supplied to the Saudi armed forces. The agreement is worth more than £10 billion and is the largest single defence exports deal ever signed anywhere in the world (*The Independent*, 9th July 1988). It is also Britain's largest single export order ever (*The Sunday Times*, 2nd October 1988).

In the course of the same year a £400 million deal was concluded with Jordan for the best-selling Tornado aircraft.

Britain's booming defence exports industry helps to maintain an estimated 120,000 jobs directly and indirectly in Britain.

(E) ARMS CONTROL

1. THE INF TREATY: THE PROOF OF THE PUDDING

The INF Treaty signed by President Reagan and Mr Gorbachev in Washington on 8th December 1987 was the first agreement in the history of arms control to remove an entire category of nuclear weapons. It bans all Soviet and US ground-launched nuclear missiles with a range between 500 km. and 5,500 km. It will result in the removal of 1,700 Soviet warheads which could have been targeted on Western Europe – *four times* as many

warheads as the West is obliged to remove. It also involves unprecedented verification procedures.

The Treaty completely vindicated the Government's decision to deploy Cruise Missiles from 1983. That decision was bitterly opposed by *all* other parties – so *only* the Conservative party can claim any credit for the INF Treaty.

Indeed, the Treaty embodies Soviet acceptance of the original NATO proposal – made in 1981 – for a ‘zero option’. As Sir Geoffrey Howe has said, ‘the treaty fully justifies, therefore, the decision to deploy Cruise and Pershing missiles in response to the Soviet SS-20. It bears impressive witness to the determination and unity of the NATO countries during seven long and not always easy years of negotiation’ (25th November 1987).

2. SETTING THE AGENDA

The Government's general approach to arms control is based on a recognition that it is a crucial element in NATO's policies to improve international security. Deterrence can be achieved at lower levels of armaments, but only if arms control agreements are fair to both sides and are subject to proper verification procedures.

When the Prime Minister met President Reagan at Camp David in November 1986, they drew up an agenda for the future of arms control. It comprised:

- an INF Treaty;
- a 50 per cent cut in US and Soviet strategic offensive systems;
- a global ban on chemical weapons.

They also emphasised that nuclear cuts would increase the importance of tackling the great disparities in the size of conventional forces in Europe. This Anglo-American agreement became the basis of the accepted NATO and superpower agenda.

President Reagan and Mr Gorbachev agreed to press ahead with these objectives at the Washington and Moscow Summits of 1987 and 1988 and President Bush has stated that fulfilling this agenda will be a major aim of his Administration.

A denuclearised Europe cannot be contemplated for the foreseeable future because only nuclear weapons can provide an adequate deterrent to war. **Mrs Thatcher** has made it clear: ‘I want a war-free Europe. A nuclear-free Europe I don't believe would be a war-free Europe. The nuclear weapons have kept the peace in Western Europe for 40 years’ (*The Guardian*, 19th February 1988). Chancellor Kohl of West Germany takes the same view, ruling out a third zero option to ban short range nuclear weapons in Europe because ‘that would be a decisive step towards the denuclearisation of Europe, which we do not want’ (*Financial Times*, 18th November 1988).

3. ARMS CONTROL AND THE BRITISH DETERRENT

The Government's position is that if the US and Soviet Union agree on very substantial reductions – well beyond 50 per cent – and Soviet defensive capabilities are not substantially increased, then it would consider the best way in which Britain could contribute to further arms control.

Both superpowers have agreed that it would be impractical at this stage to include the British, French and Chinese nuclear forces in their bilateral negotiations. Indeed, Mr Gorbachev said publicly at Reykjavik in October 1986: 'We decided today to withdraw completely the question of French and British missiles. Let them remain as an independent force, let them increase and be further developed'.

Britain's deterrent is a minimum deterrent. With Trident it will remain so because less than the full capability of the system will be deployed (see above p. 505) and because even after a 50 per cent cut in Soviet weapons Trident would still represent a lower percentage of the Soviet nuclear arsenal than Polaris did in 1970. It would therefore be difficult to reduce the size of Britain's deterrent force without prejudicing its ability to deter at all.

4. CONVENTIONAL ARMS CONTROL

Any reductions in nuclear weapons increase the importance of tackling the massive Soviet superiority in conventional weapons.

Britain was an active participant in the Mutual and Balanced Force Reduction (MBFR) negotiations between the countries of NATO and the Warsaw Pact. These were held in Vienna for 13 years up to 1988, but failed to make progress because the Soviet Union consistently failed to produce detailed and credible figures concerning its force levels.

It was agreed in Vienna in January 1989 that a new forum for negotiations on conventional arms control – the Conventional Forces in Europe (CFE) talks – would start in March 1989 under the auspices of the Conference on Security and Co-operation in Europe.

Nato's Initiative. In December 1988 NATO adopted a radical proposal for reducing conventional weapons on both sides of the Iron Curtain. This calls for a redress of the numerical imbalances which currently favour the Warsaw Pact – the only way in which a more stable and long term relationship with the East can be created. The proposals also encompass the deployment, stationing and readiness of forces.

NATO is proposing that the numbers of key combat systems, such as tanks, in Europe should be halved from present levels. The aim is a Europe in which the two Alliances

will have around 40,000 tanks between them, with 20,000 for each side, and with no one country allowed more than 12,000.

These proposals would eliminate the present major disparities in conventional forces, while still requiring both sides to reduce existing levels of forces. They offer a constructive and sensible framework for the negotiations ahead, and would, if accepted by the Soviet Union, significantly reduce both the fear and the likelihood of a war in Europe.

5. CHEMICAL WEAPONS

In the late 1950s Britain ceased production of chemical weapons and destroyed its existing stockpiles. In 1969 the United States ceased production of chemical weapons, but retained stockpiles which have steadily declined in military utility. The Soviet Union, however, continued to add to its massive stockpile of these weapons – which contains, on Western estimates, more than 300,000 tonnes of nerve gas alone. The Soviet Union has recently claimed that its stockpiles amount to 50,000 tonnes of toxic agents.

In 1987 the United States resumed limited production of chemical weapons. These new so-called ‘binary weapons’ contain two separate inert gases which only become dangerous when they are mixed at the time the weapon is fired.

The British Government supported this American decision to replace some of its existing stockpile with new binary weapons as an important and necessary incentive to the Soviet Union to negotiate seriously about its own chemical stockpiles, but Britain has no plans to resume production of chemical weapons nor to store US chemical weapons in the UK.

Britain's Key Diplomatic Initiative. Britain played a major role in the negotiation of the 1972 Biological Weapons Convention, which prohibited their development, production or stockpiling in quantities for which there is no justification. Britain is a guarantor of the Convention and has worked hard to strengthen it.

Britain has also been very active in efforts to secure a comprehensive, verifiable and world-wide ban on the production and stockpiling of chemical weapons, and the present Government has launched a number of initiatives in this area. Negotiations continue in Geneva.

Britain's own research into chemical weapons is entirely defensive, and, as a gesture of good faith, the Government invited the Soviet Union to send representatives to tour the Chemical Defence Establishment at Porton Down. A Soviet team did so in May 1988, and was given full access to the establishment. This openness was not, unfortunately, reciprocated when a British team visited the Soviet military chemical facility at Shikhany in July 1988. The British visitors were not permitted to see a facility which appeared to be part of the Shikhany complex.

On 7th June 1988 at the United Nations the Foreign Secretary proposed a three-point plan for chemical arms control:

- wider acceptance of the 1925 Geneva Protocol, which bans the use of chemical weapons;
- automatic UN investigation of allegations of the use of chemical weapons;
- a ban on the export of materials needed for chemical weapons to those countries which violate the Geneva Protocol.

These points were included in resolution 620, sponsored by Britain and passed by the Security Council.

In January 1989, the Soviet Foreign Minister Mr Shevardnadze told a conference in Paris on chemical weapons that the Soviet Union had ceased production of them and would shortly commence destruction of its existing stockpiles. Britain and the West immediately welcomed this announcement, but stressed that the Soviet Union was only promising to do in the future what Britain did thirty years ago. The United States already has a factory in operation to destroy its older chemical weapon stockpiles, while the Soviet Union has only now undertaken to construct such a plant.

The British Government has also stressed that the key to chemical weapons disarmament is effective verification agreed in a multilateral treaty, and that the objective remains an enforceable global ban on the production, stockpiling and use of chemical weapons.

(F) EAST-WEST RELATIONS

1. TOWARDS IMPROVED EAST-WEST RELATIONS

Britain's firm commitment to the Atlantic Alliance and the cause of freedom has been unquestionable since 1979.

It has been precisely because the Government's principles and beliefs have been so clear that Mrs Thatcher has been able to match her unique partnership with President Reagan with a successful working relationship with President Gorbachev. The Prime Minister has met Mr Gorbachev four times in four years (and a fifth meeting is to take place in April 1989). The two leaders have agreed to work towards a 40 per cent increase in Anglo-Soviet trade by 1990.

Britain has also taken the lead in efforts to improve relations with the other countries of Eastern Europe. The Prime Minister has been welcomed by enthusiastic crowds in Budapest, Moscow and Gdansk. The Foreign Secretary has visited every East European country since 1983. Sir Geoffrey has outlined the Government's policy:

‘We have approached relations to the East with a combination of realism, vigilance and an open mind and that approach has earned respect for its directness, relevance and actual effect’ (*The Conservative Revival of Britain*, CPC, October 1988).

The **Prime Minister** has explained the role of her Government in East-West relations:

‘I see Britain's role to be constantly looking for ways to increase contacts between East and West, to extend economic links and to promote understanding so that the Iron Curtain which descended on Europe after World War II can be lifted’ (*The Daily Telegraph*, 28th October 1988).

In September 1987, Mrs Thatcher set out seven priorities for the West in dealing with the Soviet Union:

- i. Western unity and strength must be preserved by firmness in negotiation.
- ii. The West should guard against attention being directed exclusively towards arms control.
- iii. Constant pressure must be exerted on the Soviet Union about human rights.
- iv. Every opportunity must be taken to give Soviet representatives a true picture of Western values and policies.
- v. Efforts to reach ordinary people in the Soviet Union through broadcasting should be maintained.
- vi. The peoples of Eastern Europe in particular should be cultivated by the West.
- vii. The West should always remember that Russia has been part of European history for centuries.

During her visit to Poland, **Mrs Thatcher** said:

‘President Gorbachev has spoken of building a common European house. But the only wall so far erected is the Berlin Wall which divides and separates. As so often when one wants to build a new house, you have to start by knocking a few walls down.

We want to see the barriers which have divided Europe for the last 40 years dismantled so that Poland and other East European countries can once again share fully in Europe's freedom and Europe's justice’ (*The Times*, 4th November 1988).

2. MR GORBACHEV'S REFORMS

The Government has consistently taken a balanced approach towards Mr Gorbachev. It was among the first Western governments to welcome *glasnost* (openness) and *perestroika* (restructuring). The **Prime Minister** has described them as ‘bold and courageous reforms’ (*The Times*, 4th November 1988). In a phone-in programme on the BBC's Russian service, Mrs Thatcher said, ‘I have great admiration for Mr Gorbachev and for the vigour with which he is pursuing his objectives’ (*The Times*, 12th July 1988).

The Foreign Secretary, Sir Geoffrey Howe, has said, 'I think it is not possible to exaggerate the mammoth scale of the task that faces President Gorbachev and his colleagues. They are challenging patterns set in the mould of history over centuries rather than decades' (*The Times*, 4th October 1988).

At the same time the Government has stressed that the Soviet leadership still has a long way to go before the human rights situation in the USSR becomes acceptable. The USSR is still a one party dictatorship, with restrictions on basic freedoms of speech, association, emigration and religion. It is still violating the human rights undertakings it agreed to in the Helsinki Final Act of 1975. Sir Geoffrey has noted 'the Soviet Union is not going to end up as a Western style democracy ... [Mr Gorbachev] wants to make the existing one party system more efficient, not to dismantle it' (*Hansard*, 25th November 1988, Col. 357).

Britain was only prepared, therefore, to agree to attend a human rights conference in Moscow in 1991 on the condition that the Soviet Union's record in these matters continued to improve.

(G) BRITAIN AND THE WORLD

1. DEPENDENT TERRITORIES

The Falklands. The Government remains committed to the defence of the Falkland Islands and to the right of self-determination for the Falkland Islanders. It has made it clear that it is ready to enter negotiations with Argentina on any subject except the sovereignty of the Islands, as soon as Argentina announces a formal cessation of hostilities.

The completion of the Mount Pleasant air base, which enables reinforcements to be flown into the Falklands swiftly should the necessity arise, has made it possible to reduce the size of the garrison on the Islands substantially. Consequently, the cost of defending the Islands has been steadily cut from a peak of almost £1 billion in 1983–4 to just over £120 million in 1989–90.

The Government's declaration of a Falkland Islands Conservation and Management Zone (FICZ) in October 1986 has proved very successful both in managing the fishing around the islands and in generating revenue for the Falkland Islands Government. Income from fishery licences is expected to top £9 million in 1988.

Hong Kong. The Government continues to work for a stable and prosperous future for Hong Kong, within the framework of the December 1984 Joint Declaration between Britain and China which confirms the transfer of the territory to China in 1997. Sir Geoffrey Howe has stressed that 'the territory ranks high in the Government's priorities and our responsibilities towards it are special' (*Hansard*, 15th July 1988, Col. 690).

The Hong Kong Government published a White Paper in February 1988, following its review of reactions to its November 1984 White Paper on representative government. The main change is the introduction of 10 directly elected seats into the 56 member Legislative Council of the territory in 1991. 24 seats are already indirectly elected. This decision has been generally welcomed in Hong Kong as an acceptable compromise between those who wished to introduce direct elections immediately and those who wished to move more cautiously.

Hong Kong will be governed after 1997 under the terms of a Basic Law to be promulgated in 1990 by the Chinese Government. Sir Geoffrey has pointed out that 'the British Government have the right to assure themselves that the principles embodied in the Joint Declaration have been faithfully implemented in the Basic Law' (*ibid.*). The Government has already suggested changes to the first published draft of the Basic Law.

Sir Geoffrey has reassured the people of Hong Kong that 'there is no question of us subordinating the interest of Hong Kong to some concept of an Anglo-Chinese relationship that excludes Hong Kong. On the contrary, far and away the most important component of the Anglo-Chinese relationship is our joint commitment to the success of Hong Kong' (*Hansard*, 15th July 1988, Col. 690).

Boat People. Since 1975 more than 130,000 boat people have arrived in Hong Kong from Vietnam. Britain has responded generously, admitting more than 20,000 refugees from Indo-China since 1975; 13,000 are Vietnamese boat people from Hong Kong. The United States has accepted more than 60,000, Canada nearly 20,000 and Australia about 6,000.

However, the number of boat people arriving in Hong Kong soared in the first half of 1988 to more than 9,000. This was nearly three times the number of arrivals in 1987, well over four times the number in 1986 and almost eight times the number of 1985. Furthermore, as Sir Geoffrey has observed, 'very few of the new arrivals were fleeing political or religious persecution. They were not genuine refugees under agreed international criteria' (*Daily Mail*, 17th October 1988).

Consequently, the Government announced that after 16th June 1988 Vietnamese refugees who cannot satisfy internationally determined criteria as political refugees will be sent home. But Sir Geoffrey explained that 'we decided that every genuine refugee – those fleeing political or religious persecution – who arrived in Hong Kong after that date would have an unconditional right to stay safely in the colony while waiting for resettlement' (*Daily Mail*, 17th October 1988).

In December 1988 the Government announced that it would accept a further 1,000 Vietnamese refugees from Hong Kong as Britain's further contribution towards solving the problem of the boat people. It is urging other Governments to match Britain's generosity.

2. THE UNITED NATIONS

Britain has been increasingly active at the United Nations in recent years. It took the lead in 1987 in reconvening for the first time in 15 years regular meetings of the Foreign Ministers of the Five Permanent Members of the Security Council.

In its capacity as chairman of this group, Britain played a key role in the drafting of UN Resolution 598, which led to the cease-fire in the Gulf War. It had already made a major contribution to stability in the waters of the Gulf by maintaining the Royal Navy's Armilla Patrol in the region since 1980. In the two years up to November 1988, warships of the Patrol successfully escorted more than 1,000 merchant vessels, more than all other Western navies put together. In the whole of its time on station no merchant vessel under escort by the Armilla Patrol was damaged by hostile fire.

3. SOUTH AFRICA

Clear Opposition to Apartheid. The official view of the Conservative Party has been summed up by the **Prime Minister** who has said:

‘I know how strongly I would feel if I were discriminated against because of the colour of my skin, and I therefore understand the anger and frustration felt by others. Apartheid is a repulsive and a detestable system; a deep affront to human dignity and basic human rights’ (Lagos, Nigeria, 7th January 1988).

How Change in South Africa should be Achieved. Explaining the Government's position, Sir Geoffrey Howe has said:

‘We wish apartheid to be brought to an end at the earliest possible date. We wish to see established in its place a non-racial society with democratic representative government and with proper safeguards for all minorities. That can be the only secure foundation of a prosperous South Africa, living in harmony with its neighbours. We wish those changes to be brought about peacefully, without violence, by dialogue and reform not by revolution. It would not help in any way to promote change of that kind if we were to implement policies that would ruin the South African economy, risk economic upheaval for South Africa's neighbours, fuel an explosion of mounting racial strife and tribal violence and risk possibly grave consequences for racial tolerance throughout the world’ (*Hansard*, 17th June 1986, Col. 922).

The Case Against Punitive Economic Sanctions. The Conservative Party does not support comprehensive, punitive economic sanctions against South Africa because:

- they would worsen the internal situation in South Africa, making the white population even more isolationist, polarising the races, and destroying the economy which all South Africans – especially the majority black population – depend upon;
- experience shows economic sanctions do not alter behaviour. Rhodesia was able to survive them for 14 years;

- they would cripple the economies of South Africa's neighbours and possibly provoke direct South African action against those neighbours;
- it has been estimated that at least 120,000 British jobs depend on trade with South Africa.

Sir Geoffrey has said:

‘Punitive sanctions would be ineffective in bringing an end to apartheid. They would make for economic stagnation in South Africa. But not for economic collapse. They would force white South Africans back into the laager, to retreat into self-reliance. This would not help peaceful change. Some prominent black South African leaders call for sanctions: others oppose them. But whatever the balance it is certain that ordinary black South Africans would suffer from sanctions’ (Speech to Royal Commonwealth Society, 17th May 1988).

British Sanctions on South Africa. Although the Government opposes comprehensive punitive economic sanctions on South Africa, Mrs Lynda Chalker, Minister of State at the Foreign Office has pointed out that ‘we have been scrupulous in implementing all the restrictive measures [on South Africa] which have been agreed in the Commonwealth, the Twelve [European Community Members] and the United Nations’ (*Hansard*, 17th November 1987, Col. 733).

British sanctions on South Africa currently include:

- a ban on the import and export of arms and paramilitary equipment to, and from, South Africa;
- the Gleneagles Agreement of 1977 which discourages sporting links with South Africa;
- refusal to co-operate with South Africa in the military sphere;
- a ban on the sale of oil to South Africa;
- a ban on the import of Krugerrands from South Africa;
- a ban on the supply of computers to the South African police force;
- a refusal to help South Africa's nuclear programme;
- discouraging scientific and cultural agreements except where these contribute to the ending of apartheid or have no possible role in supporting it;
- a freezing of official contacts and international agreements in the sporting and security spheres;
- the recall of British Military Attachés in South Africa and a refusal to accept new Military Attachés from South Africa.

These sanctions are intended to bring home to the South African Government the need for change. But the **Prime Minister** has explained that:

‘The Government does not believe that general economic sanctions would lead to peaceful change of the kind we all want to see. Indeed, there is a serious risk, which I seldom hear acknowledged by the proponents of sanctions, that they would increase

violence and bloodshed. Our objective remains an end to violence on all sides in South Africa and negotiations aimed at ending the evil system of apartheid' (Letter to Mr Neil Kinnock, 26th June 1986).

Opposition to Violence. The Government believes that solutions to South Africa's problems can only be found through peaceful negotiations. Thus it has condemned violence in Southern Africa from whatever quarter it comes, whether it be the South African Government or the African National Congress.

Positive British Measures. Positive measures taken by Britain to help improve the situation in Southern Africa include:

- over a billion pounds of aid to states bordering South Africa since 1980 and a commitment of £103 million in aid in the period 1986–90 as our share of EC projects;
- with our European partners, producing a stronger Code of Conduct to improve the wages and prospects of European companies in South Africa;
- military training and equipment to states bordering South Africa;
- direct aid to help black South Africans – £21 million of bilateral aid in the five years from April 1987 and a £3 million a year contribution to EC schemes.

The Way Forward. The Government's immediate objectives have been summed up by Mrs Chalker:

'We have argued consistently that the ANC should be unbanned and that Nelson Mandela and other political prisoners should be set free to create a climate for dialogue in the context of the suspension of violence from all sides' (*Hansard*, 17th November 1987, Col. 736).

4. THE MIDDLE EAST

Sir Geoffrey Howe has set out Britain's view on the problems of the Middle East:

'Our position is clear and consistent. We believe that the only answer is a negotiated settlement on the principles of security for all states and justice for all peoples in the region, including Palestinian self determination. An international conference still offers the best framework for negotiations' (*Hansard*, 25th November 1988, Col. 1344).

(H) OVERSEAS AID

The Government has a proud record of targeting overseas aid effectively where it is most needed. For example, in December 1988, the Government responded swiftly and generously to the earthquake in the Soviet region of Armenia. £5 million was granted to assist relief the day after the disaster. The money was used to fly food and medicine to the region. The Government also supplied earth-moving equipment and sent a team from

the London Fire Brigade with thermal imaging equipment (to help detect injured people beneath the rubble), plus a team of specialists in acute surgery and crush injuries.

The main points of Britain's record on overseas aid since 1979 are:

- In every year bar two since 1979, *Britain has matched or exceeded the United Nations target for one per cent of GNP* to be spent on official and private charitable aid combined.
- *Britain has the eighth largest overseas aid programme in the Western world* and the third largest in Europe.
- Britain's overseas aid budget *has increased in real terms since 1986*;
- In 1988–9 the overseas aid budget has increased by over £90 million, and spending plans provide for a further increase of £68 million in 1989–90, and £45 million in 1990–1, by which time the total will approach £1.4 billion every year;
- Britain's aid is better targeted than most: 80 per cent of our aid goes to the very poorest countries in the world, compared to less than 60 per cent for the aid of Western countries as a whole;
- Between 1983 and 1987 £253 million was sent by the British Government in response to appeals for emergency and refugee relief;
- Since 1983 two hundred new projects, each worth £2 million or more have been funded by Britain's aid programme. *The total value of these projects is £1,662 million.*
- Britain's aid budget includes major contributions to multilateral aid programmes run by international organisations such as the United Nations, the European Community and the Commonwealth: *In 1985 Britain made its biggest ever aid commitment – over £850 million – through the European Community under the Third Lomé Convention*;
- Over £260 million was provided by Britain to support economic policy reforms backed by the IMF and the World Bank, especially in Africa, between 1983 and 1987;
- Britain has converted £263 million of aid loans to 14 African countries into outright gifts as part of the Chancellor of the Exchequer's initiative to relieve the debt burden on countries in sub-Saharan Africa;
- Aid to Southern African countries increased by more than 20 per cent between 1986 and 1987 to almost £130 million;
- 88 per cent of British aid takes the form of grant – the best form of aid;
- British contributions to UNICEF in 1987–8 were almost 50 per cent higher after inflation than they were in 1979–80.
- *Britain's aid helps to benefit British companies and to create jobs in Britain:* between 1983 and 1987 it helped to secure contracts with a total export value of £1,082 million with aid and trade support.

Answering critics who question the Government's record on aid, Sir Geoffrey Howe has said: 'Our [aid] budget is one of the largest – and it's going up' (Brighton, 13th October 1988). The Government's contribution to overseas aid has been matched by a very significant and growing response by the British public. Encouraged by tax cuts and

greater incentives to give to charities introduced in successive Budgets, voluntary charitable donations have grown steadily in real terms under this government. Expenditure by British charitable bodies on overseas relief and development aid more than doubled from £67 million in 1983 to £139 million in 1987.

(I) OPPOSITION POLICIES

1. THE LABOUR PARTY

Undermining Britain's Defence. At the 1987 General Election, Labour's defence policy was to 'decommission the obsolescent Polaris system [and to] cancel Trident' and to 'inform the Americans that we wish them to remove their Cruise Missiles and other nuclear weapons from Britain' (*Britain Will Win*, Labour Manifesto 1987). The money 'saved' by cancelling Trident was to be spent on Britain's conventional forces.

During the election campaign itself, Mr Kinnock admitted that Labour's ultimate defence policy was 'using all the resources you have to make any occupation totally untenable' – in other words, to permit an invasion of Britain and then to harass the occupying forces with guerilla warfare (*Daily Express*, 25th May 1987). He also boasted that the election of a Labour Government would mean the scrapping of the Polaris deterrent 'within a couple of weeks' time' (*The Star*, 29th May 1987).

A Summer of Confusion. Since the Party's crushing defeat in that election, Labour has consistently failed to produce a defence policy which its own membership, let alone the country, could support. Mr Kinnock's contortions on the question in the summer of 1988 led to the resignation of his Shadow Defence Secretary and demonstrated that he is ultimately answerable to Mr Ron Todd of the TGWU on defence policy. (For a more detailed analysis of the internal debates within the Labour Party, see pp. 555–6).

The Failed Fudge. Meanwhile, Labour's official policy pronouncements swung decisively to the left.

In June 1988 the first year of Labour's two year Policy Review process was completed with the publication of a vague statement on defence: 'Labour welcomes the INF Treaty and the quickening pace in arms reduction negotiations between the superpowers. A Strategic Arms Reduction Treaty will have an impact on the Trident programme' (*Social Justice and Economic Efficiency*, p. 48).

At the Labour Party Conference in October 1988, a resolution was tabled which the Labour leadership strongly endorsed. In a classic fudge it called for 'a commitment to the total elimination of all nuclear weapons in the world to be brought about by steps of unilateral, bilateral and multilateral nuclear disarmament'. The motion's tone was more accurately reflected in its commitment to call for 'a halt to all nuclear tests' and its condemnation of Trident – which would together imply at least unilateral renunciation of

a replacement for Polaris – and its call for a plan for ‘alternative work for those employed in the armament industry’ – a threat to Britain's conventional defences.

Indeed, the Labour leadership made it clear in the debate on this motion that, even if it were to be passed, Labour's irresponsible position on defence would not in practice alter. Mr Gerald Kaufman, the Shadow Foreign Secretary, condemned Trident as ‘a costly and lethal folly’ (*The Independent*, 7th October 1988). He also said ‘the question is not whether a Labour Government would go non-nuclear. That is decided. It is our fixed policy. The question is not whether, but how, we go non-nuclear’ (*The Guardian*, 7th October 1988).

Labour's leaders had therefore never had any intention of changing the essentials of the unilateralist position that Britain's nuclear weapons should be given up *irrespective* of other events. Nevertheless, a motion backed by the leadership was widely (if inaccurately) seen as a multilateralist one, and its fate seemed likely to indicate whether the leadership or the union barons made Labour party policy.

Moving Ever Leftward. The motion was defeated – largely by the block vote of Mr Todd's TGWU delegation – by 3,277,000 to 2,942,000. Instead, the Conference endorsed by a convincing majority – 3,715,000 to 2,471,000 – a clear and unequivocal motion which reaffirmed ‘Labour's pledge to unconditionally remove all nuclear weapons and nuclear bases from British soil and waters in the first parliament of the next Labour Government’.

The motion also ‘calls upon the next Labour Government to abolish the Trident programme ... and use the monies saved by this cancellation to improve the welfare services of this country’. This moves Labour's defence policy even further to the left than it was at the General Election when the Party promised to spend any money ‘saved’ from cancelling Trident on Britain's conventional defences.

Finally, the Conference also passed – by a margin of 3,345,000 to 2,865,000 – a motion which reaffirmed the above commitments, and called for ‘arms conversion planning’ and for ‘a reduction in Britain's military spending initially to a level equal to the average of other West European countries’. This policy commitment would result in the destruction of Britain's successful defence export industries and produce swingeing defence cuts – of the order of £7 billion, *equivalent to cutting the defence budget by a third*.

Official Endorsement Labour's Deputy Leader, Mr Roy Hattersley, was as ever swift to blow with the new wind. Immediately after the vote he said: ‘We are not resisting the will of conference. There will be a non-nuclear policy and there can and must be a large element of unilateralism in it’ (*The Guardian* 7th October 1988).

Future Policy? Mr Tony Benn and Mr Jeremy Corbyn MP have founded the Campaign for Non-Alignment whose main objective is ‘to secure the withdrawal of Britain from the North Atlantic Treaty Organisation’. The campaign will be organising ‘an international

anti-NATO conference' in April 1989 to coincide with the fortieth anniversary of the founding of NATO.

Lack of Credibility. Labour's Defence Spokesman, Mr Martin O'Neill, has admitted that 'Labour is not seen as "serious" on the subject (of defence) by the British public' (*The Times* 9th January 1989) and has conceded that failure to produce a credible defence policy 'could well mean a third defeat [because of defence] for Labour' (*The Independent* 9th January 1989).

In his desperate search for such a policy, Mr O'Neill has praised a Fabian Society pamphlet (*Working for Common Security*, January 1989) which advocates negotiating away Trident by putting it into the talks between the United States and the Soviet Union on strategic arms or by a bilateral deal with the Soviet Union. Mr O'Neill himself, however, has acknowledged that the pamphlet's authors 'do not address the problem of what we do with Polaris/Trident until we get rid of them' (*The Times*, 9th January 1989). Mr Bruce Kent, Chairman of CND, observed acidly on this point, 'to negotiate Trident or Polaris away requires a Prime Minister prepared to use these weapons' (*Tribune*, 13th January 1989). Mr Kinnock is on record as stating 'there are no circumstances in which I would order or permit the firing of a nuclear weapon' (*New Socialist*, September/October 1983).

Humiliation in Moscow. The Labour leadership's next attempt to fudge its defence policy began with the despatch of a party delegation abroad. In its quest for a proper defence policy for Britain, the Labour group went first not to Washington or Bonn but to Moscow. The day before he left for Moscow, Mr O'Neill spoke enthusiastically about a possible bilateral disarmament deal with the Soviet Union, for which the Soviets 'would have to be prepared to pay a great deal' (*The Independent*, 29th January 1989).

In Moscow, however, Mr Kaufman reported that 'we heard no interest expressed in any bilateral approach among the people we saw' (*The Times*, 3rd February 1989). A senior Soviet officer, General Lobov, apparently told the Labour group that unilateral nuclear disarmament is 'imaginative – but not realistic' (*The Sun*, 2nd February 1989).

Mr Kinnock Clouds the Issue. Repeating his performance in the summer of 1988, the Labour Leader used a television interview to announce yet another so-called new shift in Labour's defence policy. When asked 'so for the ordinary voter, it can be expected Labour's unilateral policy will be gone?' he replied, 'Since I said it last year, I don't think it will come as a surprise' (*The Guardian*, 10th February 1989). Yet, again as before, only days later he backtracked, declaring that he would not urge this year's Labour Conference to renounce the word 'unilateral' (*The Sunday Times*, 12th February 1989).

Labour's Real Policy. The Labour Leader's constant twists and turns on this issue cannot obscure the real position:

- Mr Kinnock remains a member of CND, which supports both unilateralism and withdrawal from NATO.

- When asked, after Mr Kinnock's latest remarks, whether unilateralism had been dropped, Mr O'Neill said, 'No, I don't think you can say that at this time' (*Daily Express*, 13th February 1989). He repeated Labour's rejection of nuclear deterrence, declaring, 'I think it is unthinkable that we would use these weapons while talks were going on' (*Daily Mail*, 13th February 1989).

Conventional Weapons. Mr O'Neill revealed Labour's attitude towards the massive disparities in conventional weapons in Europe when he dismissed an official NATO document detailing the huge Soviet superiority in such weapons as 'narrow bean-counting' – before he had even read it (*Hansard*, 5th November 1988, Col. 338).

Gutless and Isolated. The ignominious character of Labour's defence policy has been underlined by the **Prime Minister**: 'The fact is that alone in Europe this country's socialist party is totally out of step with every other one in Europe – absolutely no wonder because it is virtually a CND socialist party ... [it has] no memory, no stomach, no spine and no guts' (*The Times* 5th March 1988).

Foreign Policy. Labour's foreign policy is characterised by the same recklessness, hostility towards the United States and callous disregard for the national interests of Britain as its defence policy.

The Party's manifesto at the 1987 General Election equated US policy in Nicaragua with the Soviet invasion of Afghanistan, promised the expulsion of US nuclear bases from Britain and pledged the introduction of comprehensive economic sanctions on South Africa.

Profligates Abroad. Mr Kinnock is notorious for his generosity with other people's property while abroad (see below p. 556 for his 'gifts' of the Elgin Marbles and the Golan Heights). He adopts the same principle with taxpayers' money. During a tour of Africa, he committed a Labour government within the unrealistic timetable of a single parliament to raise the overseas aid budget by 1½ times or £1.7 billion a year – the equivalent of 1 pence in the pound on income tax (*The Guardian*, 14th July 1988).

Anti-Americanism. The Shadow Foreign Secretary, Mr Gerald Kaufman, denounced the Reagan Administration as 'feverish' and 'obsessive' on the question of Nicaragua (*Hansard*, 30th June 1988, Col. 559). He went on to pay tribute to the Marxist government of Nicaragua, because 'there is no doubt that the only country in the whole of Central America, apart from Costa Rica, that has any genuine pluralistic political system is Nicaragua' (*ibid.*, Col. 560).

Hypocrisy on South Africa. The Labour Party now calls for comprehensive economic sanctions on South Africa, ignoring the arguments of anti-apartheid figures in South Africa such as Mrs Helen Suzman, Chief Buthelezi and Alan Paton who have opposed such a policy, and despite opinion poll evidence that most blacks oppose such sanctions.

Yet when in office the Labour Party took a different view. When he was Defence Secretary in the 1964–1970 Labour Government, Mr Denis Healey supported the continuation of arms supplies to South Africa (Richard Crossman, *The Diaries of a Cabinet Minister*, Vol. II, p. 476–7). The current Deputy Leader of the Labour Party, Mr Roy Hattersley, also opposed economic sanctions when he was Minister of State at the Foreign Office in the 1970s. He said: ‘I do not believe that a policy of general economic sanctions would be in the interest either of the British people or South Africa’ (*Hansard*, 7th July 1976, Col. 1354).

Labour's commitment to imposing comprehensive sanctions on South Africa – trumpeted by its spokesmen during a series of international junkets – has been strongly criticised by the **Prime Minister**. She has said:

‘The enormous problems which that country has in getting rid of apartheid would not be solved by deciding – from a comfortable luncheon or parliament building or international conference in a five star hotel – that there should be poverty and starvation on the part of a large number of black people because we would choose to impose comprehensive sanctions. That would not help at all’ (*The Times*, 14th August 1988).

2. SLD/SDP POLICY

Collapse of Defence Policy. The ‘Alliance’ entered the 1987 General Election with a fudged compromise for a defence policy. Its manifesto called for the cancellation of Trident, but was ambiguous about whether (and if so which) alternative deterrents would be sought.

After Dr Owen admitted that he was ‘open to persuasion by the chiefs of Staff’ on the merits of Trident itself (*The Daily Telegraph*, 22nd May 1987), the leading Liberal Mr Simon Hughes attacked him for a ‘major shift of policy’ and declared the Liberals would have nothing to do with any deal to keep Trident (*Daily Express*, 23rd May 1987).

Catalyst for Conflict. As soon as the Election was over, the issue of defence policy became central to the vicious infighting which convulsed, and then destroyed, the ‘Alliance’. Dr Owen was blunt: ‘One of the reasons that I am not joining that [merged] party [is] I don't believe that it will have sound and sensible defence policies’ (SDP Conference Report, BBC 2, 1st September 1987).

Unsure on NATO. A major row arose within the old Liberal Party at the end of 1987 about the proposed commitment to NATO in the preamble to the constitution of the new party. The Liberal Party Council rejected the proposal (*The Sunday Times*, 20th December 1987). Mr Chris Brown, Vice-Chairman of the Association of Liberal Councillors, condemned NATO as ‘a militaristic organisation’ (*The Guardian*, 23rd December 1987).

At the SLD's first conference in September 1988, efforts to remove the NATO reference from the preamble to the constitution were talked out. The motion to excise NATO came

from Yeovil SLD – the constituency party of the SLD's leader, Mr Paddy Ashdown (*Sanity*, August 1988). Mr Ashdown himself has called the NATO reference ‘a technicality’ and has stated that references to specific organisations should not be in the preamble (Liberal Movement Press Release, 15th July 1988).

Ashdown's Reversals. Mr Paddy Ashdown has a record of constantly changing his position on defence issues (for further details, see below p. 579).

A Divided Party. Mr Ashdown's party is as confused as he is. A poll of delegates to the SLD conference showed 49 per cent wanted Trident scrapped, with 48 per cent disagreeing (*The Guardian*, 26th September 1988).

SDP Deception. The Owenite rump SDP is keen to create the impression that it, alone of all Opposition Parties, is sound on defence. As the Party declares in its White Paper *Deterrence* (3rd August 1988) ‘the existence of a credible and effective defence policy is a vital litmus test by which many electors, consciously or subconsciously, judge the trustworthiness of any political party’ (p. 25). Yet the SDP's defence policy is based on a strategy of deception. The White Paper claims: ‘Now that the INF Treaty has been ratified, the SDP can fairly claim to have been the only opposition party in the UK to have supported this successful negotiating strategy’ (p. 1). This conveniently ignores the fact that all ‘Alliance’ MPs – including Dr Owen and Mr Cartwright – voted *against* the deployment of Cruise missiles in 1983.

The White Paper does declare that ‘the SDP is committed to keeping our present Polaris fleet and replacing it with Trident in the 1990s’ (p. 17) – albeit eight years after this Government initiated the Trident programme and after the SDP has fought two General Elections on a pledge to cancel it.

Call for Cuts. The SDP's Defence Spokesman, **Mr John Cartwright**, has called for a ‘European defence review’ and has said ‘Britain must not be afraid of reducing some of her present defence roles’ (Press Release, 3rd August 1988). He strongly hinted that the British Army of the Rhine would be his choice for cuts (*The Independent*, 4th August 1988).

The Falklands. The ‘Alliance’ promised in their policy document *The Time Has Come* that they ‘would open discussions with the Argentine Government’ over the future of the Falkland Islands (p. 125–6). Mr Ashdown has in the past personally made a similar commitment to open talks with Argentina to find ‘a durable compromise which recognises Argentina's legitimate position in this area’ (Paddy Ashdown and Richard Holme, *First Steps Back From the Brink*, June 1983, p. 22).

South Africa. At the 1987 General Election, the ‘Alliance’ called for the prohibition of new investment in South Africa and ‘other measures’ (*The Time Has Come*, p. 126). The SLD has since swung to the left, committing itself at its 1988 Blackpool Conference to ‘effective mandatory sanctions against South Africa’ and to ‘supporting the liberation movements of Southern Africa’ (Federal Policy Motion, No. 3). As Foreign Secretary in

the last Labour Government, Dr Owen opposed sanctions (see *The Campaign Guide* 1987, p. 555).

21. THE EUROPEAN COMMUNITY

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Note: A number of the principal issues relating to Europe are discussed (either wholly or in part) in other chapters. CAP reform is dealt with in Chapter 7. The question of monetary co-operation is considered in Chapter 1, and the harmonisation of taxes in Chapter 2. Environmental, and transport, issues are described mainly in Chapters 8 and 9 respectively.

(A) BRITAIN AND EUROPE

1. SETTING THE AGENDA

Since 1979, Conservative Britain has been setting the agenda in Europe. The last ten years amount to a catalogue of Conservative achievement. As the Foreign Secretary, Sir Geoffrey Howe, has said:

‘In the European Community we have been pushing now for several years to secure agreement to a trio of British objectives – sensible financing, capping the growth in agricultural spending and creating a barrier-free internal market of 320 million consumers. In the last couple of years Britain's agenda for Europe has become Europe's agenda too’ (Cambridge, 2nd July 1988).

The First Steps. On coming to office, the Conservative Government had three clear aims:

- To resolve the problem of Britain's grossly unfair payments to the Community budget;

- To bring to Brussels the strong financial discipline the Government was determined to exercise at home;
- To reform the CAP, and to tackle the expensive nonsense of food mountains.

2. THE EARLY YEARS

These aims have been consistently and vigorously pursued. The Government has:

- *secured a very substantial reduction in Britain's payments to the Community.* As a result of the agreement negotiated by the Prime Minister at Fontainebleau in 1984, Britain obtained refunds for the previous years of unfairness, and a fair and lasting system for calculating our future contributions. This agreement has already saved some £4½ billion since 1985. We now pay about half of what we would have had to pay without an agreement.
- *obtained better financial discipline in the Community.* The Government secured official recognition in December 1984 that budget discipline had to be a *formal* part of the Community's budgetary procedures. In February 1988 the Government was instrumental in obtaining the landmark agreement which introduced tough, *legally binding* limits on farm spending for the first time ever. The Community budget for 1989 was the first budget adopted on time for five years.
- *successfully pressed for reform of the Common Agricultural Policy and measures to tackle surpluses* (see p. 211). As a result of the reforms introduced in 1984, and reinforced under the British Presidency in 1986, surpluses have fallen substantially over recent years – and some, such as the powdered milk surplus, have been wiped out. The latest reforms agreed at the Brussels Summit in February 1988 will bring further progress.

3. NEW HORIZONS

Without these essential reforms, the Community would have had no prospect of further development. But now that substantial progress has been made, at Conservative insistence, the Community is free to look with confidence to the future – and to concentrate all its efforts on its most important goal, the completion of the Single Market by the end of 1992 (see p. 528).

Already we are well on the way towards that goal.

- Nearly half of the 300 or so measures listed in the Commission's 1985 White Paper, *Completing the Internal Market*, have been agreed (see p. 531).
- Restrictions on the free movement of capital inside the Community will be abolished by 1992, and all exchange controls ended. Our EC partners are therefore at last following the example set by the Conservative Government in 1979.

- Professional people such as lawyers and accountants will soon be able to work in all twelve countries of the Community, using the qualification they obtained at home.
- Expensive quotas for lorry journeys crossing Community borders are to be ended by 1992.
- People will be able to buy non-life insurance wherever they choose in the EC from 1990.
- Costly delays for lorries crossing Community frontiers are being removed by the introduction of a single customs document, which replaces some eighty different forms which were used before.

Meanwhile progress on matters not directly connected with the Single Market has continued apace. The Government has led the way in pressing for joint action to protect the environment – such as the tough controls on lead in petrol it initiated in 1985 (see p. 233) – better foreign policy co-operation (see p. 542) and practical steps towards monetary integration (see pp. 22–3).

Paving the Way: The Single European Act. The Single European Act came into effect on 1st July 1987 following ratification by the national parliaments of all Member States (involving referendums in the Republic of Ireland and Denmark). The Act updates the Treaty of Rome, which was drafted in the 1950s for a Community of six, and brings it into line with the needs of the 1990s and of a Community of twelve. It speeds up the Community's decision-making, by introducing majority voting for matters concerned with the completion of the Single Market.

The Act does not represent any fundamental change in Britain's relationship with the Community. It neither detracts from the powers of Westminster nor gives more powers to the bureaucracy in Brussels. In fundamental matters such as taxation, the free movement of people and the rights of employees, the Government made sure that unanimity would still be required. Moreover, the right of a Member State indefinitely to postpone a Council decision when its vital national interests are at stake, under the so-called Luxembourg Compromise of 1966, does not form part of the Community's Treaties. It is, therefore, unaffected by the Single European Act.

As Sir Geoffrey Howe has said:

‘[The Single European Act] has given a new dynamism to the Community. It has woken up European business and industry to the need to compete world-wide. It has brought home to public opinion the Community's policies, which make a difference to the lives and livelihood of each one of us’ (Paris, 2nd November 1988).

4. THE CONSERVATIVE APPROACH

The Conservative Commitment. There could be no better proof of the Conservative commitment to Europe than this solid record of achievement. It was a Conservative Government which took Britain into the Community in 1973, and now, sixteen years

later, it is a Conservative Government which is shaping its future. The Conservative Party's policy towards Europe is clear, long-standing and consistent. It combines a firm commitment to Europe with a determination always to secure the best deal for Britain.

Willing Co-operation Between Sovereign States. Conservatives believe that willing and active co-operation between sovereign states is the best way to build up a successful European Community. As the **Prime Minister** said in her historic speech to the College of Europe in Bruges:

‘I want to see us work more closely on the things we do better together than alone. Europe is stronger when we do so, whether it be in trade, in defence or in our relations with the rest of the world’ (20th September 1988).

But that does not mean that Britain or other nations should dilute or compromise their national identities which have indeed been one of Europe's greatest strengths. And as the **Prime Minister** emphasised in her Bruges speech:

‘Working more closely together does *not* require power to be concentrated in Brussels or decisions to be taken by an appointed bureaucracy.... We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level’ (ibid.).

Practical Policies. The European Community is a practical means by which we can ensure our future prosperity and security in an uncertain world. It is, therefore, important that Community policies should tackle problems in a practical way. That is why the Government has taken the lead in pressing for – and implementing – the measures to reduce surpluses and put a halt to spiralling spending on agriculture.

Where economic and monetary co-operation (see p. 23) are concerned, the Government has led also the way in taking practical steps, rather than theorising about new institutions, such as a European Central Bank, which are wholly unrealistic in the foreseeable future, and discussion of which diverts attention from the real and pressing issues of today.

Britain abolished all exchange controls as early as 1979. It has taken a lead within the EC in actively promoting greater use of the ecu, and was the first EC country to issue very short-term Government bills denominated in ecus. As the **Prime Minister** stressed:

‘These are the *real* requirements because they are what Community business and industry need, if they are to compete effectively in the wider world. ... It is to such basic practical steps that the Community's attention should be devoted’ (20th September 1988).

Europe Open to Enterprise. The creation of a Europe open to enterprise is the moving force behind the Single European Market. As the **Prime Minister** has emphasised:

‘By getting rid of barriers, by making it possible for companies to compete on a Europe-wide scale, we can best compete with the United States, Japan and the new economic powers now emerging. ... That means action to free Markets, action to *widen* choice, action to reduce Government intervention’ (ibid.).

Britain has taken the lead in opening our markets to others. In air transport (see p. 266) it was Britain which pressed for greater liberalisation – the benefits are now being seen in lower fares and more routes. The Government also opened Britain's telecommunications market to competition in 1983 – other European countries are only now beginning to do the same.

Conservative Vision. All the constructive work that the Government is doing in Europe has one clear objective, defined by the **Prime Minister**:

‘Let Europe be a family of nations, understanding each other better, appreciating each other more, doing more together but relishing our national identity no less than our common European endeavour.

‘Let us have a Europe which plays its full part in the wider world, which looks outward not inward, and which preserves that Atlantic Community – that Europe on both sides of the Atlantic – which is our noblest inheritance and our greatest strength’ (ibid.).

(B) THE SINGLE MARKET

1. THE ADVANTAGES

The Conservative Government – backed by Conservatives in the European Parliament – took the lead in putting the completion of the Single Market at the top of the Community's agenda – and keeping it there.

Increasing our Trade with Europe. The completion of the Single Market is the biggest challenge UK business has faced since we joined the European Community in 1973. By the end of 1992, Europe will be our home market – a market which, with a population of over 320 million people, will be almost as large as Japan and the United States combined.

Our Trade with Europe. The European Community is already, by a long way, Britain's most important trading partner. In 1987, 49 per cent of our exports went to other EC countries, and Community countries supplied some 53 per cent of our imports. Our next biggest trading partner – the USA – accounted for just 16 per cent of our exports and 11 per cent of our imports in 1987.

The following table gives details of Britain's trade with our European partners in 1987:

Imports from (£bn)	Percentage of EC Total	Exports to (£bn)	Percentage of EC Total
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	Imports from (£bn)	Percentage of EC Total	Exports to (£bn)	Percentage of EC Total
Belgium/Luxembourg	4.4	8.9	3.8	9.6
Denmark	1.9	3.8	1.2	3.0
France	8.4	16.9	7.8	19.7
West Germany	15.8	31.8	9.4	23.9
Greece	0.4	0.8	0.4	1.0
Republic of Ireland	3.5	7.1	3.8	9.6
Italy	5.2	10.5	4.1	10.4
Netherlands	7.1	14.3	5.8	14.7
Portugal	0.8	1.6	0.7	1.8
Spain	2.1	4.2	2.2	5.6
EC Total	49.6	100.0	39.4	100.0

*Totals may not add up due to rounding (Source: DTI)

Although the European Community is already our major trading partner, the completion of the Single Market by 1992 will mean that there will be considerable scope for increasing our trade with other Member States still further. At present, the Community is still fragmented – divided by a number of technical and physical barriers which hinder the free flow of goods from one Member State to another. The aim of the Single Market programme is to clear away these barriers.

Breaking Down Barriers. Completing the Single Market will involve the implementation of a large number of detailed changes; but from the point of view of trade, these changes can be summarised under three headings.

- i. *The removal of physical barriers* involves the streamlining of frontier checks and the removal of unnecessary bureaucracy at internal frontiers by 1992: but those checks that are necessary to combat terrorism, drug trafficking and international crime will be retained. For lorry drivers taking a cargo across Europe lengthy form-filling creates delays and increases costs to businesses and consumers. Already a major improvement has been made with the introduction in January 1988 of the Single Administrative Document, which has replaced some 80 different border-control documents previously in use at Community frontiers.
- ii. *The removal of technical barriers* will involve eliminating the obstacles caused by the fact that different product regulations and standards – for example, safety standards – operate in different Member States. A European Commission pamphlet, published in 1988, gives some examples of such barriers:

‘Cars or televisions have to be altered in innumerable ways to meet all sorts of different national standards. British chocolate simply cannot be sold in some member states because they use a different definition of chocolate. German law for years prohibited the sale on its territory of beers brewed in other Member

States because the additives they contained contravened German national “purity laws”” (*Europe without Frontiers – Completing the Internal Market*).

Such regulations – sometimes amounting to a quite blatant form of protectionism – impose additional costs on businesses wishing to export to other EC countries and constitute a major impediment to free trade. By bringing such standards into line right across the European Community, exporters will be able to manufacture their products to common standards, confident in the knowledge that they will be sold in every other Member State.

iii. *The removal of fiscal barriers* which is discussed below (see p. 60–2, 531).

Competition and Deregulation. A key objective of the Single Market programme is to increase competition. Firms will have to compete harder in their national market against Community competitors as well as having increased opportunities to compete abroad themselves. Increased competition across Europe will act as a spur to efficiency – just as it has done in Britain, thanks to the Conservative Government's policies to promote competition.

The consumer will benefit substantially from the spread of competition across Europe. Goods and services originating in any Member State should become available in every other Member State, in direct competition with the domestic product. As well as increasing choice for the consumer, extra competition will put a downward pressure on prices.

Mergers Policy. The creation of the Single Market will bring about a fundamental change in the nature of the market in which British companies must compete. The Commission has proposed that there should be a Community regulation to control those mergers which would create distortions in Community trade. The Government has yet to be convinced of the need for such a regulation. But Britain is taking a constructive part in negotiations. The particular questions which need to be addressed include:

- the value of mergers which would be subject to the regulation (it is important that it should not be so low as to catch so many firms that business grinds to a halt).
- double jeopardy (it is important to avoid a situation where mergers are caught by both Community and national rules).
- automatic suspension (there is a need to avoid bids being automatically suspended while the Commission considers them).
- the relationship of any new powers with the Commission might be given with its existing powers under the Treaty.
- the reduction of barriers to take-over. This issue has not been addressed in the (draft) Regulation. The Commission, at the insistence of the British Government, has undertaken to look at the issue.

Clearly, there may be benefits in terms of efficiency and effectiveness in the creation of large, internationally competitive British companies. Such companies might command a

large share of the British market without detrimental effect, providing there is international competition in that market. As Lord Young has pointed out:

‘If we are open to products from the rest of Europe, and perhaps the rest of the world, then it may not matter if there is only one UK supplier because that supplier faces competition from outside’ (London, May 1988).

Competition in the market is the key consideration. One of the major opportunities that completing the Single Market will bring about will be to facilitate the development of more major internationally competitive British companies. As the market grows, so will the opportunities for companies to expand without jeopardising competition.

Deregulation. The Government is as committed to ensuring an economic climate which encourages wealth and job creation in the EC, as it is in Britain. That, in turn, requires the avoidance or removal of all unnecessary controls and regulations. Creating the Single Market will inevitably involve adopting a substantial volume of new EC legislation. It is essential that this is done in a way which avoids adding unnecessarily to the burden of regulation and which cuts red tape wherever possible. As Sir Geoffrey Howe has said:

‘We need to see a Europe free of regulations, licences and restrictions, a bonfire of controls on a European scale’ (Buxton, 18th March 1988).

2. PROGRESS TOWARDS 1992

The completion of the Single Market will involve a large number of detailed and complex changes – particularly where the so-called technical barriers are concerned. The Commission's Single Market strategy was set out in the Commission's White Paper, *Completing the Internal Market*, published in June 1985. The plan contained some 300 separate measures (in addition to those already in hand) which were needed to remove barriers to trade within the European Community (though the total has now fallen to 276 (February) since a number of measures have been withdrawn). The 31st December 1992 is the deadline that has been agreed.

Many steps towards an integrated market have already been taken, but there is still much work to be done in the next four years.

During the German Presidency in the first half of 1988 agreement was reached on a record 56 measures relating to the Single Market.

Agreements reached in June 1988 fulfilled several major Conservative objectives. The most important was the decision to end all exchange controls (see p. 527). Decisions have also been reached on:

- the mutual recognition of most professional qualifications, so that professional people will, from 1991, be able to practise freely throughout the Community, without having to requalify eleven times;

- ending bilateral quotas for lorry journeys across borders, so liberalising the road haulage market;
- a common pricing system for pharmaceuticals.

Rapid progress was maintained under the Greek Presidency in the second half of 1988. 54 agreements were reached, bringing the total number of Single Market measures since 1985 to 275 (of which 129 were listed in the Commission's White Paper). They include:

- a Directive to strengthen rules on procurement of public works to give suppliers a fair chance of gaining contracts in other Member States;
- the Machine Safety Directive, designed to break down barriers to trade in machines;
- several important measures to harmonise food law.

Standards. Common standards are vital if there is to be a real Single Market. Proposals are under discussion for the harmonisation of standards for a wide range of products, from toys to construction products. These will mean that goods which can be sold in the Member State where they are made will be fully marketable in every other Member State, without being retested or recertified.

British industry is understandably concerned to ensure that Britain is well represented in the work which is being done to harmonise standards. The Government shares this concern. Its objective is to set British industry and commerce thinking about Britain's priorities in this field and to ensure that they are fully reflected in the work which is taking place throughout Europe.

Financial Services. Of the measures envisaged in the Commission's White Paper on the Single Market, no less than 22 relate to the financial services sector. The objective is to create a single barrier-free market in Europe for financial services (and capital) – with equal conditions of competition, allowing the consumer wider choice – while still providing adequate levels of consumer protection.

By the end of 1992, or before, any EC provider of financial services will be able to establish itself and offer its services in any other Member State. Consumers in every country of the European Community will therefore have access to the full range of financial services offered throughout the Community. This will include banking activities, mortgages and all types of insurance.

The Importance of Financial Services. The liberalisation of financial services is particularly important for Britain. Its steady economic growth in recent years has been accompanied by vigorous development in the financial services sector – which is by far the strongest in Europe (see p. 107). *The Cecchini Report*, published by the European Commission, which examines the economic implications of 1992, cites Britain as the Member State likely to benefit most from integrated financial markets in Europe.

Assessing the Benefits of the Single Market. It is impossible to quantify precisely the economic benefits which will flow from the completion of the Single Market. Much depends on how business responds to the opportunities which will be created. However, the European Commission's own report on the economic benefits of the Single Market (*The Cecchini Report*) estimates the total potential economic gain to the Community as a whole to be of the order of about £120 billion at 1988 prices. This would add a once-and-for-all increase of about 5 per cent to the Community's combined gross national product and an annual increase of around 1 per cent thereafter. The Report also estimates that some 1.8 million jobs may be created throughout the Community in the medium term as a result of the Single Market, and some 5.5 million in the longer term.

Social Dimension. The Single Market should bring benefits for every country and every region in the Community. By setting enterprise free, it will bring economic growth and therefore employment – the true ‘social dimension’ of the market economy. Clear proof that setting business free works is provided by the United Kingdom, where the Government's policies of deregulation have enabled new employment to burgeon. Combating unemployment must be one of the Community's main priorities. Consequently the Government continues to insist the Community must not surrender the benefits of the Single Market by putting new burdens on business.

3. GETTING READY FOR 1992

Helping Business Prepare. The Department of Trade and Industry has launched a major campaign of information and support for British business. The objective is to make British business the best prepared in Europe for the advent of the Single Market.

The ‘Europe – Open for Business’ campaign, launched in March 1988, encourages firms throughout the country to take action to prepare for the completion of the Single Market:

- A DTI hotline – 01-200-1992 – has been set up to answer enquiries and to point the way to more detailed sources of information.
- The DTI Spearhead Computer Database provides comprehensive information on measures which are being taken to implement the Single Market. It is available to all subscribers of Profile Information, British Telecom Gold, One-to-One and Mercury Link electronic mail services – a total of some 100,000 subscribers.
- An initial booklet on the Single Market has been sent to over 130,000 companies and organisations; and over half a million information packs have been sent out.
- A quarterly Single Market newsletter provides up to date information on the latest developments.
- DTI ministers have completed a programme of 20 regional conferences, to ensure that the message reaches to all parts of the country.

Promoting Awareness. At the beginning of 1988 only about one businessman in six even realised that the Single Market programme existed. By October 1988, thanks to the DTI's sustained information campaign, over 90 per cent of businessmen knew about it.

Preparing for the Challenge. It is not enough for British companies simply to be aware that the Single Market is coming. They must actively make preparations for it. This is why the Government has produced an *Action Checklist* for businesses, to help them prepare their own action strategies. As Lord Young has said:

‘It is a working document for companies. It does not try to tell you what to do. It does not give the answers, but it does set out the main questions – and then you decide whether you must re-think your strategy because of 1992’ (London, 18th April 1988).

The Envy of Europe. The ‘Europe – Open for Business’ campaign is the most comprehensive service available anywhere in the Community. Representatives of virtually every other Member State have been to Britain to find out what we are doing; many have imitated key features of our campaign such as the 1992 ‘Hotline’. Denmark’s campaign, in particular, is closely modelled on our own.

Private Initiatives. The private sector is also making sure that it is ready for ‘1992’. The CBI has launched its ‘Initiative 1992’, and the DTI has details of over 1,300 conferences and seminars on the Single Market.

The Role of Conservative MEPs. Conservative Members of the European Parliament have played a key role in making the completion of the Single Market the Community’s overriding priority. Sir Geoffrey Howe has paid tribute to their vital contribution:

‘Our team at Strasbourg ... are there in the front line. Fighting and winning battles for the policies with which together we are leading Europe in the right direction. Cheaper air travel. Sane farm policies. Less red tape. [They] will be our standard-bearers ... for a Britain strong and free – in a Europe that is strong and free’ (Conservative Party Conference, Brighton, 13th October 1988).

(C) FINANCING THE COMMUNITY

Before embarking on any ambitious plans for the future, however, the Government had first to sort out the Community’s chaotic finances. That meant:

- putting an end to Britain’s grossly unfair net payments to the Community budget;
- bringing to Brussels the same firm financial discipline that we exercise at Westminster;
- tackling the wasteful food surpluses, the storing and disposal of which absorbed up to half of the Community’s budget.

During the last ten years, the Government has made substantial progress. Britain’s budget problem has been solved; budgetary discipline has become a part of the Community’s procedures; significant reforms have been made in the CAP; and most surpluses have been cut. Farm spending is under tighter control. Our farmers benefit from greater certainty about future market conditions. But the battle for reform and for proper

financial discipline is far from entirely won. The Government is determined to keep up the pressure to ensure that both existing agreements are adhered to, and that further reforms take place when they are needed.

Britain's Budget Problem. The Conservative Government's overriding priority in 1979 was to tackle the grossly unfair system for calculating Britain's payments to the Community which it inherited from Labour. Labour had promised to deal with the problem. The Labour Government carried out a much-vaunted 'renegotiation' of Britain's terms of membership of the Community. Far from obtaining a fair deal for Britain, Labour bequeathed an increasingly burdensome arrangement for contributing to the Community budget.

The Conservative Government has succeeded where Labour failed. In Council meeting after Council meeting the Government insisted that the question of Britain's payments to the Community had to be tackled. In 1984, after years of determined negotiation, success was achieved. At the Fontainebleau European Council the Prime Minister successfully negotiated rebates for Britain for past unfairness; and a lasting and fair system for calculating our future contributions was secured. Mr Kinnock displayed the kind of judgement for which he has become notorious just before the summit, when he was reported as saying:

'Mrs Thatcher had better enjoy the sunshine at Fontainebleau because I do not think she is going to enjoy a hell of a lot else. She is not coming away with £475 million. That I do know' (*The Sunday Times*, 27th May 1984).

The Prime Minister did not come away with £475 million. She came away with some £600 million for 1984, and rebates worth some £4½ billion to Britain since 1985. In 1988 alone we received a record £1.6 billion.

Further Progress: the Brussels Summit. The Brussels European Council in February 1988 represented a landmark in the Community's financial affairs. It was the culmination of years of patient Conservative pressure: the agreements reached at that Summit placed, for the first time, legally binding limits on Community spending. These will continue to reduce further – and substantially – the already depleted agricultural surpluses, and will ensure that spending on agriculture declines as a proportion of overall Community spending.

The Government went into the Brussels European Council with four major objectives:

- to ensure that any further increase in Community spending was accompanied by effective and legally binding controls;
- to secure agreement on effective measures on agriculture surpluses;
- to prevent the introduction of an oils and fats tax;
- to preserve the 1985 Fontainebleau agreement intact.

All these objectives were attained.

Budget Discipline. A legally binding ceiling will reduce the growth in agricultural spending from 10 per cent a year (in 1984–7) to around 2 per cent a year (in real terms) by 1990. If agreed production thresholds are exceeded, then automatic price cuts (known as ‘stabilisers’) will be triggered. Stabilisers now apply to most farm products.

Surpluses. Recent cuts in surplus stocks have been encouraging. The storage and disposal of surpluses used to account for nearly half the Community's budget – a senseless waste of money that ought to be devoted to useful purposes. Now the butter mountain has all but disappeared; surplus stocks of butter have fallen by 84 per cent since December 1987. The milk powder mountain no longer exists. Total intake into Britain's intervention stores in 1987 was 85 per cent down on 1986, the lowest figure for nearly 10 years.

The measures agreed at the Brussels European Council in February 1988, for which the Government had consistently pressed, are intended to ensure that massive and wasteful surpluses do not recur. Measures were also agreed for the systematic depreciation of stocks, which should remove the financial incentive to stockpile.

Control of Agricultural Spending. This has been improved by tightening the discipline of the ‘financial guideline’ (the technical term for total permitted spending) for agricultural expenditure. The guideline base for 1988 was set at 27·5 billion ecu (European Currency Unit) – about £19 billion. It has been reinforced by an agreement that all future Commission price proposals must be consistent with the guideline; and by the elimination of the general provision for increasing expenditure in increasingly frequent ‘exceptional circumstances’. A specific reserve has been established to take account of one factor only – substantial fluctuations in the dollar&slash;ecu exchange rate, which alter budget calculations by more than £400 million ecu (£260 million). The reserve works both ways – so that if the dollar appreciates by more than about 5 per cent, provision in the budget for agriculture expenditure will automatically be reduced by up to £700 million in any one year.

The agricultural guideline will in future rise at a significantly lower rate than the total resources available for Community expenditure. The new rate of growth will be three-quarters of the growth rate of Community GNP. This will in time reduce the proportion of the Community budget taken by agriculture.

The Increase in Community Resources. The Brussels Summit agreed to an increase in the limit on resources available to the Community from 1·4 per cent of VAT to 1·2 per cent of GNP.

The Commission originally proposed an increase of some 45 per cent, to 1·4 per cent of GNP. The Heads of Government rejected this and a figure of 1·2 per cent was agreed – an increase of some 25 per cent over the current figure, and realistic in the light of recent trends. This ceiling will last until at least 1992.

Britain's gross contribution to the Community budget should remain, at around 1 per cent of its GNP, well below that of other Member States.

Protecting Britain's Interests. The changes in the 'Own Resources' arrangements (the money available to the Community) bring contributions more into line with relative national prosperity, and provide the Community with a sound financial base for the foreseeable future. By securing more effective budget discipline, the Government has ensured that money for programmes – the structural funds, for example, from which Britain will receive up to £1 billion a year in 1992 – cannot be eroded by spending on agriculture.

The Fontainebleau Agreement will be retained intact. This was a major objective of the Government at the Brussels Summit. As the **Prime Minister** said:

'I made it clear I was not prepared to contemplate any reduction in the benefit we receive as a result of the Fontainebleau Agreement in 1984' (*Hansard*, 15th February 1988, Col. 707).

The Agreement was challenged by other Member States. West Germany argued that Britain should not have a corrective mechanism at all. France wanted the abatement to be phased out by 1992. The Commission proposed a much less generous arrangement based on our shares of GNP and agriculture expenditure. But the Prime Minister insisted that it must remain unchanged: and it will.

Signs of Success. The agreements reached in Brussels are already working. Surpluses have continued to fall. The annual farm price negotiations, which took place in June 1988, were conducted entirely within the constraints of the guideline laid down at Brussels in February. The 1989 Community budget was adopted before the end of the preceding year for the first time for five years. Spending on agriculture in 1988 is expected to be some £750 million below the ceiling set at the Brussels Summit.

(D) BRITAIN'S RECEIPTS FROM COMMUNITY FUNDS

The Funds. The Community has three 'structural funds':

- The European Social Fund (ESF), which supports the training and retraining of workers.
- The European Regional Development Fund (ERDF), which promotes economic activity and infrastructure developments in the poorer areas of the Community.
- The European Agricultural Guidance and Guarantee Fund (EAGGF). The *guidance* section of this fund forms part of the structural funds. It is designed to help finance the modernisation of farming and to provide income support in rural areas.

The European Investment Bank, a separate but parallel organisation, has similar aims to the European Regional Development Fund.

The three Funds have grown substantially in recent years. In 1987 they amounted to about £4½ billion. The Regional Development Fund accounted for about half the total and the Social Fund just over one third. The rest was taken by the Agricultural Guidance section.

The European Investment Bank had, by 1988, provided more than the rest of the funds put together – lending some £6·7 billion or 10·1 billion ecus, most of it for infrastructure projects. Private sector lending by the European Investment Bank in the United Kingdom totalled £682 million in 1988, a threefold increase on 1987.

Britain's Receipts from the Structural Funds. Since 1979, Britain has consistently been one of the largest beneficiaries from the structural funds. Over the last five years the United Kingdom has received either the highest or the second highest allocation among Member States in the Community from the European Social Fund. In 1988 the United Kingdom received over £400 million in grants from it – 19·1 per cent of the money available, and more than any other Member State.

In 1987, the United Kingdom obtained grants totalling some £433 million from the European Regional Development Fund. This money goes towards investment in industry and infrastructure – the building of roads, bridges, and so on in assisted areas. It has had considerable impact on regions with declining industries.

Examples of ERDF grants awarded to Britain in 1988 include £282,500 for the construction of a new fire station and run-way at Inverness airport, £1·4 million for improvements to the A19 in County Durham and £127,750 towards the construction of a purpose-built enterprise centre at Coleraine, Northern Ireland. Total receipts to date since the Fund began in 1975 to the end of 1988 amount to over £2,000 million.

Assisting Ulster. Since 1979 Northern Ireland has received substantial sums from the EC's structural funds: £324 million from the ESF, as well as £193 million from the ERDF, £92 million from the EAGGF and £109 million from other EC sources. The Government secured 'Objective I' status for Northern Ireland in the reform of the structural funds, for which it would not normally have been entitled, since its GDP is more than 75 per cent of the EC average. It was agreed at the European Council meeting in February 1988 that the resources of the structural funds should be concentrated on the poorest regions.

Scotland has benefited significantly from financial assistance provided by Community institutions. Since 1979, some £600 million has been received in grants from the ERDF, and since 1982 nearly £250 million has been received from the European Social Fund. Scottish industry has received loans of over £640 million from the European Investment Bank, as well as assistance from the European Coal and Steel Community.

Wales has also done well out of Community funds since 1979. The Principality has received a total of £1,500 million in grants and loans from EC sources.

Reform of the Structural Funds. In February 1988 the European Council meeting in Brussels decided to double the structural funds. They will total some £9.8 billion by 1998. By the time the Single Market is created, the money spent through these programmes will total in real terms half as much again as the Marshall Aid programme which helped put Europe back on its feet in the 1940s. Britain's receipts should increase from £750 million to up to £1 billion a year by that date. During the review of the funds the Government secured agreement, in the face of fierce opposition by the Commission, that needs of rural Wales (Gwynedd, Dyfed, Powys), the Highlands and Islands and the assisted areas of Devon and Cornwall should continue to be eligible for regional fund support as 'priority' areas.

(E) THE ENVIRONMENT

The Government, with the support of Conservative MEPs, has been at the forefront of Community efforts to improve the environment. Environmental problems do not respect national boundaries. Our renewed economic strength at home enables us to pay for new measures to deal with these problems, and our new standing and influence in the world has put us in a position to promote action in Europe and beyond.

Full details of the Government's policies are given in Chapter 8. This section summarises the main European agreements.

Lead in Petrol. The Government was instrumental in securing Community regulations under which all new vehicles will have to be able to run on lead-free petrol by 1st October 1990 (see p. 233).

Car Emissions. In December 1987 agreement was reached at the European Community Environment Council on strict controls over the emission of NO_x and hydrocarbons by cars (see p. 233).

As a result the new lean burn technology, an inherently cleaner method of combustion, will be promoted. This technology has the potential to produce lower carbon dioxide (CO₂) emissions than conventional engines. CO₂ emissions are a principal cause of the 'greenhouse effect'. The decision will also bring about a substantial reduction in the average level of car emissions in the UK, with a halving of nitrogen oxides and a 75 per cent reduction of hydrocarbons. The total level of car emissions is expected to be lower in the year 2,000 than it is now.

Beaches. Almost 400 beaches have now been designated under the European Community Directive on bathing waters. Three-fifths of these already comply with the very strict standards laid down in the Directive. This compares favourably with other Community countries. The Government is considering the scope for accelerating the existing major

programme of improvement to bathing water – now running at £70 million annually – with a view to bringing the remainder up to Community standards by 1995.

Reducing Acid Rain. On 16th June 1988, the Council of EC Environment Ministers decided on new controls to deal with the emissions from new power plants, and agreed on a phased reduction in emissions of sulphur dioxide (SO₂) and nitrogen oxide (NO_x) – the two primary ingredients of acid rain – from existing stations and large combustion plants (see p. 232).

Protecting the Ozone Layer. On 16th December 1988 the United Kingdom, the European Community and most Member States ratified the Montreal Protocol which provides for a 50 per cent cut in chlorofluorocarbons (CFCs) by the end of the century in order to protect the ozone layer from these harmful gases (see pp. 234–5).

But the Environment Council at a meeting on 27th June 1988 had already called for further voluntary action to reduce the use of CFCs to the maximum possible extent. In Britain such voluntary action has been extensive: the UK aerosol industry has agreed to phase out the use of CFCs by the end of 1989.

Hazardous Waste. It is not true to say, as some of the Government's critics do, that Britain has become Europe's dustbin for toxic waste. Imports of 'special waste' for 1987–8 were in the region of 70,000 tonnes. This is a relatively small quantity in relation to the rest of Europe. The OECD estimated five years ago that the volume of waste crossing national frontiers in Europe was around 2.2 million tonnes. France, for example, imports some 200,000 tonnes a year – almost four times as much as Britain.

The Government has, however, led the way in tightening up regulations governing the transport of dangerous waste. Britain was one of the first countries to implement the EC Directive on the Transfrontier Shipment of Hazardous Waste, which came into effect on 14th November 1988 (see p. 238).

It is also essential to prevent the despatch of hazardous waste to countries which are not properly equipped to deal with it. The Directive therefore prohibits the export of hazardous wastes to any non-Community country without prior consent having been given. The Secretary of State for the Environment can prevent shipment of waste from this country to any non-Community country which he considers cannot dispose of it without risk to human health or the environment. At present the UK does not in fact export waste for disposal.

At the Environment Council on 23rd November 1988 the Government proposed that waste authorities should be notified in advance of all shipments of waste (not just those classed as hazardous). It also proposed that transfrontier shipment of wastes for disposal should be restricted to waste going directly into suitably licensed incinerators or specialist treatment plants. These proposals are now being discussed with the Commission and other Member States.

(F) TRANSPORT

The Conservative Manifesto for the 1984 European Elections contained pledges to work for:

- an easing of the unduly restrictive quotas in Community road haulage permits, and their eventual abolition;
- Community agreement to counteract protectionism in world shipping;
- more competition in air passenger transport.

The Government has fulfilled all three pledges. Further details of its achievements can be found in Chapter 9.

Lorry Quotas. International haulage is regulated by a number of agreements, some of which impose limits on the number of journeys that British lorries can make in foreign countries. The Government has successfully negotiated substantial increases in the number of permits available to British hauliers: those trading in West Germany, for example, had only 9,450 general quota permits available to them in 1979, compared with 26,500 in 1987, while the number of Italian permits rose from 7,600 to 20,000 over the same period. Yet despite these increases, 30 per cent of EC trucks on international journeys are still empty on the return leg.

As the 1984 Manifesto made plain, the Government has always had as its objective the complete abolition of lorry quotas (see p. 267).

Shipping. In 1984, the Conservatives pledged to work for Community agreement to counteract protectionism in world shipping. The Government used the opportunity provided by Britain's Presidency of the Community in 1986 to forge ahead in this area. The Government's pressure led to an important agreement by European Transport Ministers in December 1986 (see p. 272).

Air Travel. The Government – with the support of Conservative MEPs (notably Lord Bethell and his 'Freedom of the Skies' campaign) – has been at the forefront of efforts to bring greater competition to air travel. The aims are to provide a greater choice of airlines and services and to reduce fares.

If Europe is to be genuinely 'open for business', then people must be able to fly – where they want, when they want, and at as competitive a price as possible. The promotion of deregulation has always been the Government's aim – to encourage competition, which will bring lower fares and a greater choice of services.

Very substantial progress has been made at Community level, with the British Government playing a prominent part in securing greater competition in European air travel. It was a British initiative which brought about the introduction of the EC Regional

Air Services directive in July 1983, which reduced governmental control over flights between regional airports.

Wherever the pace of deregulation at Community level has been too slow, the Government has moved swiftly to conclude bilateral agreements with individual countries. So far, such agreements have been made with the Republic of Ireland, West Germany, Holland, Belgium, Luxembourg and Switzerland.

The free competition rules embodied in the Treaty of Rome apply as much to air travel as to other sectors of economic activity. The Conservative Government has led the way in securing agreement to a package of measures, as a first step towards completion of the Single Market in aviation by the end of 1992 (see p. 266).

The measures are working: fares are coming down as more people are taking off from Europe's airports – on more airlines from more airports to more destinations. It is now possible to fly to Paris and back on a scheduled service for as little as £59. New services are, or soon will be, operating on numerous routes – from London to Paris, Munich, Madrid, Rome, Dublin and Amsterdam for example, as well as to and from many regional airports.

The Channel Tunnel. The Channel Tunnel is due to open in the Summer of 1993. It will revolutionise travel to, and from, the continent, providing more choice for the traveller and for businesses exporting to Europe. The Tunnel's construction is being funded entirely by the private sector (for details, see p. 264).

(G) RESEARCH AND TECHNOLOGY

Need for International Collaboration. The Government has always attached great importance to international collaboration in technology programmes, particularly with our European partners. European countries and companies cannot compete alone with the resources available to the USA or Japan in major multi-billion pound research programmes, such as space research. Joint, pan-European research programmes such as EUREKA or the Horizon 2000 space project offer the best prospect for European countries to match their industrial competitors – and to meet the growing threat posed by rapidly developing countries, such as South Korea, Taiwan and Singapore.

The European Commission, with Britain's support, aims to stimulate co-operation between business at the 'pre-competitive' stage, to avoid wasteful duplication of research effort and resources, and to ensure that research by Member States is not handicapped by fragmentation.

EUREKA was established in 1985 – with considerable UK encouragement – as a framework for promoting collaborative projects in areas of advanced technology within Europe (European Community and EFTA countries, plus Turkey).

Mr John Butcher, then Technology Minister, has explained the aims and objectives of EUREKA:

‘EUREKA's purpose ... is to foster and facilitate pan-European collaborations in high risk, technical projects. But the choice of projects is left to industry – the so-called “bottom-up” approach ... The driving force comes from industry with national administrations and the European Commission playing an important role, making sure that the economic conditions are right and that the European market is ready for exploitation’ (*Hansard*, 17th May 1988, Col. 900).

EUREKA projects are, therefore, industry-led and market-driven. Companies themselves judge the market opportunities at which to aim. There is no central bureaucracy for the participants to deal with, nor is there a single pool of funding with conditions attached which participants must meet. Each member country can make its own EUREKA funding arrangements, and firms are free to participate in and benefit from EUREKA as they wish.

At present there are 165 agreed EUREKA projects with a total value of nearly £3 billion. The majority are in the field of information technology and communications, but other important areas include lasers, robotics, biotechnology and new materials. In September 1987, 58 new EUREKA projects were announced, 17 of which involve participation by British firms. The total value of the new projects with British participation is £300 million. In total, around 100 EUREKA projects have a British interest, of which 57 have full British participation.

ESPRIT. European collaboration is also particularly important in the field of information technology. The ESPRIT (European Strategic Programme for Research into Information Technology) began in 1984. Britain did well out of this project and British companies were involved in 75 per cent of its 200 plus projects. ESPRIT has been superseded by ESPRIT II to which the Government has demonstrated its commitment by making a contribution of about £200 million. ESPRIT II will last for five years, covering the years 1989–94 and aims to strengthen the technology base of the European IT industry. It will also advance the development of international standards, which will be helpful to European companies.

The Government's support for ESPRIT II reflects its objective of placing greater emphasis on European collaborative programmes in IT research. Nevertheless, the Government has also accepted that some resources should be devoted to a national initiative, complementary to ESPRIT. This follows the recommendations of the ‘IT86’ committee which was set up in 1986 to consider whether there should be a sequel to the Alvey Programme, which has been the main Government support programme for collaborative R&D in the IT sector over the last four years. In response to the ‘IT86’ committee's recommendations, the Government has decided that, over and above its contribution to ESPRIT II, the DTI will set aside £29 million over the next three years for collaborative research programmes in this area, with the Science and Engineering

Research Council devoting some £55 million over the next five years to related academic research, mainly in partnership with companies.

RACE. In telecommunications the main collaborative research programme is the EC's RACE Programme (Research in Advanced Communications in Europe), started in 1985 with the objective of establishing a strong Community manufacturing industry in broadband communications, and encouraging the emergence of a strong and competitive communications market for telecommunications equipment and services. The UK's contribution to the main phase of RACE will be about £65 million. Britain is involved in 39 out of RACE's 45 projects.

(H) OVERSEAS AID

Helping the Third World to Help Itself. The Community and its Member States supply more official aid than anyone else. Together they provide over one third of all development aid (the USA's contribution represents about 21 per cent, and the USSR's about 9 per cent). In 1988, EC aid to the Third World (in the form of grant aid and low-interest loans) amounted to almost £2 billion. The Community is also the developing countries' largest trading partner. Britain contributes nearly a fifth of the total cost of the Community's aid programme.

Making Community Aid More Effective. The Government has sought to ensure that the principles on which Britain's aid programme is based are also applied to Community aid: that emergency aid should be of the right kind and should be provided swiftly. During the British Presidency of the Community, the Government secured agreement on the reform of food aid: it now plays a more useful role – helping developing countries to become self-sufficient in food. The Government also secured agreement on improvements in the arrangements for providing food aid to countries including Ethiopia and Bangladesh.

Responding to Emergencies. The Community sends large quantities of food aid to countries which request help in dealing with serious food shortages. In 1987 the Community sent food aid worth £375 million to such countries. 208,000 tonnes were sent to deal with the 1984 Ethiopian famine, and a further 268,000 tonnes to deal with the subsequent famine in 1988.

The Armenian Earthquake. Community aid, to deal with the tragic consequences of the Armenian earthquake in December 1988, was, like Britain's, prompt and effective. The Community gave 1.5 million ecu (£935,000) almost immediately. Eleven Community relief flights from Britain were arranged jointly with Member States. At the end of December 1988 the Community gave a further 10 million ecu (£6.5 million).

(I) EUROPE AND THE WIDER WORLD

Conservatives have always believed that our membership of the Community increases Britain's influence in the world: the Twelve working together on foreign policy, on economic policy and in trade can have far more influence than they can have acting alone.

Practical Steps to Foreign Policy Co-operation. It was the Conservative Government which first proposed (and played a significant part in drafting) the Treaty on European Political Co-operation (EPC). The Treaty forms part of the Single European Act, which came into effect in July 1987. Under it, Member States agree to consult each other on foreign policy matters, and, where possible to adopt common positions. This does not in any way prevent Member States from pursuing national policies, but helps them to work with a common purpose. With Britain's backing, the Community, for example, took joint action against Libya in 1986, pressed for peaceful change and the abolition of apartheid in South Africa, and called for an international conference on the Palestinian problem. A small secretariat has been set up in Brussels to help Member States respond speedily and (wherever possible) in unison to major international problems.

Counter-Terrorism. Action at Community level against terrorism is co-ordinated within the framework of the Trevi Group. This body brings together the Community's Ministers responsible for counter-terrorism. In Britain this is the Home Secretary. Within the Group intelligence information is exchanged on a day-to-day basis.

The Trevi meeting in June 1988 agreed on further action to deal with the terrorist threat. Intelligence gathering will be improved and information will be exchanged immediately after a terrorist incident. Closer co-operation between Member States in the forensic field is currently under discussion.

Dealing with Drug Abuse. Britain has spearheaded Community efforts to tackle drug abuse and drug trafficking. In 1986, during the British Presidency, agreement was reached on ways in which the Community could step up the fight against drug abuse – principally by ensuring that the police forces of Member States work together as closely as possible. Britain is pushing strongly for a European agreement to confiscate the assets of drug traffickers, as now occurs here (see p. 370).

Frontier Controls. The Government is committed to simplifying and streamlining frontier checks in order to reduce unnecessary, costly and time-consuming delays for both travellers and traders. But it will ensure that Britain's frontiers, like those of other Member States, remain closed to terrorists and drug traffickers after 1992. In countries which have mainly land borders, it is natural that more emphasis should be placed on inland checks; but in the case of an island, it is at ports and airports that controls can be carried out most easily and effectively. In 1987, H.M. Customs were responsible for 95

per cent of drug seizures in the United Kingdom, mainly at frontier checks. It would therefore be wrong to remove all checks at our ports of entry. As the **Prime Minister** has said:

‘Of course we must make it easier for goods to pass through frontiers. Of course we must make it easier for our people to travel throughout the Community. But it is a matter of plain common sense that we cannot totally abolish frontier controls if we are also to protect our citizens from crime and stop the movement of drugs, terrorists and of illegal immigrants’ (Bruges, 20th September 1988).

Under the Single European Act, qualified majority voting on Single Market measures does *not* apply to the free movement of persons; unanimity continues to be required.

However, there is no reason why essential safeguards against terrorism and crime cannot be combined with practical measures to remove unnecessary bureaucracy at frontiers. The Government has led the way in taking such initiatives. It gave full backing to the introduction of the Single Administrative Document in January 1988. In December 1988 the Government announced that the EC and UK channels at ports of entry would be merged, to enable British and other EC nationals to be treated alike. The common format passport, now being introduced in stages, will speed up procedures at frontiers. It is machine-readable, and therefore represents an important advance in the fight against terrorism as well. It guarantees, of course, exactly the same rights as the old passport, and continues to be issued only by Her Majesty's Government.

No ‘Fortress Europe’. The Government has always insisted that the removal of barriers to trade within the Community must not mean the erection of new obstacles to trade with the outside world. A ‘Fortress Europe’ is in nobody's interests. The Government regards the completion of the Single Market as a step towards freer trade throughout the world.

A more open and competitive European Community will offer greater opportunities for companies from outside the Community, and more competitive European firms will sell more abroad. The Government sought – and obtained – at the European Council at Rhodes (December 1988) an unequivocal pledge from our partners that the Single Market would not mean ‘Euro-protectionism’. It has fully supported the Community's efforts in the current GATT round to secure more liberal global trading arrangements.

(J) OPPOSITION POLICIES

1. THE LABOUR PARTY

The Labour Party's attitude to the Community is characterised by inconsistency, muddle and division. The Party has now changed its mind five times on the issue of Britain's membership.

Inconsistency. Labour opposed Britain's entry to the Community in the early 1970s and voted against it in the House of Commons in October 1971. Back in office in 1974, the Labour Government set about 'renegotiating' Britain's terms of entry to the Community. Despite obtaining only cosmetic changes, the Labour Government decided that they were sufficient for a change of tack and it recommended continued membership to the British people in the referendum held in 1975.

Since 1979, the Labour Party's policy has shifted wildly back and forth between support for withdrawal and a grudging acceptance that Britain is in Europe to stay.

In 1979, the Labour Party's election manifesto called simply for reform of the Community and ignored the subject of withdrawal entirely.

In 1980, the Labour Party Conference passed a motion calling for withdrawal. A statement presented by Labour's National Executive Committee (NEC), and approved by the Conference, stated that membership of the EC:

'has seriously hindered, and could prevent altogether, Britain adopting a coherent socialist strategy for economic and industrial regeneration. Withdrawal is thus not a substitute for Labour's alternative economic, industrial and social strategy. It is a necessary condition for its success' (*Withdrawal from the EEC*, para. 8).

The decision to withdraw was confirmed by the Party Conference in 1982.

Labour's 1983 General Election Manifesto, *The New Hope for Britain*, stated:

'British withdrawal from the Community is the right policy for Britain – to be completed well within the lifetime of the next Parliament. That is our commitment' (p 33).

But the outright decision to withdraw was openly opposed by leading Labour spokesmen – principally Mr Healey and Mr Hattersley. The latter stated:

'On balance, I've always believed that Britain was better in than out' (BBC 1, *Election Call*, 16th May 1983).

Reappraisal follows Defeat. After Labour's humiliating defeat in the 1983 General Election, it was widely acknowledged that the policy of unconditional withdrawal had been a severe electoral handicap. For the 1984 European Election Manifesto the approach was softened. In place of outright withdrawal, the Party now favoured fundamental change in Britain's relationship with the rest of the Community, which would, in practice, almost certainly lead to withdrawal:

'Britain, like all Member States, must retain the option of withdrawal from the EEC ... we need to return to our own Parliament the powers ... ceded by the Tories to the EEC in the 1972 European Communities Act' (pp. 6, 9).

By the 1987 General Election, Labour had decided to ignore its policy of withdrawal altogether. Instead the Party pledged to 'work constructively with our partners to produce economic expansion' (*Britain Will Win*, p. 15).

Since its humiliating defeat in the 1987 General Election Labour has changed its policy once again. Its argument is now that Britain has been in the Community since 1973, and that withdrawal is therefore no longer feasible. The 1988 Party Conference conceded that:

'Britain is politically and economically integrated into the European Community' (Composite 58).

It called for the Labour Party to:

'use and adapt Community institutions to promote democratic socialism' (*ibid.*).

Mr Kinnock's Position. Mr Kinnock was for many years one of Labour's leading opponents of Britain's membership of the Community. He argued against continued membership in the 1975 referendum campaign. But during his campaign to win the Labour leadership contest in the summer of 1983, **Mr Kinnock** summarily dropped his opposition to Britain's membership. Just a few months earlier he had declared that 'we want out of the Common Market' (*News of the World*, 15th May 1983), but by July he felt that this was no longer practicable. By the beginning of 1988 Mr Kinnock's view was that 'the prospects for withdrawal are nil' (*The Independent*, 4th February 1988). Such a policy, he said, would be both 'politically romantic and economically self-defeating' (*The Daily Telegraph*, 22nd February 1988).

Muddled and Confused: Labour and 1992. The advent of the Single Market in 1992 has found Labour's policy-makers wanting. Labour simply does not have a credible – or coherent – policy on the subject. Mr Kinnock's own pronouncements reflect the confusion of his Party. He began by calling the completion of the Single Market 'an abdication of responsibility ... an apology for action' (Speech to the Iron and Steel Trades Confederation Conference, 24th June 1986). Then he complained that Britain 'is not ready' (Press Conference, London, 30th January 1989) for what he had previously called 'an apology for action' and launched a report (*The Economics of 1992* by Henry Neuberger) saying that Britain stood to lose many thousand jobs as a result. Then he put his Party's name to a joint socialist Manifesto which pledges to work for 'the achievement of the internal market ... accompanied by economic and monetary unity' (Confederation of the Socialist Parties of the EC, Election Manifesto 1989, p. 2).

Socialism on the Sly. It is quite clear why the Labour Party is warming to the idea of '1992'. Labour now sees Europe as a vehicle for imposing the Socialist policies rejected in three General Elections at home. The trade union movement is another sudden and equally opportunist convert to the cause: but it is also more honest. Mr Ron Todd, General Secretary of the TGWU, has said that:

‘Social engineering is what ‘1992’ is all about – it is probably the biggest exercise in social engineering since the War’ (Bournemouth, 8th September 1988).

It is through the Commission that he and his colleagues hope to obtain agreements on mandatory worker-participation on company boards, and on other issues. And as he went on to say:

‘in the short term we have not a cat in hell's chance of achieving that at Westminster’ (Bournemouth, 8th September 1988).

Illegal Policies. But there remains a fundamental contradiction at the heart of Labour's new-found enthusiasm for the Community: ‘1992’ and the completion of the Single Market will make many of Labour's economic policies illegal. Dr Seal, the Leader of Labour MEPs, has issued numerous warnings on this point:

‘The completion of the Single Market will make many of Labour's industrial and trade union policies illegal – since it will not be completed by 1992, the next Labour Government has still time to stop it’ (*Tribune*, 15th May 1988).

Moreover, he has said:

‘There is a need to impress upon the Labour Party and the trade unions that the next Labour Government would not be allowed derogations [exemptions] to carry out Manifesto policies. ... Detailed research work needs to be carried out to ascertain which of Labour's policies would fall foul of the Treaty of Rome’ (*Tribune*, 29th July/5th August 1988).

Many of Labour's policies – such as those on support planning, exchange controls and selective public investment in industry and services – would all be contrary to the Treaty of Rome and could be declared illegal under it. This would leave a Labour Government with a stark choice – withdrawal from the Community or possible expulsion. Mr Bryan Gould has made clear what Labour would do in such an instance:

‘We must be clear that if we have to choose between our obligation to the Treaty of Rome and the EEC and priorities which we establish in a Labour programme. I believe we must choose the latter’ (*The Times*, 25th September 1988).

Dr Seal has echoed his words:

‘We urgently need to formulate a Labour movement response to the internal market proposals and to make clear that we will not allow [them] to prevent us from carrying out socialist policies. We should be able to give notification that the Labour Party would carry out its election promises despite the Commission’ (*Morning Star*, 30th October 1988).

Divided They Stand. Despite Labour's recent 'conversion' to Community membership, large sections of the Labour Party still remain fundamentally opposed to the EC. Almost one in five of Labour's MPs (and nearly one in four of the Party's MEPs) belong to the hard Left Campaign Group, which is committed to withdrawal from the Community.

Out on a Limb. Labour's MEPs, in particular, are at odds with Mr Kinnock's 'new approach' to the Community. In June 1988 Mr David Martin MEP, who has been Leader of the British Labour Group for just 12 months, and closely identified with Mr Kinnock, was ousted by Dr Barry Seal, a long-standing anti-marketeer. The British Labour Group has now had three leaders in the last two years. The majority of its members continue to advocate repeal of Section 2 of the European Communities Act 1972 – which would remove Parliament's ability to enact Community legislation into national law, and thereby make continued membership of the Community impossible – directly contradicting the view of Mr Kinnock, and, as of October 1988, the Labour Party (see p. 544). And it is at odds with its parent Socialist Group too, most notably over the latter's support for a federal Europe.

2. THE SLD

The SLD has inherited the starry-eyed enthusiasm for Europe which was the hallmark of the Liberal Party. Sir Russell Johnston, its Spokesman on Foreign Affairs, has declared that 'national origin is over' (*The Times*, 27th September 1988).

Sovereignty. The SLD would enthusiastically reduce Britain's control over its own affairs. As their Green Paper on Europe, overwhelmingly passed at their 1988 Party Conference, states:

'Social and Liberal Democrats are the only Party in Britain fully committed to the objective of European Union. For us this is no abstract ideal' (Federal Green Paper No 4, p. 4).

Accordingly the paper goes on:

'More government from Brussels should mean less government elsewhere. The transfer of powers from national to Community institutions should allow us to scale down the size and importance of national ministries' (p. 9).

Institutions. The SLD favours greatly increased powers for the European Parliament. As the Green Paper says:

'The new Parliament should take Europe's agenda firmly beyond the implementation of the Single Act and the completion of the internal market' (ibid., p. 7).

The European Parliament should either acquire rights to vet and endorse the Governments' appointment of Commissioners, or Governments should be obliged to appoint Commissioners from among the ranks of MEPs. Meetings of the European

Council should, as a rule, be open. Proportional representation should be adopted in the United Kingdom for elections to the European Parliament, as in the SLD's view, it should be for general and local elections.

'1992'. The SLD supports the Government's view on the completion of the Single Market. In the words of the Green Paper:

'In our view the potential gains from the completion of the Single Market are enormous; so are the number of gainers. These far outweigh the losers' (p. 12).

On financial services, the SLD shares the Government's view that Britain's companies can look forward to '1992' with great confidence. As Mr Alex Carlile, Spokesman on European Affairs, has said:

'Our financial services sector, especially the big banks, can view 1992 with great enthusiasm, as their greatest opportunity since the heyday of the British Empire – provided that we enter fully into the spirit of deregulation and reform' (*Hansard*, 27th October 1988, Col. 526).

VAT. The SLD now opposes the imposition in Britain of VAT on food and children's clothes. But the value of this pledge is dubious. It has been less firm in the past. In the SLD's notorious policy declaration, *Voices and Choices for All*, for example, Mr Steel and Mr Maclellan proposed to:

'work on and cost measures which would ... extend VAT over several years to food, children's clothing, domestic fuel' (*Voices and Choices for All*, p. 16).

Monetary Union and Monetary Co-operation. The SLD supports greater macro-economic co-ordination at EC level and the immediate participation of sterling in the Exchange Rate Mechanism of the European Monetary System (EMS). It supports the creation of a European Central Bank, regardless of the surrender of control over economic and monetary policy which that would involve – only possible in the context of very close (and irrevocable) political integration. The SLD is in favour of 'a common European currency' which it believes 'would be widely welcomed by Europe's citizens' (Federal Green paper No 4, p. 22).

Frontier Controls. The SLD is committed to removing 'outdated border controls' (p. 18). At the 1988 SLD Party Conference an amendment to a motion on Europe calling for a strengthening of border checks to combat drug smuggling and terrorism was rejected. The SLD's Green Paper is scathing about the Government's commitment to maintain frontier checks after the completion of the Single Market:

'It is hard to believe border controls themselves are the key element in the fight against drugs and terrorism' (Federal Green Paper No 4, p. 18).

3. THE SDP

The SDP has vowed to try and fight its former allies in the SLD in all 78 Euro-constituencies in the European Elections next June – but it continues to promote unity at a *European* level:

‘The SDP is unequivocal ... in its readiness to contribute to European unity’ (White Paper, *SDP Europe*, p. 5).

It adds:

‘All Member States have to pool a measure of sovereignty to achieve greater European unity’ (ibid.).

The SDP also favours ‘a future review of the system which would necessarily include a further increase in the powers of the European Parliament’ (ibid., p. 25).

22. THE LABOUR PARTY

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(A) LABOUR'S DEFEAT IN 1987

1. MR KINNOCK'S DELUSION

Labour entered the 1987 General Election determined not to repeat its mistakes of four years earlier. Then it was discredited both by an ageing leadership and by a set of extreme socialist policies openly spelt out to the electorate in one of the lengthiest manifestos ever written. As a result it went down to its worst defeat ever.

Keeping Extremism out of Sight. And so by 1987, Labour had replaced Mr Michael Foot with Mr Kinnock – around whom the Party fought an unashamedly presidential campaign, focusing almost exclusively on his personality. Gone, too, was the lengthy manifesto of four years earlier. Instead Labour presented the electorate with what the **Prime Minister** described as ‘the Iceberg Manifesto – one tenth of its socialism visible, nine tenths below the surface’ (Perth, 15th May 1987). As the campaign began Labour's

aim was clear: to conceal the true nature of the Party behind a superficial, moderate image, backed by skilful – and often grossly misleading – advertising.

Mr Kinnock was convinced that this strategy would lead Labour to victory. In the middle of the campaign he somewhat astonishingly declared that ‘Labour can expect a result even beyond the levels of 1945’ (*The Sunday Times*, 24th May 1987). And only a week before the Election, with Labour still trailing in the polls, he predicted that ‘we’ve got Maggie on the run and we’ll win’ (*Daily Mirror*, 4th June 1987).

High Hopes Dashed. For all Mr Kinnock’s bravado, however, Labour went down to its second worst defeat this century – with a share of the vote up only marginally on 1983. But in many ways the prognosis for Labour in 1987 was *even worse* than four years earlier. For, as Mr Ken Livingstone was swift to point out, ‘the grim truth is that Labour’s result in this election is worse than 1983. We have piled up votes in our traditional areas where there are few seats left to gain and slipped back further in areas of Britain where the population is growing and the vast majority of marginal seats exist’ (*London Daily News*, 18th June 1987). With just below 31 per cent of the vote nationally, the Labour Party fared disastrously in the key areas of the South-East, Greater London and the West Midlands.

The Lost Votes. The scale of the task facing Labour if they are to recover was starkly outlined in a recent Fabian Society Tract written by a former deputy Editor of *Labour Weekly*, Mr Martin Linton. He has compared the result of the 1987 General Election with the Election of 1951 when Labour recorded its highest vote ever (and still lost):

‘It is a sobering exercise to ask how many votes Labour would have to win now to do as well as it did in 1951. When allowance is made for the extension of the vote in 1968 and for the growth of the electorate over four decades, the answer is that Labour would now need to win 17,431,296 votes. At the last election it won 10,029,270 – to put it at its bleakest, Labour has lost over 7.4 million votes’ (*Labour Can Still Win*, November 1988, p. 1).

The reason that Labour went down to such a devastating defeat was that its attempts to hide both its left-wing and unpopular policies *and* its collection of extremist candidates ended in failure.

2. THE ICEBERG MANIFESTO

In a succession of gaffes throughout the campaign under constant pressure from the Conservatives, Labour’s leading spokesmen – especially Mr Kinnock himself – let slip the truth behind Labour’s Manifesto which itself only ran to 17 pages.

Defence. Labour’s ultimate defence policy, Mr Kinnock admitted, was ‘using all the resources you have to make any occupation totally untenable’ after surrender to nuclear blackmail (*Daily Express*, 25th May 1987) – in other words, relying on guerilla warfare. The Labour leader also boasted that the election of a Labour Government would mean the

scrapping of the Polaris deterrent 'within a couple of weeks' time' (*The Star*, 29th May 1987).

Trade Unions. Secondary picketing would be made legal again, as Mr Kinnock made clear. He described it as a 'right that should be enjoyed' (ITV, *This Week*, 28th May 1987). He cited rule 41 of the NUM Handbook as the type of arrangement he would rely on to ensure that strike ballots took place – despite the fact that the miners' strike was conducted for a year without a ballot (ibid.). He also pledged that all the Government's reforms of the closed shop would be repealed (BBC1, *Panorama*, 1st June 1987).

Taxation. Labour's most damaging admissions came over its taxation plans. The Labour Manifesto – costed at £34 billion by the Conservative Party – did not mention any plans to abolish the upper earnings limit on national insurance contributions, and indeed Mr Bryan Gould had denied that Labour was committed to such a policy (*The Daily Telegraph*, 22nd May 1987). Yet less than a week after Mr Gould's denial Mr Kinnock admitted that 'we're going, and we've said clearly for a long time, to abolish the ceiling on national insurance contributions' (ITV, *This Week Next Week*, 25th May, 1987) – a move which would have left all those earning over £15,000 a year worse off.

Nor did the Manifesto mention the abolition of the married man's tax allowance – yet Mr Kinnock claimed during the campaign that Labour's policy to abolish it had been 'spelled out in neon-lit detail' (London, 4th June 1987). Its abolition would have taken money away from 12 million tax payers.

Inflation. It was admitted by Mr Kinnock that the Party's policies would produce 'a temporary surge' in inflation, taking the rate up to 'say 7 per cent' (BBC TV, *Panorama*, 1st June 1987) – almost certainly an underestimate.

The Rates. Labour was also forced to backtrack over its plans for the rates. The official Labour campaign pack for the May 1987 Local Elections declared that 'Labour will base rates on the actual capital value' of a property – a policy which would have left millions of homeowners considerably worse off (*Investing In People*, April 1987). Yet during the Election Mr Bryan Gould was forced to deny that Labour intended to replace the rating system with one based on capital values (*The Times*, 27th May 1987).

The Left Uncovered. Not only did Labour's attempts to conceal its real policies fail – so too did its attempt to gag the extremists in the Party. Despite **Mr Kinnock's** bold assertion that 'we have dealt with the Militant problem' (*Financial Times*, 3rd May 1987), it soon became clear that the Party was fielding its most extreme set of candidates ever. It was **Mr Livingstone** himself who declared that 'the new intake of MPs will represent much the most radical bunch of MPs the Party has ever had' and boasted that 'renewed vigour' would be shown after the election by those who had been 'cautious' before it (*Daily Express*, 22nd May 1987).

Steadily throughout the campaign, Labour's extremists began to emerge. Militant-sympathising candidate Mr David Nellist, for instance, declared that 'this country isn't

worth defending' (*Today*, 6th June 1987), while *Labour Briefing*, a hard left publication with which 31 Labour candidates had associated themselves, published a Manifesto during the campaign calling for withdrawal from NATO and the European Community, abolition of the House of Lords and the monarchy, punitive wealth taxes, and repeal of the Public Order Act (*Labour Briefing Election Special*, May/June 1987).

Eventually, the extent of Labour's embarrassment over the extreme left was made clear by Mr Roy Hattersley. When asked to give a guarantee that no Labour Candidate was a member or supporter of Militant, the Deputy leader replied: 'I cannot give you that assurance' (BBC1, *Election Call*, 1st June 1987).

3. THE EXCUSES BEGIN

In the aftermath of Labour's drubbing at the polls, the excuses for defeat came thick and fast.

Mr Kinnock was clearly baffled by the result. He suggested that the electorate had refused to vote Labour for entirely perverse reasons: 'What has happened is that there are people who, for reasons best known to themselves, have voted for maintaining division in our country' (*The Guardian*, 13th June 1987).

Other labour spokesmen were more specific. Mr Hattersley accepted that 'we look like the Party of trade union bureaucracy' (ITV, *Weekend World*, 14th June 1987) while Mr Eric Hammond, General Secretary of the EETPU, admitted that 'people were refusing to vote Labour because of the defence issue' (*The Independent*, 15th June 1987).

Labour's General Secretary, Mr Larry Whitty, claimed that Labour lost the election on economic issues, 'including explicitly Labour's taxation policy' (*Labour Weekly*, 26th June 1987). Mr Livingstone added that 'skilled workers rightly resent heavy tax burdens ... Labour's campaign was a classic example of how not to win their votes' (*The Guardian*, 26th June 1987).

Mr Denis Healey suggested that 'the weakness of the Party is that we haven't adapted enough to social change ... We have not got to grips with the society in which most people own their house and would like to if they don't now' (*The Sunday Times*, 28th June 1987).

An editorial in the Party's now defunct newspaper, *Labour Weekly*, summed Labour's position up with admirable bluntness: 'Labour's claim to offer a real alternative to the Tories is only true in about half the country ... For too many voters, Labour was seen as divided, dominated by extreme policies and extreme politicians' (19th June 1987).

The Affluent Society. Other Labour figures admitted that the Party had lost support because the electorate doubted its commitment to maintaining and increasing the economic prosperity achieved by the Conservatives' policies. Mr Robin Cook, for instance, declared that 'what the electorate really doubts is whether Labour is really

interested in managing affluence and promoting prosperity. In a very real sense this instinct is perfectly sound. Labour *is* ambivalent about affluence' (*Marxism Today*, August 1987). Mr Tom Sawyer, General Secretary of NUPE and Chairman of Labour's influential Home Policy Committee, added that 'the dominant influence [in the election] was the personal prosperity experienced under the Tories. Lectures on socialist morality cut little ice with the working class family who, having bought their council home for a song, see it increasing in value. ... Put bluntly we do not convince people we could run the economy' (*Labour's Next Move Forward*, Fabian Tract No 521, July 1987).

Mr Kinnock took up the theme of affluence in his first speech to Labour's Conference after the Election, quoting Mr Ron Todd, General Secretary of the TGWU:

'Ron Todd made the point with deadly accuracy just a couple of months ago when he asked: what do you say to a docker who earns £400 a week, owns his home, a new car, a microwave and a video, as well as a small place near Marbella? "You do not say" said Ron, "let me take you out of your misery, brother"' (Brighton, 1st October 1987).

4. THE LEFT'S PRESCRIPTION

Those on the Left of the Party were swift to present their solutions to Labour's problems. Mr Livingstone, for instance, claimed that Labour's defence policy was not sufficiently left-wing. He suggested that 'we must regain our reputation as the party of peace. Labour's plans to redirect the savings from the Trident nuclear programme into increased conventional arms expenditure looked out of step' (*London Daily News*, 25th June 1987). The newly elected MP for Brent East also held out the prospect of a campaign of extra-Parliamentary action to defeat the Conservatives – saying that Labour 'must link up with groups outside Parliament to defeat this Government' (*Daily Express*, 17th June 1987).

Other leading left wingers were adamant that the Party should avoid any attempts to water down its policies and shift, instead, further to the Left.

Mr Eric Heffer urged that the Party should not simply adopt popular policies: 'What kind of political party simply echoes whatever ideas happen to be popular at the time? If people tell us they want to see hanging brought back, does that mean that should become official Labour Party policy?' (*Financial Times*, 28th September 1987).

Mr Tony Benn, too, warned against opportunism: 'There is a real risk that ... we would come to be seen as a purely opportunistic party that is prepared to say anything to get into office and is ready to sacrifice good policies when the opinion polls swing against us' (*Financial Times*, 15th September 1987).

And the Left were adamant where the blame for the Party's defeat lay. An editorial in *Labour Briefing* shortly after the Election declared that 'there is nobody to blame for Labour's failure but Neil Kinnock and his kitchen cabinet team. It was *their* strategy, *their* campaign, *their* failure' (*Labour Briefing No. 44*, July 1987).

The warnings for the Left were clear – that both the policies and the leader of the Party had to be changed.

(B) THE POLICY REVIEW BEGINS

Within weeks of Labour's defeat at the polls and with rather unseemly haste Mr Kinnock launched the Party on a review of its policies, declaring that all Labour's policies, which he and his colleagues had peddled so vigorously only weeks earlier, were 'up for grabs' (*The Sunday Times*, 19th July 1987). At Labour's 1987 Conference he explained further:

'Any serious party that [after an election defeat] did not undertake the most vigorous assessment and review would be betraying itself, its principles and the people who need it to win' (*The Daily Telegraph*, 30th September 1987).

Déjà Vu. Attempts such as this by the Labour Party to modify or abandon the programme on which it had just fought an election are nothing new. For instance, after its third successive defeat in 1959, Labour suffered an identity crisis similar to that which it is undergoing now. Leading Labour figures of the day like Mr Tony Crosland declared that 'we manifestly need to change the image of the Labour Party in terms of issues, attitudes and underlying class identification ... The object is to adapt the party to social change' (*Can Labour Win?*, 1960).

Following defeat in 1979, Labour's leader Mr Jim (now Lord) Callaghan pledged that 'the Party must be ready to listen to people as well as to lead them' (*Labour Weekly*, 25th May 1979). After the 1983 Election defeat, too, Mr Kinnock himself suggested that 'we need, quite literally, to take to the streets. We need to listen and learn as well as talk and teach' (*Labour Weekly*, 16th September 1983).

1. APATHY AND CYNICISM

The Promise. It should, therefore, have caused little surprise when Labour's 1987 Party Conference followed the tried and tested pattern of the past and initiated a so-called review of the Party's policies to ensure that Labour's programme for Government 'is attractive, imaginative and responsive to the concerns of working people and relevant to the needs of Britain in the 1990s' (*Conference Committee Report 1987*, p. 25)

The Review was to be conducted in two phases. In Phase I Policy Groups would produce broad outline policies – to be presented to Labour's 1988 Conference. In Phase II detailed policies – to be discussed at the 1989 Conference – would be constructed. Accordingly seven policy review groups were established in the autumn of 1987 to set about 'reviewing' Labour's outdated policies while a series of 'Labour Listens' events were also organised throughout the country as part of Phase I, seemingly to gauge the views of the electorate on central policy issues.

The Performance. But just like its predecessors in 1959, 1979 and 1983, Labour's latest 'policy review' has conspicuously failed.

Labour's attempts at 'listening' to the electorate turned out, predictably, to be little more than a superficial propaganda exercise. The first of the events, in Brighton, drew a meagre audience of 100 people – most of them party workers – despite a blitz of advertising (*Financial Times*, 26th January 1988). The rest of the series drew very tiny audiences – the last in London barely managing to fill half the Bloomsbury Theatre (*Morning Star*, 19th April 1988).

While the public remained either apathetic or unaware of them, the 'Labour Listens' events drew ridicule from the Parliamentary Labour Party. Mr Benn, for instance, warned Mr Kinnock that 'you can win an election with a pink flag and you can win an election with a pink rose but you cannot win an election with an ear trumpet' (*The Independent*, 14th January 1988). For once, Mr Benn's views were widely shared within the Parliamentary Labour Party. An opinion poll of Labour MPs showed that 41 per cent of them were 'sceptical' of the process – with 27 per cent even labelling it 'derisory' (*The Independent*, 12th February 1988).

The cynicism spread to Labour's grass-roots too. A survey of Labour's regional staff showed that half of those questioned identified Labour's biggest problems as 'variations of cynicism, low morale, distrust of the 'Labour Listens' exercise and convincing members of its relevance' (*The Sunday Times*, 22nd May 1988).

The findings of the seven policy review groups, too, were deeply unimpressive. Their intention was to produce a 'new' philosophical framework from which to construct 'imaginative' and 'attractive' policies. The result was very different.

2. POWER BEFORE PRINCIPLE

The disappointing results of the policy review should have come as little surprise – for in his speech to Labour's 1988 Conference Mr Kinnock made clear that Labour's real aim was simply to win power by producing policies that were electorally popular. Mr Kinnock warned his Conference: 'I am heartily sick of meeting people in anguish and having nothing to offer them but sympathy and solidarity when I know that we should have the power to give them real hope' (*The Independent*, 5th October 1988). He admitted that this meant that Labour had to 'compile the policies that will win us the power to apply our principles of social justice and our plans for economic efficiency' (ibid.).

Mr Kinnock was clear about what that entailed. *First*, Labour had to show that it was competent to run the economy and adapt itself to the realities of the market: 'The kind of economy that we are faced with is going to be a market economy. It will be the one that we have to deal with when we are elected. We have got to make it work better than the Tories make it work' (ibid.).

Second, Labour had to produce an electorally palatable defence policy: ‘when we conclude our review next year and resolve upon our policy for fighting the next election, that policy must be serious about nuclear disarmament, serious about defence. Indeed, so serious about both objectives that we are capable of earning the democratic power to achieve both objectives’ (ibid.). Indeed, as Miss Joan Ruddock, hard Left MP for Deptford admitted, the intention was ‘to make the [defence] policy more popular to get Labour into Government’ (Conference Report, BBC TV, 5th October 1988).

A Review which Changed Nothing. But on both these counts and on Mr Kinnock's own criteria, the first phase of Labour's Policy Review singularly failed in its task. For even after eight months of work, the Review Document *Social Justice and Economic Efficiency* published in June 1988, and debated and endorsed by Labour's 1988 Conference, revealed that Labour had:

- fudged the crucial issues of taxation, and public spending;
- attempted to conceal its policies on trade unions and nationalisation behind a spurious facade;
- ignored completely key issues such as nuclear energy, housing, Ulster and transport;
- maintained its commitment to its disastrous defence policy.

The Document, like Labour's Manifesto in 1987, simply represented the latest in a long line of attempts by the Labour Party to erect an elaborate smokescreen designed both to confuse the electorate and to conceal Labour's left-wing policies.

In fact, Labour's real policies remain as muddled and left-wing as ever. Labour would:

- still be forced to push up borrowing and taxation to fund the massive £34 billion spending programme on which it fought the last election and has yet to repudiate;
- repeal *all* the Government's trade union legislation – taking industrial relations back to the era of the Winter of Discontent;
- seek to renationalise companies privatised by the Government – although Labour attempts to camouflage its real intention beneath rhetoric about ‘public interest companies’;
- scrap the Trident missile system and unilaterally remove all nuclear weapons and nuclear bases from Britain;
- introduce three *new* taxes – a wealth tax, and a combination of local income tax and capital value tax to replace the Community Charge;
- abolish the House of Lords;
- seek to forbid fee-charging for private education;
- phase out nuclear power stations.

3. ADMITTING FAILURE

A number of Labour figures have even been bold enough to admit that the first stage of the Policy Review has failed.

Mr Tom Sawyer, a member of the NEC and one of the chief architects of the Policy Review, admitted that ‘with hindsight perhaps we had unrealistic expectations from Phase I. I certainly did. I thought that the letter from the General Secretary that went to all Constituency Parties, Trade Unions and other affiliates inviting them to submit evidence, would produce more of a response ... But I failed to realise how difficult it would be to mobilise the Party for the Policy Review. And how the Party's organisation in many ways was unable to respond to the demand we made upon it in the first phase’ (Blackpool, 3rd October 1988).

A pamphlet published by the *Fabian Society* declared that the review has been ‘far too timid’ (*The Independent*, 28th September 1988). The authors, Mr John Lloyd and Mr Patrick Corrigan, admitted that Labour had yet to accept that there was nothing wrong with inequality so long as all have equal opportunity.

Miss Diana Jeuda, a member of Labour's NEC and one of the authors of the Policy Review Document on *People at Work*, declared that the Policy Review – specifically on industrial relations – had been a ‘flop’ (*The Guardian*, 7th September 1988). In a speech to the pro-Kinnock Labour Co-ordinating Committee, she admitted the policy review groups had failed to harness the expertise available to the party in the unions and the regions and that unless the second stage of review harnessed that expertise, cynicism and poor morale in the party would spread (ibid.).

(C) MR KINNOCK'S LEADERSHIP

1. FIVE WASTED YEARS

Mr Kinnock was elected leader of the Labour Party on 2nd October 1983. In a speech of acceptance to the Party Conference on behalf of himself and of his newly elected deputy, Mr Roy Hattersley, he declared that ‘this movement has done us a great honour and has offered us a great duty. We shall repay the honour and we shall serve the duty by leading this movement to victory in the next General Election ... That is what we are going to do’ (*Labour Conference Report 1983*, p. 29).

Objectives Unattained. The Labour Leader has manifestly failed in that task. Instead of victory Labour went down to a crushing defeat. And five years on from his election as leader, the Labour Party is still no nearer to power. Nor has Mr Kinnock succeeded in any of the other tasks he set out, such as dealing with the party's Left or ‘moderating’ its policies. In fact Mr Kinnock's leadership since the 1987 election has been rocked by one crisis after another – by a challenge to his leadership, by a row over defence, by an ill-judged tour of Africa and by an open challenge to the party's policy review from both the trade unions and the hard left.

2. DEFENCE FALL-OUT

Under Fire. The publication of Labour's Policy Review in June 1988 was almost completely dwarfed by yet another crisis for Mr Kinnock's leadership – and as so often in his time as Leader, it was a crisis over the issue of defence. Indeed the Labour Leader's authority and credibility had been so undermined throughout the summer of 1988 that some of his colleagues were comparing his position with the last days of Mr Michael Foot's ailing leadership. Some suggested his position was even worse. The former junior Defence minister Dr John Gilbert, for instance, suggested that 'never, even in the darkest days of Michael Foot's leadership have such open statements been heard from sections of the Party, including Kinnock loyalists, to the effect that the Party could never win an election so long as he remained leader' (*Daily Mail*, 29th June 1988).

Deep Crisis Over Purely Cosmetic Change. It was, in fact, the issue of Labour's continuing commitment to unilateral nuclear disarmament that had shattered Mr Kinnock's credibility. The crisis, however, should not have taken Mr Kinnock by surprise, for it was one that had been predicted in advance. At Labour's 1987 Conference the Labour Leader had been warned by his arch-antagonist Mr Livingstone that 'any attempt to abandon Labour's non-nuclear defence policy would lead to civil war inside the Party' (*The Daily Telegraph*, 1st October 1987). Mr Kinnock ignored that warning. In an interview months later in June 1988 he *appeared* to be shifting away from Labour's policy of one-sided disarmament by suggesting that 'there is no need now for a something for nothing unilateralism' (BBC TV, *This Week Next Week*, 5th June 1988).

Humiliated Over a Slight Shift of Emphasis. In fact, Mr Kinnock was hardly changing his position at all – for he implied during the interview that a Labour Government would unilaterally disarm *come what may*. Indeed only weeks earlier he had confirmed that 'I want a non-nuclear strategy to be implemented ... I never make any bones and won't make any bones about it' (LWT, *Weekend World*, 15th April 1988). But even such a slight change in Mr Kinnock's typically convoluted rhetoric unleashed what Dr Gilbert described as a 'volcanic eruption' in the Labour Party (*Daily Mail*, 29th June 1988). Within days of his careless statement, Mr Kinnock's authority had been shattered:

- Mr Denzil Davies, Labour's Defence Spokesman, resigned in protest at the Labour leader's off-the-cuff policy-making, declaring that he was 'fed up being humiliated by Mr Kinnock. He never consults me about anything. He goes on television and he talks about defence but he never consults his defence spokesman' (*The Daily Telegraph*, 14th June 1988).
- Mr Ron Todd, General Secretary of the TGWU (the Labour leader's own union), chastised Mr Kinnock for shifting away from Labour's official position: 'Who are the custodians of conference policy? Are they those individuals who give the impression that they are making policy which they perceive to be electorally palatable merely in order to achieve power? Power for what purpose, if you have abandoned all of those key policies which form the bedrock of the Labour Party' (*The Independent*, 11th June 1988).

Routed by the Unilateralists. So, within days, Mr Kinnock was forced to reverse his position – giving in to the union paymasters and the ranks of the Party's Left. In an

interview with *The Independent* (21st June 1988) he confessed that immediate decommissioning of the British nuclear deterrent – the position which Labour had adopted during the election – was ‘still our position’.

Mr Kinnock's U-turn came too late – for the damage to his credibility had already been done. It was not, as Dr Gilbert has admitted, his U-turn or his vacillation as such that had destroyed his authority but the fact that ‘it had come at the dictation of Mr Ron Todd’ (*Daily Mail*, 29th June 1988). Mr Kinnock's crisis over defence revealed where the *real* power in the Labour Party lay – with the trade unions and with the Left (see p. 519).

3. FOREIGN FOLLIES

Mr Kinnock's shaky reputation for leadership declined even further during his now infamous tour of Africa in July 1988 – which like most of his previous trips abroad and forays into foreign affairs ended in ignominy.

Elgin Marbles. In January 1984 Mr Kinnock promised the Greek Culture Minister that Britain would return the Elgin Marbles (*The Times*, 6th January 1984).

Insulting Mr Schultz. On a visit to the USA, Mr Kinnock clashed with the US Secretary of State saying that he had ‘got out of his pram’ (*The Daily Telegraph*, 15th February 1984).

Immigration Controls. On a visit to India, Mr Kinnock promised to scrap all ‘discriminatory and racial’ immigration laws (*Daily Mail*, 28th May 1986).

Ringling Mr Wright's Lawyer. In an astonishing departure from the long-established practice of maintaining all-party consensus on national security matters, Mr Kinnock naively sought briefing from the lawyer representing the defence in the case brought by the Government in New South Wales to stop publication of Mr Peter Wright's ‘Spycatcher’.

Mr Reagan's Reception. After an ill-judged visit to the White House to attempt an explanation of Labour's defence policy at which President Reagan reportedly raised serious doubts about the repercussions of unilateralism, Mr Kinnock accused the White House of deliberately distorting the report of the meeting simply to make trouble for him (*The Sunday Telegraph*, 29th March 1987).

Giving Golan Away. On a visit to the Middle East, Mr Kinnock committed a major diplomatic gaffe by recognising Israel's permanent annexation of the Golan Heights: ‘the idea that these Heights which overlook so much of Israel would be given back to anyone but the Israelis is, I think, out of the question’ he told his Israeli hosts (*The Sunday Telegraph*, 21st February 1988).

Nemesis in Africa. Even those who had become accustomed to Mr Kinnock's strange conduct abroad were surprised by his antics in Africa.

His trip came under fire almost as soon as it had begun when Mr Kinnock tore up yet another long-established convention that politicians on overseas visits do not criticise their own Governments. Mr Kinnock accused the Prime Minister of disingenuousness – attacking her position on South Africa by saying that she did not appreciate ‘the gravity of the position or the obligations that a democratic country like Britain has’ (*The Times*, 11th July 1988).

Criticism continued when Mr Kinnock met – and hugged – Mr Oliver Tambo, leader of the banned ANC. Standing beside the Labour leader, **Mr Tambo** attempted to justify the ANC's campaign of violence – saying that there was ‘nothing terroristic about [it]’ and adding that the means used to achieve the end of destroying apartheid were justified (*The Guardian*, 12th July 1988). Asked whether he agreed with the ANC leader, Mr Kinnock replied ‘absolutely’ (ibid.).

The final controversy flared when the Labour leader was detained and threatened by Zimbabwean soldiers at an airstrip in Mutare. The soldiers, brandishing Kalashnikov rifles, held Mr Kinnock and his wife for more than an hour. The hot-tempered Labour leader reportedly fumed, swore, kicked the wall of the hut and had to be restrained by an aide from attacking the soldiers (*Time*, 1st August 1988).

4. THE LEADERSHIP ELECTION

Unloved by Many in his Party. Since the General Election, Mr Kinnock's leadership has been undermined not merely by his own incompetence but by opposition from members of his own Parliamentary Party. An opinion poll of Labour MPs, published in *The Sunday Times* (26th June 1988), shortly after the debacle over defence, revealed considerable disenchantment with the Labour leader inside the Parliamentary Labour Party. 100 MPs were questioned about Mr Kinnock's leadership, of whom 77 gave their views. Of that sample, *only 58 per cent* said that Mr Kinnock should lead the Party at the next General Election – with nearly 4 out of 10 Labour MPs saying that he should not. One such MP may well have been Miss Alice Mahon – elected for Halifax only last June – who made some blistering criticisms of her leader. Speaking at one of Mr Tony Benn's Socialist Conferences (see p. 563) she labelled him a ‘no-talent, weak man’ and scorned his Parliamentary debating skills saying that ‘Mrs Thatcher gobbles him up for breakfast’ (*The Independent*, 13th June 1988).

Dynamic Duo. But by far the most serious challenge to Mr Kinnock came with the decision in March 1988 of Mr Tony Benn to challenge him for the leadership. Mr Benn in announcing both his nomination and that of Mr Eric Heffer for the position of Deputy Leader, declared that his motive was to ‘give people a choice’ (*The Times*, 24th March 1988). He added:

‘We are offering members of the Party and the affiliated unions an opportunity to choose a different course for the Labour Party – one that commits it to its roots, which retains its commitment to socialist values and which above all commits it to support people in

struggle and not distance itself from people in struggle' (*The Independent*, 24th March 1988).

Messrs Benn and Heffer were joined shortly afterwards in their leadership bid by Mr John Prescott – who announced a challenge to Mr Hattersley, ostensibly to give him an opportunity to present his ideas for a new campaigning role for the deputy leader of the Labour Party (*The Independent*, 31st March 1988).

Despite the contention of Mr Benn that the election was about policy, the leadership contest soon deteriorated into one of personality. The leadership contenders were often vitriolic in their criticism of Mr Kinnoek and Mr Hattersley. And although neither Mr Kinnoek nor Mr Hattersley was ever seriously threatened, the constant attacks of their opponents served to undermine their leadership further. Mr Benn for instance persistently accused the Labour Leader of authoritarianism: 'He's the leader of the party, he's the chairman of the party, he's told us who's got to be the deputy leader of the party and he's told everybody else to shut up and not engage in debate ... Neil Kinnoek is saying there is really no alternative to his leadership and what I think is under attack is the right of the people to think for themselves' (*The Guardian*, 8th April 1988).

No Blank Cheque. In the end Mr Kinnoek and Mr Hattersley scored convincing wins over their rivals. The election was fought under Labour's complex electoral college arrangement in which the unions wield forty per cent of the votes and the constituency Parties and Labour's MPs thirty per cent each. The full result was as follows:

a) *Leadership Election*

	Unions (40%)	Constituencies (30%)	MPs (30%)	Total
Neil Kinnoek	39.6	24.1	21.9	88.6
Tony Benn	0.4	5.9	5.1	11.4

b) *Deputy Leadership*

	Unions (40%)	Constituencies (30%)	MPs (30%)	Total
Roy Hattersley	31.3	18.1	17.4	66.8
John Prescott	8.6	7.9	7.2	23.7
Eric Heffer	0.1	4.0	5.4	9.5

Mr Kinnoek declared that his 'great victory' represented 'a great honour, a great trust and great duty too' (*Financial Times*, 3rd October 1988). But it soon became clear that the victories of Mr Kinnoek and Mr Hattersley were certainly not, as Mr Ron Todd had warned them, a 'blank cheque' for the Party leadership.

5. LABOUR'S 1988 CONFERENCE

Within hours of Mr Kinnock's victory, a row erupted in the first full session of the Conference over the NEC document, *Democratic Socialist Aims and Values*. This statement, drafted by Mr Hattersley, purported to provide a 'philosophical' framework for the Party's Policy Review. In its introduction it states – with unintended irony – that 'the true aim of the Labour Party is the creation of a genuinely free society, in which the fundamental objective of government is the protection and extension of individual liberty ... Socialists understand that the rights of that free society can only have any real meaning for men and women who possess the economic and political strength to exercise them' (p. 3).

The document drew nothing but savage attacks from the delegates who successively derided it as 'waffle', 'stupid and trivial' and a 'mishmash of populism and pious attitudes'. Eventually the Kinnock/Hattersley statement was endorsed – but only with the grudging approval of the trade unions. Mr Todd, for instance, made clear that he would only support *Aims and Values* as a 'philosophical statement': it was a 'guide and criterion' for debate, but would not change policy (*The Independent*, 5th October 1988).

The Knives Come Out. The leadership's plans for 'social ownership' and Mr Kinnock's sudden apparent conversion (see p. 553 above) to the market also came under fire.

Mr Scargill, for instance, declared that Labour faced a choice between Clause IV and the 'Filofax brigade with the philosophy of the Yuppies. I didn't join this Party to have a Yuppiland approach to run capitalism better than the Tories' (*The Independent*, 4th October 1988).

Mr Kinnock's ill-thought out comments on the realities of the market also – and crucially – came under attack from Mr Todd: he stated categorically that 'we will not allow our commitment to public and social ownership to be lost in talk of markets and competition' (*The Independent*, 5th October 1988).

Eventually the Conference heeded the advice of the Left and voted to 'ensure the restoration to public ownership and control of British Telecom and the public utilities [and] to bring other key enterprises such as aerospace privatised by the British Government back into the community, and to extend social ownership strategically into principal sectors of the economy'.

Surrendering Defence. The Labour leader's discomfort over his statements on the market economy and over *Aims and Values* was merely the beginning of his troubles. By far his most crushing humiliation at the Conference was to come on the subject of defence: not for the first time that year humiliation was delivered by the union which actually sponsors him – the TGWU.

The Labour Leader had asserted in his Conference speech that Labour had to adopt an electorally palatable defence policy (see p. 553) – and that meant watering down Labour's

commitment to unilateralism. To this end, Labour's NEC – and Mr Kinnock himself – urged delegates to adopt a fudged and meaningless composite resolution declaring that ‘this conference reaffirms its commitment to the total elimination of all nuclear weapons in the world to be brought about by steps of unilateral, bilateral and multilateral disarmament’ (*Conference Arrangements Committee Report*, p. 44).

But the unions were unwilling to let Mr Kinnock have his way. Mr Todd made it clear that he would not allow Labour to ditch one-sided disarmament:

‘our non-nuclear defence policy, our rejection of the absurdity of the British bomb and the obscenity of its possible use ... is part of our basic socialist aims ... we will not allow it to be downgraded or discarded’ (*The Guardian*, 5th October 1988).

In a bitter blow to Mr Kinnock, Mr Todd wielded his union's block vote to help defeat the NEC's fudged resolution on defence by 3·3 million votes to 2·9 million. In its place a motion confirming the Party's commitment to complete *unilateral* disarmament was carried by a substantial margin (see p. 519).

Just the Beginning. But it was not just over the issue of the future of Britain's nuclear defence on which the Labour leadership was defeated. Mr Kinnock and the NEC were defeated on a string of other issues too.

- *ET*. Like the TUC – which only a month earlier had decisively rejected Mr Kinnock's advice not to begin a boycott of ET – the Conference voted, against the NEC's wishes, to boycott the Government's new Employment Training Scheme (*The Daily Telegraph*, 5th October 1988).
- *Minimum Wage*. Delegates also instructed a future Labour Government to introduce a national minimum wage of two-thirds of the average weekly wage of £135 per week *against* the advice of the NEC that this would lead to jobs lost (*The Independent*, 5th October 1988).
- *Women on Short lists*. The Conference also supported the calls of women activists to insist that every short list for a parliamentary seat must include the name of at least one woman (*The Times*, 4th October 1988). The vote means that male MPs hoping for automatic reselection will be challenged by a woman candidate if one puts her name forward.

6. LABOUR HOOLIGANISM

Mr Kinnock has also shown himself unable since the General Election to control the unruly ranks of his Parliamentary Party. Indeed at one point, in November 1987, the credibility of the House of Commons itself was threatened by the concerted attempt of a number of Labour MPs to disrupt its activities.

- On November 5th 1987, Mr Dennis Skinner was ordered out of the House of Commons for accusing Mr Norman Tebbit of ‘lining his pockets’ by accepting company directorships (*Hansard*, 5th November 1988, Col 1074).

- On 10th November, Labour MPs forced a marathon 30-hour sitting of the house by attempting to talk out a Bill allowing for the development of Felixstowe Docks (*The Daily Telegraph*, 13th November 1987).
- On 12th November, Mr Tam Dalyell was ‘named’ by the speaker for alleging that the Prime Minister had ‘lied’ to the Commons during the Westland dispute (*Hansard*, 12th November 1988, Col. 573) – despite being implored by Mr Kinnock not to do so. Traditionally the Speaker's authority in this matter is not challenged: but during a vote on Mr Dalyell's suspension, 101 Labour MPs defied the Speaker's authority and voted against the motion (*The Times*, 14th November 1987). Included among the MPs were three Labour whips, six other leading Labour spokesmen and Mr Kinnock's own PPS – Mr Kevin Barron (*ibid.*).
- This unruliness was even given apparent *encouragement* by Labour's Chief Whip – Mr Derek Foster. He forecast that ‘the cosy world of Commons debates has passed. Our people after eight years are hopping mad and I'm glad they are hopping mad ... The Government is going to get a really rough ride’ (*The Guardian*, 16th November 1987). He added that he thought the present ‘bitterness’ of the Labour MPs was understandable because ‘I would personally like to get my hands round the Prime Minister's neck and throttle her’ (*The Times*, 17th November 1987).

Rebelling over Terrorism. After a short respite, Mr Kinnock's ranks were in rebellion again – this time over the Government's measures to combat terrorism. In a vain attempt to cover up his Party's unwillingness to back vital measures against terrorism, such as the Prevention of Terrorism Act, the Labour leader had cynically instructed his MPs to abstain on the second Reading of two vital Bills: the new Prevention of Terrorism Bill and the Bill requiring local Government candidates in Northern Ireland to sign a declaration against violence. On *each* occasion over 40 rebel MPs defied him and voted *against* the measures. Among the rebels were two Frontbench Spokesmen – Miss Clare Short and Mr Andrew Bennett – who both resigned in protest at Mr Kinnock's instruction, and two former Labour ministers – Mr Tony Benn and Mr Norman Buchan.

Exodus. The resignation of Miss Short and Mr Bennett brought to five the number of Spokesmen who have departed from Labour's front benches since the General Election – yet another graphic example of Mr Kinnock's difficulties in handling the Parliamentary Labour Party.

- Miss Short made it clear that she was resigning because she would not be ‘threatened or bullied’ into following the party line (*The Daily Telegraph*, 7th December 1988).
- Earlier in the year Mr Denzil Davies, Mr Kinnock's defence spokesman, had resigned after being ‘humiliated’ by the Labour Leader (*The Daily Telegraph*, 14th June 1988).
- The issue of defence also led to the sacking of Miss Ann Clwyd – one of the Party's Education Spokesmen – when she defied party whips and voted against the defence estimates (*The Daily Telegraph*, 25th October 1988). In her defence

- Miss Clywd noted that ‘back in the seventies Neil Kinnock voted against the Labour Government's defence estimates twice’ (*Tribune*, 28th October 1988).
- Another Frontbench Spokesman sacked – at least temporarily – was Mr John Home Robertson, a member of Labour's Scottish Affairs team. He was sacked for advocating a tougher stand against the Government's Community Charge, such as non-payment (*The Daily Telegraph*, 12th November 1988). Shortly after his dismissal, however, Mr Kinnock reappointed Mr Home Robertson as an Agriculture Spokesman (London, 25th November 1988).

(D) THE LEFT UNLEASHED

1. SILENCED NO MORE

During the General Election Mr Kinnock made desperate, but ultimately fruitless, attempts to muffle the Party's left wing (see p. 550).

Mr Scargill, for instance, claimed that after the Election that ‘undue pressure from the top of the Party’ had been exerted ‘to prevent me speaking at party rallies’ (*The Sunday Telegraph*, 14th June 1987). But as soon as the votes had been counted, Labour's left were unleashed.

Mr Livingstone, MP for Brent East, warned his supporters that Labour MPs would have to be prepared to take part in extra-parliamentary activity: ‘If we are to defeat this Government we have made it quite clear we will do it outside Parliament’ (*The Sunday Times*, 14th June 1988).

Mr Paul Boateng, MP for Brent South, told supporters that: ‘I say this: we went before as humble petitioners. Never again. We go now as socialist tribunes of all the people, black and white in Brent South’ (ibid.). He added: ‘we can never be free in Brent until South Africa is free too. Brent South today, Soweto tomorrow’.

In Hackney North, Miss Diane Abbot broke with the tradition of British elections by failing to thank the police officers on duty during the count (ibid.).

Shifting Left. The effect of the Election result was to shift the Parliamentary Labour Party drastically to the left. Although Labour gained only 20 seats in the election, the retirement and deselection of many former MPs meant that no less than 69 out of the 229 Labour MPs elected in 1987 were new. Of those *only* 17 are on the centre Right of the party (*The Times*, 15th June 1987).

The effect of the election on the overall balance of MPs was as follows:

	<i>1983 Parliament</i>	<i>1987 Parliament</i>
Soft Left	63 MPs (29.7%)	84 MPs (36.7%)

	<i>1983 Parliament</i>	<i>1987 Parliament</i>
Hard Left	34 MPs (16.0%)	57 MPs (24.9%)
Left Total	97 MPs (45.7%)	141 MPs (61.6%)
Centre Right	115 MPs (54.2%)	88 MPs (38.4%)

(Source: *The Times*, 30th July 1986 and 15th June 1987)

It was Mr Robin Cook, usually a loyal ally of Mr Kinnock, who admitted after the election that ‘it is the left, not the right, which is now the natural majority in the Labour Party. We have long been in the majority in the constituency parties. We now have a majority even in the PLP’ (*Tribune*, 4th September 1987).

The End of Solidarity. Indeed the shift in the Parliamentary Labour Party was so great that the right-wing Solidarity Group, led by such figures as Mr Hattersley and Mr John Smith, has virtually collapsed. Shortly after the election, the MPs belonging to the group were warned in a confidential report that its days were numbered (*The Sunday Times*, 18th October 1987). A senior Solidarity Group figure was reported to have lamented that ‘the right in Labour politics is finished. It lives on in some trade unions but inside the House of Commons it is dead’ (ibid.).

Warning Shots. As soon as Parliament had assembled, the Left gave Mr Kinnock a taste of the trouble ahead with a series of extremely provocative maiden speeches – which by tradition, are supposed to be non-controversial.

- Mr Chris Mullin, MP for Sunderland South, declared that ‘the police and the courts have been converted into instruments of the Tory Party’ (*Hansard*, 1st July, 1987, Col. 584).
- Mr John Battle, MP for Leeds West, declared that ‘outside the House, like elsewhere in the world among down-trodden communities, the opposition have a moral duty to join popular campaigns for the defiance of unjust laws’ (*Hansard*, 6th July 1987, Cols. 119–20).
- Mr Ken Livingstone used his maiden speech to smear the memories of the late Mr Airey Neave and SAS Captain Robert Nairac, both murdered by Irish terrorists, by alleging that they had been involved in treason and murder (*The Guardian*, 6th July 1987).

Provoking Outrage. The outspoken words of the Hard Left MPs were not confined merely to the opening months of the Parliament – for Mr Kinnock's MPs have continued to cause outrage by their actions, as well as their words.

- Mr Livingstone, for instance, caused a furore by suggesting, just eight days after the Enniskillen bombing in November 1987, that the IRA would eventually force Britain to withdraw from Ulster: ‘I don't believe anyone seriously believes that they won't get their way’ (*The Daily Telegraph*, 17th November 1987).
- Mr Ron Brown, MP for Edinburgh Leith, was suspended from the House of Commons for throwing the Mace to the floor and causing up to £1,000 of damage

- (*The Times*, 2nd April 1988). After the event he said that he was unrepentant and would continue to urge people to use whatever tactics were necessary to fight the Conservatives – ‘if need be to break the law’ (Press Association, 25th April 1988).
- Miss Abbott has accused Britain of being ‘one of the most fundamentally racist nations on earth. Far from being a nicer and more liberal society, the British invented racism’ (*The Sunday Times*, 10th April 1988). On an earlier visit to the United States, Miss Abbott had declared that ‘there's nothing like black people burning down things for concentrating white people's minds on the nature of their political system’ (*Point of View*, Journal of the Congressional Black Caucus Federation, Winter 1988).
 - **Labour Briefing**, the independent Hard Left group which boasts a number of ‘supporters’ in Parliament, caused outrage by praising the ‘courage and justice’ of the Republican mob which brutally murdered two young soldiers in Belfast in March 1988: ‘for the unarmed Republican mob who believed they were under attack there was courage and justice in seizing these men's guns and using them to deal with “terrorism” as the British do’ (*Labour Briefing*, No. 59, 22nd March; 12th April 1988).

The Socialist Conference. Another clear signal of the new power of the Left and its determination to organise resistance to Mr Kinnock came with the establishment by the Hard Left Campaign Group of ‘The Socialist Conference’. The first of these conferences – attended by 2,000 people – was held on 24–25th October 1987 in Mr Benn's constituency of Chesterfield to present a ‘genuine’ left-wing alternative to Conservatism (*The Times*, 26th October 1987). According to Mr Jeremy Corbyn MP, 30 of his Parliamentary colleagues attended the conference, including some newly elected left-wing MPs, like Mrs Mildred Gordon, Mr Bernie Grant and Miss Dawn Primarolo (*The Independent*, 26th October 1987).

The conference bitterly attacked Mr Kinnock's leadership. Mr Scargill, for instance, labelled it ‘disastrous’ and accused the Labour Leader of ‘class collaboration’ (*The Sun*, 28th October 1987). Mr Livingstone compared him to Ramsay MacDonald: ‘you can have all the best policies in the world but if you have a Ramsay MacDonald in front there isn't a cat in hell's chance of getting them implemented’ (ibid.). At a further conference in June 1988 – during the row over defence – the attacks escalated still further. Mr Corbyn, for instance, declared that Labour had resorted to ‘reading the entrails of the opinion polls’ and devising policies to fit the results (*The Independent*, 15th June 1988).

The ‘Socialist Conference’ has agreed to form a new permanent political network based on a programme that will be ‘radically different’ to that of the Labour leader's programme (*The Guardian*, 26th October 1987).

2. MILITANT: STILL ENTRENCHED

Despite Mr Kinnock's pledges that the Militant Tendency would be wiped out ‘once and for all’ (*The Sunday Times*, 31st January 1988), Militant remains as strong as ever.

According to *The Sunday Times*, Militant now has full-time organisations in 12 regional offices in London, Newcastle, Glasgow, Edinburgh, Leeds, Liverpool, Manchester, Birmingham, Swansea, Newport, Southampton and Brighton.

Besides the regional offices, allegations of Militant activity in some 48 parliamentary constituencies have apparently been brought to the attention of the NEC. In its stronghold of Liverpool, Militant now has 14 supporters in the Council Chamber, compared with 13 before 47 Labour councillors were barred from office in 1987 for refusing to set a legal rate. Throughout the country, Militant is attempting to increase its influence in local government: it now claims 200–300 councillors according to *The Sunday Times* (31st January 1988), which is more than Dr Owen's SDP.

Militant at Westminster. There are now four MPs in the House of Commons known to be sympathetic to Militant – again making them a larger grouping than Dr Owen's SDP. Before the last election there were just two such MPs – Mr Dave Nellist (who has been a regular contributor to the Militant newspaper) and Mr Terry Fields (who addressed Militant's 21st Anniversary Rally in 1985). They were joined after the election by Mr Pat Wall – who has declared that 'I'm a Marxist and Militant is a Marxist newspaper. It's an old-fashioned Socialist newspaper and I'm an old-fashioned Socialist. I think its views are very good' (*Daily Mail*, 1st June 1986), and Mr Ronnie Campbell – another Militant sympathiser, according to *The Daily Telegraph* (11th September 1987).

Closing Down. Labour's NEC has even been forced to close down some Constituency Parties following allegations of Militant infiltration into them.

The NEC, for instance, was forced to suspend the Bradford North constituency Labour Party following such allegations (*Financial Times*, 17th December 1987). A confidential report based on 60 hours of interviews concluded that 'there was clear evidence of Militant involvement prior to and during the election campaign' (*The Guardian*, 24th January 1988).

In London the Southwark and Bermondsey Labour Party was suspended – and more than a dozen of its supporters faced expulsion after allegations of their support for Militant (*The Daily Telegraph*, 7th November 1988). A report submitted to the NEC highlighted how Militant supporters after the 1983 by-election took over nearly all the official positions in the constituency often without a contest and without organised opposition (*The Guardian*, 15th December 1987).

Trouble continues on Merseyside – where three members of the Knowsley North party came before the party's National Constitutional Committee after allegations of Militant support against them (*Financial Times*, 5th January 1988).

3. THE NEXT MOVE – CHALLENGE TO THE LAW

Labour's Left does not merely stop, however, at making outrageous remarks, for many on the Left of the Party are now even contemplating breaking the law over the Community

Charge. In Scotland a number of Labour MPs including, it is reported, Messrs Robin Cook, Dick Douglas, John Home Robertson and George Galloway (*The Independent*, 29th August 1988) have declared that they will not pay the Charge and they have been joined by a number of English Campaign Group MPs, including such figures as Mr Bernie Grant, Mr Dave Nellist, Mr Ken Livingstone and Mr Pat Wall, in calls of for non-payment.

‘The Committee of 100’. Eight of the Scottish Labour MPs are taking part in the so-called ‘Committee of 100’, the campaign pledged to non-payment of the Community Charge. The organiser of the Campaign has claimed that up to one third of Labour’s 49 Scottish MPs are sympathetic to civil disobedience – which is in direct contravention of their party line to oppose the Community Charge by ‘all means within the law’ (*The Guardian*, 22nd November 1988). Indeed, Mr Donald Dewar, Labour’s Scottish Spokesman, warned those who propose to break the law that such a course would be ‘tactically naive and wrong in principle’ – and that any party which aspired to govern could not afford ‘selective amnesia’ about the law (*Financial Times*, 5th October 1988).

But those – such as Glasgow MP Mrs Maria Fyfe – who have declared they will not pay the Charge are clear in their attitude to the law: Mrs Fyfe has admitted that she believes that ‘if voting does not get you what you want and the Government does not reflect the will of the people, then you have to resist that Government by any means open to you’ (*Morning Star*, 17th September 1988). Some of the ‘non-payers’ – such as Mr Dick Douglas MP – are clear that they will urge others to defy the law too by not filling in their Charge form. He has declared that if any of his constituents seeks his advice on how to fill in the form, ‘I will tell them how to put it in the waste-paper basket’ (*Financial Times*, 29th March 1988).

(E) THE STRUCTURE OF THE LABOUR PARTY

1. THE POWER OF THE UNIONS

The Dominating Block Vote. As Mr Kinnock has discovered to his cost, the Labour Party’s rigid constitution, which places effective power over party policy in the hands of the trade union leaders who subsidise the party and exercise the block votes at the Party Conference, continues to be the major bar to the ‘modernisation’ of Labour’s policies.

Clause V of the Party’s constitution (which lays down the relative powers of the various parts of the party organisation) provides that ‘no proposal shall be included in the party programme unless it has been adopted by the Party Conference by a majority of not less than two-thirds of the votes recorded on a card vote’. In turn, the Party Conference is dominated by the votes of the unions. At Labour’s 1987 Conference the unions collectively had a vote of 5,792,000. This swamped the votes of the constituency Labour

Parties (617,000) and the combined votes of the Socialist Societies and Cooperative organisations (84,000). In effect, the unions controlled some 90 per cent of the votes cast.

Mr Todd's Shackles. The block vote of the Transport and General Workers' Union is the most influential of all. Its total block vote at Labour's 1987 Conference was 1.25 million – over 1 in 6 of the total votes cast. The decision on how to cast the vote is effectively taken by a small delegation, and places immense power in the hands of Mr Ron Todd, the Union's General Secretary, who used it to support the Left at Labour's 1988 conference (see p. 559).

Mr Todd's actions have already prompted debate over the future of the block votes and the sanctity of Conference decisions. **Mr Todd** himself has made his view on the matter clear. He has said that Conference resolutions should not 'just be taken into account or treated only as a matter of interest' but that, if passed, a composite 'will be part of the policy of the party. We would insist on that as we would insist that *Aims and Values* and other important statements cannot and do not supersede democratic decisions of Conference' (*The Daily Telegraph*, 6th October 1988).

But Dr John Cunningham, Labour Environment Spokesman, made a grim prediction of the fate that would befall Labour if it allowed the union barons to continue to dictate party policy: 'Mr Todd cannot be allowed to dictate to a Labour leader or future Prime Minister of this country. If Neil Kinnock were to acquiesce in that process it would be political death for the Labour Party' (ibid.).

Battle Begins. Other leading Labour Spokesmen have joined Dr Cunningham's condemnations and called for reform of the block vote. Mr Robin Cook, for instance, has said that 'there is a very serious problem when you find out that votes at the party conference are stacked in a way that gives members less than 10 per cent of the voting strength' (*The Independent*, 24th October 1988). Mr Gould, too, has argued consistently for reform of the system: he has said that the 'undemocratic' system 'should be tackled sooner rather than later and we should be working now to obtain the cooperation of our trade union colleagues in working out a satisfactory solution' (*The Independent*, 30th December 1988).

The NEC. Labour's NEC – which oversees Party organisation and enforces Party discipline – is effectively controlled by the trade unions as well. The Unions elect 12 of the NEC's 25 members directly and since the five women members and the party's treasurer are elected by the whole Conference, their election, too, is effectively dominated by the block vote of the unions.

The constituency parties, which have long supported left wingers, elect seven representatives and the Socialist and Co-operative Societies elect one member each. The continued strength of the Left in the constituency parties was illustrated by the good showing for Mr Ken Livingstone in the 1988 NEC elections – and also the drubbing for Mr Bryan Gould. In the constituency section of the poll, Mr Gould dropped from fifth to seventh place – barely managing to cling on to his position by just some 35,000 votes

ahead of Hard Left MP Miss Diane Abbott (*Financial Times*, 4th October 1988). Mr Livingstone, however, continued to triumph: he rose from fourth place in the 1987 poll to third behind Messrs Blunkett and Benn.

2. MEMBERSHIP AND FINANCE

Since the General Election the Labour Party has been beset both by financial difficulties and by tumbling membership.

Labour Listens – to the Auditors. Despite the continuing financial support of the unions – who in 1987 contributed nearly £4.2 million (nearly two thirds of the Party's entire income) to the Party – Labour faces a serious cash crisis. Early in 1988 that cash crisis led to staff redundancies at Labour's Walworth Road Headquarters, the closure of the Party's newspaper *Labour Weekly* and the contraction of the *New Socialist* magazine. But despite those cuts Labour went nearly £2 million into the red and the Party's bankers, the Co-op, persuaded the Labour Party to call in efficiency auditors to begin an efficiency audit and plan a new fund-raising drive (*Financial Times*, 25th February 1988).

That confidential audit of the Party's finances, conducted by Peat, Marwick, McLintock, reportedly concluded that the Party was riddled with top-level financial mismanagement (*The Guardian*, 22nd April 1988). The report, leaked to *The Scotsman*, concluded that Labour's bank borrowing was set to rise to the 'unacceptable' level of over £2.1 million by the end of 1988 (*Financial Times*, 22nd April 1988). There was 'a serious muddle ... in reporting income and expenditure' and that 'the effective management and control of assets and liabilities is made impracticable' (*The Independent*, 22nd April 1988).

The Shrinking Party. Labour's cash crisis has been exacerbated by a continuing decline in Party membership. The Party's individual membership fell by 8,535 in 1987 alone – more than 3 per cent (*NEC Report*, 1988). Labour has now lost nearly 35,000 individual members – more than 10 per cent – under Mr Kinnock's leadership, as the following figures show:

	Individual Membership	Trade Union Membership
1984	323,292	5,843,586
1985	313,099	5,827,479
1986	297,364	5,778,184
1987	288,829	5,564,477

Labour's cash problems are compounded further because some 47 per cent of the Party's members are unemployed or pensioners who pay a reduced membership fee of £3.20 instead of the full fee of £10.60 (*The Sunday Times*, 24th April 1988).

Indeed the decline in Labour's ranks has led Mr Gordon Brown, a Shadow Treasury Spokesman, to remind his Party that its membership of under 300,000 is smaller than that

of the Mothers' Union and little more than half of the Royal Society for the Protection of Birds (*The Times*, 8th December 1987).

Regional Fallout. But Labour is not simply short of members. It is short of professionals as well, a point which was graphically illustrated when it was forced to postpone its 1988 Northern Area Conference because of a staff shortage (*The Guardian*, 24th February 1988). The problem arose because of a lack of constituency agents in the north. Paradoxically, Labour's organisation is strongest where the Party is politically weakest: in the North-East Labour holds 24 seats but has no full-time agents; in the Eastern Region it holds just one seat but has 24 full-time agents (ibid.). Labour's 1988 NEC Report candidly revealed that 'there has been a steady decline in the number of agents employed mainly because parties are not able to meet the costs of such an appointment' (p. 23). Labour now employs only 52 full time agents and one part-time agent – covering 65 constituencies, of which only 4 are marginal (ibid.).

(F) LABOUR IN LOCAL GOVERNMENT

After the General Election it was widely recognised by leading Labour Spokesmen that the record and reputation of left-wing Labour local authorities – especially those in London – had been a major vote loser for Labour. As Mr Denis Healey said, 'some of the antics of Labour councils in London cast a blight ... this ridiculous idea that you can build a national party simply by supporting the interests of small minorities is a great mistake' (*The Sunday Times*, 28th June 1987). But despite these warnings the reputation of the Labour Party in local government has continued to decline. The record of Labour's councils is widely recognised as abysmal, even by some of Labour's own councillors. The record of these councils is symbolic of more than their own incompetence and extremism. For, as the Labour Co-ordinating Committee has recognised, 'they demonstrate, as far as the public is concerned, what a Labour government would be like, how it would treat people, what sorts of things would be considered important and how people's lives would be changed' (*Labour Councils in the Cold*, January 1988, p. 49).

1. FINANCIAL INCOMPETENCE

Labour councillors have repeatedly shown themselves unfit to be responsible for public money:

- Islington Council has decided to sell houses which could be worth more than £200,000 for as little as £1,418 to the Ujima Housing Association (*The Times*, 22nd July 1988).
- Brent Council has had to cut spending by £17 million, sack 1,000 staff and raise rents by 30 per cent after the financial consequences of policies pursued since the Labour group came to power in 1986 finally caught up with them. One Labour councillor admitted, 'there has been a great waste of money and terrible

- mismanagement' (*The Sunday Times*, 7th August 1988). It had earlier been revealed that 9 Labour councillors owed almost £12,000 in rent arrears to the council (*The Daily Telegraph*, 12th August 1988).
- Derbyshire County Council spent almost £1 million on an inquiry into the former Chief Constable of Derbyshire, which resulted in no prosecution. The Council leader, Mr David Bookbinder, said of the inquiry, 'the ratepayers have not had a fair deal but you cannot weigh these things up in terms of value for money' (*The Daily Telegraph*, 14th March 1988).
 - Manchester City Council raised £200 million in a deal on the Town Hall (*The Daily Telegraph*, 10th March 1988).
 - Brighton raised £27 million in a deal involving lease and leaseback of properties (*ibid.*).
 - Southwark raised £30 million by sale and leaseback of offices and fixtures and fittings in council homes. The deal will cost the borough's ratepayers £96 million over 20 years (*ibid.*).

Self-Acknowledged Inadequacy. Labour politicians are themselves recognising just how appalling the record of Labour councillors has been:

- The Leader of Camden Council, Mr Tony Dykes, has admitted, 'Since 1982 our staffing has grown by 2,000 people and we have regraded thousands of staff upwards since 1985. Yet no member of the Labour Group maintains that services are 2,000 staff better or x per cent growth better' (*New Statesman*, 18th September 1987).
- The vice 'chair' of the Labour Co-ordinating Committee, Sue Goss, has confessed, 'we need to be clear-headed about the mistakes made by left Labour Councils – the neglect of management, efficiency, service delivery, the failure sometimes to take local people with us, the obsession with political gestures rather than practical changes' (*New Society*, 12th February 1988).
- The Labour MP for Brent East, Mr Ken Livingstone, has said that on the basis of Labour controlled Brent council's record of service delivery he can almost believe that the council 'is being secretly run by Pol Pot' (*The Guardian*, 10th August 1988).

2. ABUSE OF POWER

Labour councillors have all too frequently shown themselves to be more interested in using the powers and resources of local government to promote their own favoured sectional interests than to serve the local community as a whole.

- Derbyshire County Council appointed the former Labour MP, Mr Reg Race, as its 'director' on a salary of £46,000 p.a. Mr Race's background – 7 years as a senior research officer with NUPE, 4 years as a Labour MP, political adviser to Mr Ken Livingstone at the GLC and a spell as parliamentary officer of the Local Government Information Unit co-ordinating opposition to Government legislation

- is hardly that of an impartial bureaucrat (*Derby Trader*, 13th January 1988 and 27th January 1988).
- Haringey's former Director of Social Services, Mr David Townsend, has said of his former employers: 'Working in a borough as highly politicised as Haringey could be difficult. It's hard to accept a decision to spend thousands of pounds on a festival to make a point about nuclear waste, or even £60,000 a year on a cats' home, when you have 40 child abuse cases waiting for a Social Worker, and pensioners eight to a room in an old people's home' (*Croydon Advertiser*, 10th July 1987).
 - Manchester City Council's Nuclear Free Zone sub-Committee, which publishes its own newsletter 'Nuclear Free Manchester' organised a 'Nuclear Free Manchester' marquee at the Manchester show in 1987, to be followed by a video with 'a lively script' (*Nuclear Free Manchester*, October 1987). The Sub-Committee, in its own words, 'consists of eight Councillors and eight co-opted Members. The co-opted Members are nominated by Greater Manchester CND' (ibid.).
 - Lewisham Council has already given £126,994 (and decided to give a further £30,000 in 1988) to the Lewisham Action on Policing Group which published a leaflet claiming that: 'The State wants black recruits to carry out police murders'. A Group spokesman said it did not regret publishing the leaflet (official Council reply, 20th January 1988, and *South London Press*, 15th January 1988).
 - Ealing Council's Gay and Lesbian Rights Working Party voted to donate £50 to the Black Gay Men Conference which took place in October. The Working Party was told that £1,600 was spent on two gay and lesbian consultative meetings which only 40 people attended (*Working Party Agenda*, 11th November 1987).
 - Hackney Council's Labour Group whose Chairman has admitted belonging to the IRA in 1956, invited a leading Sinn Fein Councillor, Mr Alex Maskey, to visit the Town Hall shortly after the Enniskillen bombing (*The Standard*, 12th and 18th November 1987).

3. BEHIND THE MASK

Labour councillors are increasingly anxious to affirm a conversion to the need for better performance. Mr Andrew Puddephatt, Labour Leader of Hackney Council, has said 'what we are trying to do is to prove that Labour can be an effective provider and manager of services' (*New Statesman*, 5th February 1988). Yet, on closer inspection, the power and influence of extremists in Labour local politics appears little diminished.

Mr Derek Hatton has confessed of his time as deputy leader of Liverpool City Council that, 'the influence of, and input from, Militant's headquarters in London was impressive. The battles and campaigns being waged in Liverpool embodied Militant's aims and objectives nationally' (Derek Hatton, *Sunday Times*, 21st February 1988). Press reports indicate that at least 13 of the Labour Councillors elected to replace 47 disqualified and surcharged Liverpool City Councillors are Militant sympathisers (*The Sunday Times*, 31st January 1988).

In Birmingham, 20 Hard Left members of the Labour Group rebelled against the Group leadership and had their party whip withdrawn (*Birmingham Post*, 6th July 1988). Yet within days the leadership of Birmingham District Labour Party was taken by Left-wingers, and the new District Party Chairman, Mr John Cunningham, immediately expressed support for the rebels (*Birmingham Post*, 14th July 1988).

4. THE COST OF INCOMPETENCE

Labour councils consistently maintain high rate bills across the country. In 1988–9:

- the rate poundage in Derbyshire was the highest county council poundage in the country – at 297·5p.
- the average rate poundage in Labour-run county councils was more than 26 per cent higher than the average in Conservative-run county councils.
- the average rate poundage in non-ratecapped Labour shire districts is almost 73 per cent higher than the average in conservative shire districts.

Ratepayers in councils which become Labour-controlled often face a shock: for example a 62·2 per cent rate rise occurred in Waltham Forest in 1987 when Labour gained control.

5. STRAWS IN THE WIND

Labour's national leaders have begun to recognise that their councillors have become an embarrassing liability for the Party.

- Labour's Deputy Leader, Mr Roy Hattersley, has said, no doubt with an eye on the imminent introduction of the Community Charge, 'these are desperate days for all Labour councillors' (*ibid.*).
- Even Mr Ken Livingstone, one of the architects of the left's takeover of local government, has been forced to criticise the record of his own Labour council, Brent. Saying that the borough was 'at breaking point' he compared the council to the Khmer Rouge forces who slaughtered many of their own Cambodian countrymen. In a report to his constituency he said that 'if I took the Council's responses to my constituents' problems at face value, I would be led to the conclusion that Brent council is secretly being run by Pol Pot following a municipal version of the year zero strategy. During the last 19 years I have had personal experience of six other Labour councils and I can honestly say that none were as incompetently and insensitively managed as Brent' (*The Daily Telegraph*, 11th August 1988).

Yet Labour's Policy Review document *Social Justice and Economic Efficiency* says of Labour's 'new' policies, 'Our aim will be to experiment with some of our proposals in Labour local authorities, and to publicise the positive results and achievements of such 'flagship' services' (p. 30). Given the record of most Labour councils, these flagships are unlikely to stay afloat for long.

(G) THE SHADOW OF DEFEAT

At Labour's first conference after the General Election, Mr Kinnock told his Party that 'this conference is dominated by the fact that we meet in the shadow of defeat. Indeed it is that fact which, to all intents and purposes, dominates our agenda' (Brighton, 29th September 1987). He warned his Party:

'Out of that defeat we must build victory ... We use defeat for its only useful purpose: instruction. We learn from our defeat, and we can learn hard enough and deep enough to ensure that it is the last defeat that will be inflicted upon our movement' (ibid.).

But over a year and a half on from that defeat the Labour Party is still no nearer to power. Indeed, amid the gloomy findings from the opinion polls, Labour's leading Spokesmen have begun to predict yet another defeat at the next election.

Beating the Record for Failure. Opinion polls immediately prior to Labour's disastrous 1988 Conference revealed that the Party's post-election position was the *worst on record*. Fifteen months after the election of every Conservative Government since the War Gallup has shown Labour either with a solid lead or neck-and-neck with the Conservatives. But fifteen months after the 1987 Election, Gallup showed Labour languishing seven points behind the Government (*The Daily Telegraph*, 3rd October 1988).

Mr Kinnock's own personal rating has also reached its lowest level ever. A MORI poll for *The Sunday Times* (1st January 1989) revealed that only 27 per cent of the electorate considered his performance satisfactory, while 61 per cent did not.

The findings of the poll were confirmed by two bad results for Labour at Parliamentary by-elections. At Glasgow Govan the Party lost a seat it had previously held by a majority of nearly 20,000 to the SNP, and at Epping Forest failed to beat the SLD into second place *despite* the disarray in the ranks of the Democrats.

A NOP poll for *The Mail on Sunday* (2nd October 1988) showed that two thirds of the electorate think Labour is unlikely to win the next general election with Mr Kinnock at its helm. A Gallup poll for *The Sunday Telegraph* (2nd October 1988) also revealed that 29 per cent of Labour voters *never* expect Labour to hold power again.

Throwing in the Towel. It is not just opinion polls and election results which suggest that the Party's outlook is bleak indeed. A number of the Party's spokesmen, too, have admitted that it will be almost impossible for Labour to win a majority at the next Election.

- Mr Robin Cook – campaign manager of Mr Kinnock during the leadership election – has said that it would be a 'bold claim' to say that Labour could 'leap in

- one step from our present position to a clear majority in the House of Commons' (*Financial Times*, 25th August 1988).
- Mr Bryan Gould – even more candidly – has declared that ‘no one would be confident of winning, and I think that would be the wrong stance to take. I think we would be deluding ourselves if we simply, after three election defeats, said that this time we are bound to do it’ (*The Daily Telegraph*, 5th September 1988).
 - Mr Bob Worcester, the head of MORI, Labour's official pollsters, has been forced to admit that ‘the Labour Party has now very little possibility of holding office’ (*The Guardian*, 25th July 1988).

Fixing the System. With the Party's fortunes so evidently flagging it is little wonder that leading party figures have been attempting to find ways to avoid defeat at the next election – not by producing electorally popular policies, but by fixing the system.

Two leading Spokesmen, for instance, have called upon Labour to support proportional representation. Dr John Cunningham, Shadow Environment Spokesman, has said that PR would ‘produce a parliament more representative of the will of the people’ (*The Independent*, 5th November 1988); Mr Jeff Rooker, a former Local Government Spokesman, has said that ‘our first-past-the-post electoral system was not invented by democratic socialists and should not be defended by democratic socialists’ (*The Independent*, 30th November 1988).

Two other close supporters of Mr Kinnock have even called for electoral pacts with the SLD. Dr John Reid MP, a former aide to Mr Kinnock, has argued that Labour and the SLD should agree not to oppose one another in the 100 most marginal Conservative-held parliamentary seats (*The Independent*, 24th November 1988).

Another of Mr Kinnock's allies, **Mr John Evans MP** – who sits on Labour's NEC – has called for an anti-Conservative pact between Labour and the SLD as the ‘only realistic solution’ to an ‘unfair’ voting system which could otherwise keep the Conservatives in power indefinitely (*The Guardian*, 5th December 1988).

Unthinkable. The idea has, however, been rejected completely by **Mr Kinnock** who has said that it had ‘simply not been thought through’ (*The Daily Telegraph*, 6th November 1988). He added:

‘It doesn't recognise the importance of Labour's identity as a national Party seeking national support. It isn't realistic about local Labour parties. It takes no account of the fact that in the seats in which the three party contests would in any case take place, the dilemma of which anti-Tory party candidate to choose would still split the non-Conservative vote and benefit the Conservatives’ (*The Daily Telegraph*, 6th November 1988).

The Labour Leader, however, remains typically confused on the subject of Proportional Representation, though he has apparently refused to rule it out:

‘The PR argument has got to be much better thought out than it is, for it may be the case ... that we end up not with proportionality in government, but a disproportionate gift of influence and power to parties for whom few people have voted ... You've got to develop it [PR] because PR is very much part of the public debate at the moment, and will stay there. I think its going to be debated and we've all got a vested interest in seeing that it's fully assessed’ (LWT, *Walden At One*, 18th December 1988).

23. THE SLD AND THE SDP

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‘The likelihood before the start of most adventures is that of failure. The experimental plane may well finish up a few fields from the end of the runway ... but the reverse could occur – and the experimental plane soar in the sky’ (Mr Roy (now Lord) Jenkins, commenting on the prospects of a fourth party in British politics (*Financial Times*, 10th June 1980)).

(A) THE PLANE CRASHLANDS

1. THE MISSED OPPORTUNITY

Publicly at least, the ‘Alliance’ was in confident mood as the 1987 General Election approached. In 1983, it had come within 2 per cent of toppling Labour from its place as the main opposition to the Conservatives. The ‘Alliance’ leadership was convinced that 1987 would mark a further advance in their Parties' position.

The opinion polls seemed encouraging. In previous elections, first the Liberals, and then the ‘Alliance’, had always improved significantly by polling day on the level of support they had recorded in the early polls.

- In 1979, polls at the start of the campaign rated the Liberals at about 8 per cent (NOP, reported in *The Daily Mail*, 4th April 1979): their final share of the votes cast was 13·8 per cent.
- In 1983, early polls gave the ‘Alliance’ about 15 per cent (Harris, reported in *The Observer*, 7th May 1983): their eventual vote was 25·4 per cent.

So with the first polls of the 1987 campaign putting the 'Alliance' as high as 25 per cent (NOP, reported in the London *Evening Standard*, 12th May 1987) and 30 per cent (Gallup, reported in *The Daily Telegraph*, 12th May 1987) – 2 per cent ahead of Labour – the 'Alliance' leaders thought they had good grounds for optimism.

'The Alliance enters the 1987 General Election on an unprecedented high', *Liberal News* declared (15th May 1987). The Election on 11th June 1987 was, as Dr Owen put it, a 'unique, perhaps never to occur again, opportunity' for the 'Alliance' (*The Independent*, 3rd June 1987). It was their best – and their last – chance to 'break the mould'.

The Mould Unbroken. In the event, the 'Alliance's' performance in the 1987 Election dashed their high hopes.

- The number of 'Alliance' MPs in the House of Commons fell from 27 at the dissolution to 22 after the Election.
- The 'Alliance's' share of the popular vote fell from 25.4 per cent in 1983 to 22.6 per cent in 1987.

Several of the 'Alliance's' best known figures – Mr Clement Freud and Mr Roy Jenkins among them – were defeated. Liberal bastions such as Colne Valley and the Isle of Wight fell. Neither Mrs Shirley Williams nor Mr William Rodgers managed to secure election, leaving Dr Owen as the only one of the SDP's original 'Gang of Four' still in the House of Commons.

Rather than increasing as the campaign went on – as almost all the commentators had anticipated – support for the 'Alliance' actually dwindled as what was at stake became clear to the British electorate. The election of 1987 was a clear choice between freedom and socialism – a battle in which the 'Alliance', unable to formulate any clear policies of its own, was essentially irrelevant. Instead of the 'historic election result' the Liberals had forecast (*Liberal News*, 15th May 1987), the result was the final nail in the coffin of the 'Alliance'.

2. THE REALITY BEHIND THE MYTH

Passing the Buck. Almost as soon as the final result became clear, the recriminations began.

Many were quick to blame poor performances by those in charge of the 'Alliance' campaign for their defeat. Former Liberal President, Mr Richard Holme, for instance, claimed that 'the Alliance leadership' alone had 'lost an historic opportunity, never to be repeated' (*The Guardian*, 17th June 1987).

The Liberal Leader, however, was quick to deflect attention away from his own performance and from the deep divisions on policy by focusing on the failure of the Liberals and the SDP to merge before the election. Thus Mr Steel blamed defeat on 'a clear dislike and confusion over the Alliance arrangements of two parties, two leaders,

two policy-making mechanisms, brought together to fight elections in a negotiated compromise' (*The Guardian*, 4th May 1988).

Many among the rank and file of the parties seemed only too eager to believe Mr Cyril Smith's claim that 'negotiations [about merger] will set us out on a voyage to a promised land' (*Financial Times*, 16th September 1987).

Yet there is no evidence to support the idea that the 'Alliance' would have been much more successful in the Election as one party than it was as two. Apart from anything else, merger before the Election could have done nothing to prevent the damaging splits over policy which occurred during the campaign. As Mr Steel himself admitted, 'policy disagreement has generally been across the two parties rather than between them' (*The Time Has Come*, London 1987, p.9).

Policy Divisions. The 'Alliance' was deeply divided on virtually every major political issue facing Britain.

- *The Economy.* It was the view of Dr Owen and his supporters that the role of the market – 'incentives rather than intervention', and 'the activity of the individual rather than the State' – should be emphasised in 'Alliance' economic policy (*Financial Times*, 26th June 1987). Yet Mr Roy Jenkins declared that the 'Alliance' should 'retain the objectives of Keynesianism' (London, 22nd January 1987).
- *Defence.* Whereas Dr Owen said he was prepared to stake his 'entire political career' to safeguard Britain's continuing nuclear deterrent (*Daily Express*, 3rd November 1986), the Liberals, in Mr Steel's words 'always opposed the concept of an independent nuclear deterrent' (*The Times*, 8th June 1983).
- *Law and Order.* The Liberals favoured political control of the police (*These are Liberal Policies*, 1986, p.14): the SDP was pledged to defend local police forces' autonomy (*Political Guidelines for the County Elections*, 1985).
- *Housing.* The SDP promised to 'retain the Right to Buy' (*Action on Homes*, August 1986, p.24) with a 'temporary waiver' in areas of housing shortage (*The Only Way to a Fairer Britain*, p.15). The Liberals, however, favoured giving 'local authorities the right to decide whether or not to sell council dwellings and the terms of sale' (*These are Liberal Policies* 1986, p.15).
- *Energy.* The 1986 SDP Conference passed a motion calling for the construction of extra nuclear power plants as and when they became needed (Press Association, 15th September 1986). The Liberal Assembly of the same year voted for 'a planned phasing out of all nuclear power'.
- *Agriculture.* The Liberals and the SDP contradicted each other on whether food surpluses should be cut by the introduction of quotas. Mr Geraint Howells, Liberal Agriculture Spokesman, declared that 'the sooner we do away with the quota system, the better it will be' (*Hansard*, 3rd July 1985, Col. 187): Mr Robert MacLennan however, said the SDP would 'limit the amount of production eligible for support' (*Hansard*, 29th January 1986, Col. 1037).

These and other disagreements prevented the 'Alliance' from ever becoming a serious contender for government.

Campaign Collapse. Though the Parties' leadership strove to paper over the cracks in the 1987 'Alliance' Election manifesto, *Britain United – the Time Has Come*, disagreement over policy persistently resurfaced during the election campaign – particularly over defence.

At Odds over Trident. During the campaign Dr Owen declared that he might be prepared to accept the need for the Trident missile system, and was 'open to persuasion by the Chiefs of Staff and intelligence officials, if they really feel a ballistic system is essential' (*Daily Mail*, 22nd May 1987). Liberal unilateralists like Mr Simon Hughes, however, lambasted Dr Owen's 'major shift of policy' and declared the Liberals would have nothing to do with support for Trident (*Daily Express*, 23rd May 1987).

Such disagreements exposed the hollowness of the 'Alliance' leadership's claims to be united over policy. Not only did they fail to gain the confidence of the electorate: by the end of the campaign they no longer even retained the confidence of some of their senior colleagues. Mr John Pardoe (former Liberal leadership contender and Chairman of the 'Alliance' Planning Group) admitted that by polling day:

'I didn't much want to be governed by either of the two Davids and the idea of being governed by both of them was appalling beyond belief' (*The Independent*, 24th October 1987).

(B) CIVIL WAR

1. THE CONTENDING FACTIONS

After the election debacle feeling in both the Liberal Party and the SDP was clearly against the continuation of the 'Alliance' in its pre-election form. The advocates of continued 'partnership' were few after the disastrous campaign. Yet there was little agreement about exactly when, and by what, it should be replaced.

The timing and conditions for a 'democratic fusion', as Mr Steel termed it, of the SDP and the Liberal party proved a source of considerable rancour and acrimony from the start. Within both the SDP and the Liberals there were strong minority groups opposed even to the principle of merger.

On the Liberal Left, a group of activists hostile to merger started to form around former Liberal MP, Mr Michael Meadowcroft. He had always been suspicious of the SDP, and had earlier ruled out merger because 'constitutionally it would require a dilution of the preamble of the [Liberal] Party constitution'; that, he declared, 'would be like having the Salvation Army without Salvation' (*Liberal News*, 5th July 1983).

Meanwhile, a section of the SDP associated with Dr Owen were arguing not only against merger, but against the whole idea of a continued understanding with the Liberals. As early as 1986, Dr Owen made clear his personal dissatisfaction with the 'Alliance':

'I am not part of the soft centre of British politics. I am not part of splitting the difference on every issue. I have got other things to do in life' (*New York Times*, 30th November 1986).

Consequently Mr David Steel's precipitate initiative, within days of the Election, to force the pace of merger, immediately unleashed turmoil. The in-fighting between pro- and anti-merger Liberals, between mergerites and Owenites, and not least amongst the mergerites themselves, began straightaway.

2. THE BATTLE BEGINS

The SDP Splits. With many in the SDP unhappy at the speed with which Mr Steel was pushing for merger, relations between the two parliamentary parties deteriorated sharply only a week after the election, when the SDP unilaterally ended the system of joint 'Alliance' spokesmen and decided to elect its own parliamentary team (*The Times*, 18th June 1987).

On 29th June, the SDP National Committee decided to call a ballot on Mr David Steel's merger proposals and voted 18–13 to recommend rejection.

Two rival campaigns were set up within the SDP. Dr Owen, Mrs Rosie Barnes, Mr John Cartwright and, initially, Mr Robert MacLennan established the 'Vote for the SDP Campaign' to lobby for a 'no' vote, while Mr Jenkins, Mrs Shirley Williams, Mr William Rodgers and Mr Charles Kennedy organised the 'Yes to Unity' group.

Mrs Williams warned the Owenites of a 'war to the death' (*The Sunday Times*, 28th June 1987), while Dr Owen claimed the merger proposals displayed:

'a lack of nerve, and it's classic that the lack of nerve comes from the sort of liberal-minded – with a small 'l' – people in this country because they are the people whose nerve always folds' (*The Sunday Telegraph*, 12th July 1987).

War Between the Parties. Insults began to fly between the SDP and the Liberals. Mrs Barnes's attack on the Liberals as 'the sleepy party of the 1970s' (*The Guardian*, 13th July 1987) provoked Mr Cyril Smith to retort that 'she'd be better drying her nappies before she starts yapping on. She really is becoming quite offensive' (*The Guardian*, 10th August 1987).

Dr Owen, meanwhile, made clear the reasons why he and many others in the SDP were unprepared to go ahead with merger with the Liberals:

‘We could not be confident that a merged party would accept the need for a British nuclear deterrent. That it would uphold the absolute right of tenants to buy their council house. That it would vote for the renewal of the Prevention of Terrorism Act. That it would not endorse nuclear free zones for local authorities. That it would not turn its back on civil nuclear power generation’ (*The Observer*, 12th July 1987).

Mr Bernard Greaves, however, former Director of Policy Promotion for the Liberal Party, returned the attack on Dr Owen and ‘his immediate henchmen’ by calling them ‘dishonest, ruthless and prepared to exploit the Liberal Party to promote a profoundly illiberal programme’ (*The Independent*, 30th July 1987).

Mr Paddy Ashdown summed up the feelings towards the Owenites of many in the Liberal Party:

‘Most Liberals ... will have felt shocked and exploited to discover that the Alliance of principle for which we made sacrifices and which we fought and campaigned to promote, is now revealed to have been, for some, a cynical partnership with those whom they now find it possible to describe as ‘anarchistic’, ‘untrustworthy’ and ‘muddleheaded’. If that is the real view of Dr Owen and others, then we must question either their judgement or their integrity in working with us in the past’ (London, 1st August 1987).

The Vote. The result of the SDP ballot on 6th August 1987 showed a clear, but not overwhelming, majority in favour of merger. On a 77.7 per cent turnout, 25,897 (57.4 per cent) voted in favour, while 19,228 (42.6 per cent) voted against merger. Dr Owen resigned as leader to be replaced by Mr MacLennan – a late convert to the merger plans. The decision to go ahead with merger was endorsed at the SDP's September Conference in Portsmouth by 228 votes to 151 (*The Independent*, 1st September 1987).

3. MISMANAGED MERGER

Parting of the Ways. Even before the Portsmouth Conference, Mrs Barnes declared that the ‘Alliance’ was ‘irretrievably split’ (*Social Democrat*, 28th August 1987). The vote for merger was the last straw for Dr Owen. His isolation within his own Party had become increasingly evident since the time of the report of the Alliance Joint Commission on Defence in 1986 (see *The Campaign Guide 1987*, pp 408–9). Then, the SDP had split between those who supported Dr Owen's opposition to the report (including Mr John Cartwright MP and Mr James Wellbeloved, both later prominent anti-mergerites), and those who had supported the Commission's fudged decision to ignore the future of the British deterrent (amongst them Mr Jenkins and Mr Rodgers). As merger drew closer, Dr Owen and his supporters began to prepare themselves to go their own way in a separate and competing party.

Disquiet among the Liberals. Although initial resistance to merger among the Liberals was weaker, before the final discussions with the SDP even began the Liberal leadership was served with clear notice that they had only limited scope for concessions. Mr Alex Carlile MP described himself as ‘unenthusiastic’ about merger (*The Daily Telegraph*,

16th September 1987), and Mrs Margaret Clay, General Secretary of the Association of Liberal Councillors, warned Mr Steel that ‘many of us will fight and fight if we feel that in any way we are being sold down the river’ (*The Times*, 18th September 1987).

Last Post for the Liberals. The final Liberal decision to dissolve their own Party, and go ahead with merger came at their Special Assembly in Blackpool on 24th January 1988. The Party voted by a large majority – 2,099 votes to 385 – to merge with the SDP. Among the party's senior figures, only Mr Meadowcroft and the prominent councillor and activist, Mr Tony Greaves, voted against.

Fiasco over Policy. The negotiations for merger were never smooth. In January 1988 they reached a crisis over the content of the merged Party's founding policy declaration.

A statement of basic aims and values, *Voices and Choices for All*, was drafted in early 1988 at the request of Mr Steel and Mr MacLennan by two aides, Mr Hugh Dixon and Mr Andrew Gilmour. The document contained, among other things, a commitment to the retention of Trident (p.9), and a proposal to abolish VAT zero-rating (p.16).

Though the document was due to be released to the press on Wednesday, 13th January at noon, the Liberal Policy Committee only read it on Tuesday morning. Alarmed by the style and contents of *Voices and Choices*, they succeeded, with the backing of the whole Liberal parliamentary party (bar Mr Steel), in forcing the leaders to abandon the document at 11.00 a.m. on Wednesday – though not before the press had obtained copies. One week later Mr Steel ruefully commented that *Voices and Choices* was now ‘as dead as John Cleese's parrot’ (*Financial Times*, 20th January 1988).

A Democracy of Conscience, the successor to *Voices and Choices*, appeared on 18th January. Its four pages deliberately excluded anything of substance, lest they provoke a similar reaction to its predecessor. It still remains the party's only full statement of policy.

Constitutional Chaos. At the same time as the furore over the policy document, a row over the Party's constitution and name almost led to the collapse of merger negotiations.

The SDP constitution had contained a commitment to British membership of NATO. The SDP merger negotiators wished to see this commitment included in the merged Party's constitution. This the Liberals were grudgingly prepared to concede – as long as the SDP conceded that the Party's name should be the ‘Liberal and Social Democrats’ rather than the ‘Social and Liberal Democrats’ as the SDP had proposed (*The Independent*, 14th January 1988).

The SDP negotiators refused to agree. Mr MacLennan was reported as saying to the Liberals, ‘Right. You've got five minutes to change your minds on this or the merger is off’ (*The Independent*, 14th January 1988). When the Liberal leaders finally agreed to ‘Social and Liberal Democrats’ as the merged Party's name, three of the Liberal negotiating team walked out.

The Merger. A further round of membership ballots followed the end of the merger negotiations. Dr Owen urged his supporters to abstain. A clear majority of those who voted backed the merger, and the new SLD was formally launched on 3rd March 1988.

In 1981, when the SDP was launched, it rapidly attracted an initial 50 per cent opinion poll rating. By contrast, in 1988 the SLD swiftly fell below the 10 per cent level and stayed there for the rest of the year.

(C) MUDDLE IN THE MIDDLE

1. CHANGE AT THE TOP

Mr Steel's Withdrawal. Shortly after the SLD's official launch, Mr Steel who, with Mr MacLennan, was joint interim leader of the SLD, announced that he would not seek to become its permanent leader. Exhausted by the acrimonious wrangles over merger and criticism of his style of leadership in the General Election, he has now retired to his home in Etterick Bridge to write his memoirs (*The Times*, 17th June 1988).

His predecessor, Lord Grimond, noted that Mr Steel was 'not primarily interested either in political theory or in the details of policy' (*The Daily Telegraph*, 13th May 1988). His main interest was always presentation, and, as his former Liberal parliamentary colleague, Mr Richard Wainwright, pointed out, 'policy if and when there is time to get round to it' (*The Guardian*, 15th February 1988).

The Leadership Struggle. After Mr Steel's departure, two main contenders for the party leadership quickly emerged.

Former Liberal education spokesman, Mr Paddy Ashdown, was the clear favourite to win. Though never popular with his parliamentary colleagues, Mr Ashdown had always had a considerable personal following among his Party's activists.

The other candidate was Mr Alan Beith who stood as a representative of the traditional Liberal 'old guard'. His supporters included Sir Cyril Smith and Mr Steel (*BBC Conference Special*, 28th September 1988).

After a desultory contest, Mr Ashdown won by a crushing 41,401 votes to 16,202.

The Victor's Credentials. The new Leader of the SLD was a man who had only entered Parliament in 1983. He revealed his instinctive sympathy for the Left when he described the Lib-Lab Pact of 1977–8 as 'one of the best periods of government that Britain has had for a very long time' (*Hansard*, 3rd December 1986, Col. 1039).

Unilateralist Past. Mr Ashdown had for years been regarded as being on the far Left of the Liberal Party. He first rose to prominence at the 1981 Liberal assembly at Llandudno, where he championed the unilateralist cause against the leadership and helped push

through a motion proposing the one-sided removal of Cruise missiles from the UK. Replying to a challenge from the late Mr David Penhaligon, pointing out that unilateralism would greatly increase the likelihood of Soviet aggression, **Mr Ashdown** naively replied that:

‘the Poles have no nuclear weapons and we have made it clear that we would not consider an invasion as a reason for using ours. You must ask yourselves if they [the USSR] dare not take on Poland, would they really wish to take on the whole of Europe?’ (*The Guardian*, 18th September 1981).

In 1983 Mr Ashdown appeared at a CND rally in London (together with Mr Neil Kinnock, Mr Ron Todd and Professor E.P. Thompson) and declared, ‘Cruise is the front end of the whole anti-nuclear struggle – it is the weapon we HAVE to stop’ (London 22nd October 1983).

In June 1983 he co-authored a pamphlet which declared that Trident ‘actually impedes both European unity and disarmament negotiations’ (*Back from the Brink*, p. 12).

As recently as September 1987, he was asked: ‘Would you still be in favour of cancelling Trident?’ and replied ‘Personally I am’ (*The Independent*, 11th September 1987).

Reversing His Position. A sudden conversion has now taken place. Mr Ashdown has declared:

‘We would naturally use Trident and maintain it until such a day as it can be removed through a process of multilateral negotiation’ (*Daily Telegraph*, 26th September 1988).

He has lamely attempted to excuse this U-turn:

‘I made the judgement before the arms talks started that the thing was not to have cruise. When the talks did start three years ago I was laughed to scorn for saying they would succeed and that cruise would be removed. What I predicted has happened. Yes, I did change my views’ (*The Independent*, 20th June 1988).

Other Changes. Mr Ashdown has also changed his mind on a number of other issues.

At the 1979 election, he committed himself to ‘reduce taxation so that there is an incentive to work rather than an incentive not to work’ (Somerton, 26th April 1979). Since his election in 1983, however, he has voted against every cut in income tax.

He was initially wary of the Liberal decision to enter into the ‘Alliance’ with the SDP and declared:

‘We would betray ourselves and those who fought for Liberalism before us, if we were to exchange that birthright now for a mess of centre party pottage and a little help in the polls’ (*Liberal News*, 19th May 1981).

However, by early 1984 Mr Ashdown appears to have abandoned his misgivings about the SDP – and became one of the first Liberal MPs to propose a merger of the two parties (*The Guardian*, 2nd April 1984).

The New Leader's Critics. Mr Ashdown's flexibility over what pass for Liberal principles has led to a number of his MPs making their dislike of his leadership clear. Mr David Alton has refused to serve under him (*The Times*, 8th August 1988). Sir Cyril Smith, Mr Alex Carlile, and Mr Alan Beith were apparently persuaded to take Shadow portfolios only after lengthy negotiations (*The Times*, 23rd September 1988).

2. THE PARTY WITH MANY NAMES

Debacle in Blackpool. The first day of the SLD's first conference in Blackpool, 28th September 1988, brought to a head the argument about the Party's name that had started in January.

After a heated and bitter debate, the SLD voted in favour of adopting 'The Democrats' as its official shortened name (Federal Business Motion 2). The move was supported by Mr Ashdown. However, the Conference accepted an amendment which permitted 'variations in the emphasis which is given locally to different elements in the party's name', and effectively rendered the main motion meaningless.

The SLD are now officially 'The Democrats' for the purpose of the national press, and 'the Social and Liberal Democrats' when in Parliament. Members are free to use whatever variation they wish locally. Already five different versions of the name have emerged from among the party's nineteen MPs alone (*The Times*, 28th September 1988).

Despite the amendment, certain senior Liberal figures made known their displeasure at the decision to remove the word 'Liberal' from the Party's official short working title. Mr Alton claimed that 'some people were conned, who would not have voted for merger if they knew the word 'Liberal' was going to be dropped' (*BBC Conference Special*, 26th September 1988).

More recently, the issue of the Party's name has resurfaced. The Deputy Leader of the SLD, Sir Russell Johnston, said the name 'Democrats' was confusing and 'difficult for former members of the Liberal Party to identify with' (*The Times*, 1st March 1989). Councillor David Morrish, SLD Leader on Devon County Council, has announced that he will stand as a Liberal at this year's county council elections.

Yet Mr Ashdown himself has stressed that the inability to decide on a name undermines the credibility of his Party. He has said:

'The idea that we should, as our contribution to getting back into politics, return in five or six months time to say "we have changed our name again" does not strike me as the act of a credible political party' (*Social and Liberal Democrats News*, 22nd July 1988).

3. CHAOS IN THE CENTRE

The Liberal Left. The Blackpool Conference was too much for some of the remnants of the Liberal Left. Even before Mr Ashdown's accession to the leadership, some of the fringe 'radical' groupings in the party such as the Liberal Movement and Liberal Organiser had been canvassing the idea of a splinter 'Liberal Party' – a third competing party in the centre ground.

After the decision not to include the word 'Liberal' in the shortened name, Mr Michael Meadowcroft announced that he would lead a dissident group, the Liberal Association. This aims 'to promote the Liberal Party as the only organisation dedicated to campaign consistently for Liberalism at every opportunity', and rejects 'the claim of the Democrats to be a legal or political successor to the Liberal Party' (Wolverhampton, 3rd December 1988).

Mr Meadowcroft's support so far appears to be restricted to a small number of local councillors in northern metropolitan areas, but he has threatened to put up candidates against the SLD in this year's county council elections.

The Doctor in Isolation. Meanwhile Dr Owen with the two other SDP MPs opposed to merger – Mrs Rosie Barnes and Mr John Cartwright – persevere with their 'continuing SDP'. Their prospects of success appear bleak. In Mr Steel's words, the rump SDP has 'the characteristics not so much of a political party as of a fan club' (*The Independent*, 15th October 1987). Its chances of making serious and sustained inroads outside its few existing areas of strength seem slight.

- The SDP can currently claim fewer than 200 councillors – less than the total number of councillors who support Militant.
- The SDP's membership is only 30,000 and seems set to decline further (*The Times*, 19th September 1988).
- Although Dr Owen retains the support of some of the original SDP's wealthy supporters, it has already been made clear to him by his chief backer, Mr David Sainsbury, that support will be cut off in 1989 unless recruitment improves substantially (*The Times*, 19th September 1988).

The SLD's Byzantine Constitution. The SLD, according to its constitution, is 'a federation of parties' (*Constitution of the Social and Liberal Democrats*, p. 7) with English, Scottish and Welsh State Parties. Federal Party policy is decided ultimately by the Federal Conference, the SLD's 'sovereign representative body' (*ibid.*, p. 16). The Conference meets twice a year in early spring and early autumn to discuss constitutional and policy motions. Federal policy is proposed by the elected Federal Policy Committee (FPC) in the form of a 'Green Paper', amended and voted on by the Conference, resubmitted with appropriate alterations to the following Conference by the FPC in the form of a 'White Paper', and then, if passed in that form, it becomes national Party policy.

The daily administration of the Party is conducted by the Federal Executive, which in turn appoints a Finance and Administration Committee to control the Party budget and Party headquarters. The Party Leader must be a Member of Parliament, and is subject to bi-annual reelection.

Democrats in Danger. The SLD retains 19 of the 22 MPs returned in 1987 as 'Alliance' candidates. Yet, like the SDP, the SLD faces severe tests and challenges.

The total membership of the SDP/Liberal 'Alliance' in 1987 stood at 153,000 (101,000 Liberals, 52,000 Social Democrats). During the summer of 1988, it was revealed by Mr Alan Beith that the SLD's membership had fallen to below 60,000 (*The Independent*, 16th June 1988): so about 100,000 former 'Alliance' supporters have refused to join the SLD.

The SLD have also suffered a serious financial crisis as a result of low recruitment. Mr David Vasmer, a member of the Party's Interim Co-ordinating Committee for England, has called for 'an independent investigation ... into the financial management of the party. If we can't run our own affairs properly, we don't deserve to run the country' (*The Guardian*, 1st November 1988).

Puzzle over Pacts. The SDP Leader has long made it plain that he is willing, if the opportunity arises, to enter a pact with the SLD for the sake of electoral expediency. He has declared that he intends 'to go on working with Liberals wherever they want to do so' (*The Times*, 19th September 1988).

But in the aftermath of the split, the SLD made it clear that they intended to destroy the SDP. Spurning Dr Owen's offers of continued collaboration, former Liberal President Mr Richard Holme warned that 'Owenites can no more be our political friends than Labour or the Tories can' (*The Times*, 31st August 1987).

Mr Ashdown argued during his leadership campaign that the SLD should seek to obliterate the SDP, and then elbow aside Labour to become the chief party of the left. 'No one is going to play footsie with Dr Owen' he told his supporters (*The Independent*, 22nd September 1988).

He ruled out a pact. 'If we are to succeed we will have to be a national party fighting every seat. I do not see how we can give a blank cheque now to a faction who [sic] policies look like being to the right of centre, where ours will be to the left' (*The Guardian*, 11th September, 1987).

The Option of Opportunism. Yet the SLD's poor performance in the Richmond by-election (23rd February 1989) – where the SDP beat them into third place – wrecked Mr Ashdown's strategy. The SLD was shown to be unable to eliminate the SDP – let alone challenge the Labour party nationally. Consequently, in the days after the by-election Mr Ashdown performed a series of U-turns on strategy.

Initially, he offered to 'meet with Dr Owen to discuss how ... union as a single party could be achieved' (*The Times*, 25th February 1989), but Dr Owen firmly rebuffed a merger of the SLD and SDP, saying it was 'out of the question' (*The Guardian*, 25th February 1989). He called instead for a national pact.

Two days later Mr Ashdown changed his offer. Although he had previously said that 'Pacts don't work. I underline that seventeen times' (*The Times*, 24th January 1989), he then suggested a pact involving a single joint SLD/SDP candidate, selected by the two local parties together, in future by-elections (*The Times*, 27th February 1989).

Dr Owen again rejected the offer, commenting that 'there is nothing new in it and I don't think it holds the key' (*The Daily Telegraph*, 28th February 1989).

Dr Owen has made it clear that he is only interested in a 'constitutional coalition' (*The Times*, 27th February 1989), which would inevitably involve a national deal on seats, but Mr Ashdown ruled out a national pact with the SDP: 'I will not deal cards in a smoke-filled room at Westminster in a way that overrides the local party' (*The Independent*, 27th February 1989).

Mr Ashdown's readiness to negotiate with the SDP itself represents a major climb-down. He was swiftly and savagely criticised for it by Mr Des Wilson, former President of the Liberal Party, who called it an 'unworkable, over-hasty over-reaction to the Richmond result' (*The Guardian*, 28th February 1989).

(D) SLD POLICY

1. THE EMPTY AGENDA

Dodging the Issues. Since the merger, the SLD have added to their founding policy declaration – *A Democracy of Conscience* – with a series of Green Papers covering civil liberties, broadcasting, energy privatisation, Europe, training and education, planning, housing, and a programme for the counties in 1989. All of these were endorsed at the Blackpool Conference. The founding document, the Green Papers and the sundry policy motions passed at the Blackpool Conference, represent the total of the SLD's policies so far. In many cases, most notably defence and the economy, the Party has no clear policies at all.

Mr Ashdown's 'New Agenda'. In 1987, Mr Ashdown warned his supporters in the wake of the 'Alliance's' electoral defeat that the Liberals and Social Democrats had concentrated too much 'on defending or at least improving the old corporate mechanisms of the state, founded to serve the class based politics of the past' (*After the Alliance*, Hebbden Bridge 1987, p. 11).

During his campaign for his party's leadership, Mr Ashdown therefore urged his followers to accept the need for 'a resolutely futuristic agenda' (*The Times*, 28th June

1988) with which to go forward into the 1990s. Progress towards this 'futuristic agenda' so far is slight – indeed almost imperceptible.

A False Start. The Party's short-lived *Voices and Choices For All* policy statement in January 1988 tried and failed to make the SLD come to terms with the need to set priorities and formulate specific policies.

A Democracy of Conscience, the replacement for *Voices and Choices*, was designed to avoid the controversy provoked by its predecessor, and consequently contained almost no policy at all. Mr Steel himself confessed as much: the morning after the replacement document was launched, *The Times* reported him as having said 'that the fundamental difference between the two documents was that the second one did not attempt to look forward to the problems of the 1990s' (*The Times*, 19th January 1988).

Lack of Vision. The party's Blackpool Conference failed to arouse the excitement even of the delegates themselves when policy proposals were considered. One delegate described the housing 'Green Paper' as merely 'rehashing old ideas' (*The Independent*, 28th September 1988). The former Liberal Party President, **Mr Alan Watson**, warned delegates that the motion on industrial policy 'contains very little ... [other than] vague recipes of goodwill' (BBC, *Conference Special*, 28th September 1988).

Policy Vacuum. In many areas the SLD has yet to make any declaration of policy whatsoever. They have made no comprehensive statement of their views on the economy, health or defence. But then as the former Liberal Chief Whip, Mr Jim Wallace made clear, absence of policy – particularly on defence – is seen as a definite advantage by many in the SLD:

'There will be some who will insist that a new merged party must have a clear line on Trident in particular, and Britain's nuclear weapons in general. We will do our party no service by heeding such calls' (*Liberal News*, 18th September 1987).

2. ECONOMIC POLICY

The 'Alliance's' Position. The old 'Alliance' were consistent opponents of Conservative efforts to place the economy on a more market-orientated basis. Still wedded to the failed policies of the 1970s, they were the only party to fight the 1987 General Election with a commitment to an incomes policy.

At no time did the 'Alliance' support the Government's privatisation programme. Indeed 'Alliance' MPs voted against the privatisation of British Telecom in 1983, and against the second reading of the British Gas Act in 1986.

The 'Alliance' was always committed to the pursuit of egalitarianism via redistributive taxation. *The Time Has Come* committed the parties to 'tax reforms' which would be aimed at attacking 'concentration of wealth' (p.65). Nor was this merely electoral rhetoric: as Dr Owen said in his 1987 Tawney Society lecture:

‘The Alliance does not just talk about redistribution; our actions match our deeds. Unlike the Labour Party, we voted last year in opposition to the one per cent reduction in the standard rate. They abstained’ (quoted in Des Wilson, *The Battle for Power* [1987], p. 127).

‘Alliance’ Incomes Policy. The commitment to an incomes policy was central to ‘Alliance’ economic policy in the 1987 election.

The late Mr David Penhaligon, then Liberal spokesman on the economy, told the 1985 Liberal Assembly that ‘you have to commit yourselves today to a pay policy because, without that, nearly all we have to say about the economy becomes fluff in the wind’ (*The Times*, 17th September 1985).

No Answer to Inflation. The Liberals and Social Democrats went into the election claiming that their priority was the creation of jobs. They admitted, however, that if inflation got out of control, it would ‘sabotage the effort to increase output and jobs’ (*The Time Has Come*, p. 40).

Yet their economic package contained proposals which, if implemented, would have greatly increased inflationary pressures (see p.000). Having denied themselves recourse to the firm financial policies required to combat inflation, the ‘Alliance’ opted for an incomes policy which they hoped would help deliver ‘growth which is both economically and environmentally sustainable’ (p.32).

But like other incomes policies, the ‘Alliance’s’ proposals would have been ineffective in curbing inflation, and would have required a return to bureaucratic interference, damaging the economy.

No Help for the Unemployed. The ‘Alliance’ made success in dealing with unemployment the litmus test of their economic policy. Yet their overall strategy would have increased inflation and so destroyed jobs, while causing a slump in productivity which would have stunted growth.

Even their specific proposals would have worsened the situation. They promised to ‘give everyone the right to retire at any age between 60 and 70, and the right to work until 70’ (p. 104). This would clearly have *decreased* the number of job vacancies.

They also proposed ‘offering employers further cuts in NICs for new employees in their first year with the firm’ as an incentive to firms ‘to recruit new employees rather than carry out extra work by overtime’ (p.41). The effect of this would have been to return British industry to 1970s-style overmanning by distorting the labour market with inefficient government subsidies.

The SLD: Shifting Ground. The SLD has as yet made no full statement of its economic policies. Developments have occurred since the merger, however, which would seem to indicate that a major reappraisal is under way.

Both Mr Alan Beith, SLD Treasury Spokesman, and Mr Paddy Ashdown acknowledged during the course of their campaigns for the SLD leadership that the election commitment to an incomes policy might have to be abandoned (*The Independent*, 14th July 1988).

Mr Ashdown (also in the course of the leadership campaign) hinted at a more fundamental change. The 'Alliance' document, *The Time Has Come*, declared that 'unemployment is neither acceptable nor inevitable' (p.37), and reducing unemployment was billed as the party's top priority. During the leadership campaign, however, Mr Ashdown declared that he now considered unemployment 'endemic and structural in our nation for as long as practical politicians are wise to think of' (*The Independent*, 24th June 1988).

Hostile to Enterprise. Despite Mr Ashdown's new thoughts, the early signs are that the SLD's economic stance is unlikely to be any more compatible with a genuinely free market than was that of the 'Alliance'.

The SLD Treasury Spokesman, Mr Alan Beith, has criticised the Chancellor over the level of inflation (*Hansard*, 25th October 1988 Cols. 189–93) – and yet has also declared that he feels interest rates to be too high (*Financial Times*, 29th September 1988). Since he has also declared that incomes policy is no longer an option, he would presumably attempt to tackle inflation by either increased taxation or some form of credit and exchange controls.

Opposition to Privatisation. It is also clear that the hostility of the 'new' SLD is even greater than that of the old 'Alliance' towards the Government's privatisation programme. In *The Time Has Come* the 'Alliance' said that the industries where they found privatisation objectionable on principle were 'public monopolies where no competition could be introduced' (p.56). Yet in the Green Paper *Privatising Electricity*, published in the summer of 1988, the SLD would seem to have changed their criterion for privatisation. Although they concede that competition will be introduced into the electricity supply industry by privatisation, they claim the Government's proposals contain nothing 'that could not be promoted without privatisation' (p.1), and consequently 'we see little justification for privatisation' (p.4).

Significantly, in their 'Green Paper' the SLD fail even to mention the question of wider share ownership as a fact to be taken into account when deciding upon the merits of privatisation. Indeed, Mr Ashdown, has indicated that, as far as he is concerned, the whole question of private versus public ownership is merely a 'futile dispute' (*Investing in our Future*, [1986] p. 24).

More Intervention. The Party's Green Paper on 'land use policy', *A Green and Pleasant Land?* (Federal Green Paper, No. 6), published in August 1988, underlines the SLD's intention to extend government intervention in construction and planning on a large scale. The document states that 'Social and Liberal Democrats cannot accept that market forces should be the prime motivator for land use decisions' (p.6), and proposes a series of

measures of redistribution and interference which show the SLD to be more concerned with imposing a punitive tax on enterprise than with generating growth.

In particular, they propose to ‘ensure that the enormous increases in land values when planning consent is granted accrue to the community as well as to landowners and developers’ (p.9).

They also advocate an unspecified compensation to be paid ‘to the local community by the developer’ to meet ‘the real costs of commercial development, including where possible a contribution that recognises any loss of amenity’ (p.17). Precisely what developers would be expected to compensate for, who would receive such payments, and what form this compensation would take, remain unclear.

3. POLICIES FOR PARALYSIS

‘Partnership Politics’. The ‘Alliance’ always liked to claim that it was distinguished by the spirit of ‘partnership’ and co-operation with which it approached politics. Mr Steel described it as ‘the active organising principle of all our policies’ (*The Time Has Come*, p.14) and Dr Owen claimed it ‘reflects the difference in our whole attitude to politics’ (ibid., p.4). The ‘Alliance’ always claimed that proportional representation (PR) was an integral part of this partnership approach because it necessitated coalition government. In practice PR would paralyse decision-making at every level of government.

Rigging the System. The ‘Alliance’ claimed to be concerned to ensure by their proposals for constitutional reform a fairer and better system of government. In reality their prime concern was always with changing the system in such a way that it would most favour them – regardless of the consequences for the nation.

Significantly, Mrs Shirley Williams and Dr David Owen opposed PR and coalition government before leaving the Labour Party – but suddenly became ardent advocates after forming the SDP. Dr Owen himself eloquently summed up the flaw in the ideas the ‘Alliance’ were later to propound on the subject of ‘partnership’ and PR:

‘Faint hearts always try to avoid the inevitable conflict. They talk of creating new parties, of switching to proportional representation. But all this might achieve would be to transfer the clash of views within parties to a clash of views between parties – without even some of the constraints of party unity’ (*News of the World*, 2nd March 1980).

In *The Time Has Come*, the ‘Alliance’s’ proposal for a new electoral system was as follows:

‘Each constituency would elect a number of MPs depending on its size. Most would have four or more MPs to elect and this would allow voters to choose by ordering their candidates ‘1,2,3, ...’ and so on. The votes would be counted in such a way that, after assessing all voters’ preferences, the candidates who best reflected the spread of opinion overall in the constituency would be elected’ (p.71).

All systems of PR in fact have serious flaws (for an analysis of them, see *The Campaign Guide 1987*, pp.419–21).

4. HEALTH POLICY

The SLD does not yet have a policy on the NHS. It looks increasingly as if there will be major divisions within the party when proposals finally do emerge.

Confusion in the Manifesto. At the 1987 election the ‘Alliance’ recognised that ‘in this area, more than any other, expectations outrun resources and always will’ (*The Time Has Come*, p.96) – but nevertheless seemed to believe that difficulties in the NHS could be resolved by ‘additional resources’ (p.90) alone, which could be provided as a result of ‘the Alliance’s economic and industrial policies’ (p.96).

The Manifesto also stated: ‘We do not intend to introduce a further wholesale reorganisation of the NHS’ (p.99).

Mr Ashdown Changes Course. Yet in the aftermath of the election, **Mr Ashdown** began advocating precisely the sort of ‘wholesale reorganisation’ the ‘Alliance’ had formerly opposed. He called for ‘a different kind of structure [for the NHS], less dehumanising, more responsive to local needs, capable of offering choices to individuals in a way the present system cannot’ (*After the Alliance*, p. 7).

During his campaign for the SLD leadership it was reported that Mr Ashdown had come out in favour of an ‘internal market’ for the NHS (*The Independent*, 23rd June 1988). Later he acknowledged that the problem could not be resolved by more funding alone, since ‘not even a Democrat Chancellor would have adequate money to satisfy that demand [for the NHS]’ (*The Times*, 28th September 1988).

In Dispute with his Party. Mr Ashdown’s proposals on the NHS placed him in direct opposition to many in his own party.

Mr Steel commented on the proposals for an internal market: ‘I don’t go along with all these extraordinary experiments, the introduction of market forces into these areas’ (*The Times*, 23rd June 1988).

The SLD Health Spokesman, Mr Ronnie Fearn, denied in a consultative document that there was ‘anything fundamentally wrong with the Health Service’, and declared that on the question of funding “‘What we can afford” is not an absolute: it is a matter of priorities’ (*Priorities for the National Health Service*, July 1988).

Later in the summer, the Liberal Health Panel published a pamphlet, *Health for Sale?*, which strongly criticised the internal market which would, it claimed, ‘accentuate existing imbalances in health provision’. Their counter-proposals centred on increased funding and more effective redistribution of resources between areas. In the autumn of

1988, the Social and Liberal Democrat Health Association also added its criticisms to schemes for an internal market in its discussion paper, *Taking the Temperature*.

No Official Position. In these circumstances of division and disagreement it is not surprising that the SLD have yet to produce an official statement of policy on the future of health care in Britain.

5. DEFENCE POLICY

A Legacy of Unilateralism. Defence policy was a constant source of embarrassment to both the Liberal Party and the 'Alliance' as a whole. Particularly after the 1983 election, the Liberal leadership became acutely aware that the British electorate would never elect a party committed to unilateral disarmament. Yet the majority of the Party's rank and file were firmly unilateralist. As Mr Steel himself observed, the Liberal Party 'has never supported the creation of the British independent deterrent' (BBC1, *This Week Next Week*, 13th September 1987).

Mr Steel in a Spin. His bid to reconcile common sense to the views of the Liberal activists led Mr Steel into constant self-contradiction and equivocation, as **Mr Michael Meadowcroft** pointed out:

'It is difficult to jump from David Steel's speech at the 1982 assembly – "there are some things we can do on our own. We can abandon the pretence of the British independent deterrent" – to his speech to the delegates this year: "We now face the prospect that we might abandon our deterrent capacity unwittingly through obsolescence ... the country will want to know that we are ready and able to maintain and modernise our deterrent". It is not just four years is a long time in politics, because on 23rd April *this year* [1986] David said: "whether there should be any replacement at all for Polaris – I am inclined to think there shouldn't be"' (Quoted in Des Wilson, *Battle for Power*, p.27).

The Contradictions Continue. Since the merger the SLD has shown no sign of resolving the difficulties over defence which it inherited from the 'Alliance'.

Many members of the old SDP were deeply worried at the time of the merger by the Liberal Party's unilateralism: Mr Robert MacLennan demanded 'a firm and credible defence policy. Without that there can be no merger' (*The Independent*, 10th November 1987).

The SLD constituency activists, however, would seem to be still as ardently unilateralist as the Liberals were. The strength of the unilateralist element within the SLD became clear after the Blackpool conference with the election of CND General Secretary Meg Beresford to the Party's Federal Policy Committee (*The Guardian*, 31st October 1988).

The Acid Test. Since becoming Leader Mr Ashdown has acknowledged that 'our fellow citizens will want to be confident and clear about our policies for Britain's peace and security before they will entrust us with the government of this country' (*The*

Independent, 26th September 1988). Yet he has taken no action so far to follow his own advice, and his personal record shows anything but clarity and consistency on the subject (see p.000 above).

Evading the Issue. The SLD have failed to publish anything at all so far on defence. The party leadership carefully avoided a debate on it at the 1988 conference. It remains to be seen whether or not the SLD still supports the 'Alliance's' commitment to 'cancel Trident' (*The Time Has Come*, p.124).

(E) SDP POLICY

1. THE TWO KEY ISSUES

A Bold Claim. Dr Owen has declared that his rump SDP continues as a separate party in order to fill a gap in the political spectrum. He claims it is the only party in opposition to the Conservatives which is prepared to face up to 'the two inescapable choices that have dominated and will continue to dominate British politics: the market economy and the independent nuclear deterrent' (*Sticking With It*, Campaign for Social Democracy Paper No. 1, [1987] p.2). Yet on neither of the two key policy areas Dr Owen cites does his 'continuing SDP' inspire confidence.

No Clear Economic Policy. Dr Owen has implied that the new SDP is a more market-minded party than its forerunner, since most of the old Party's Keynesian element has defected to the SLD (*Sticking With It*, p.10). He has declared that the Party's economic policy is now based upon the concept of the 'social market' as outlined by Professor Robert Skidelsky in the Party's 'Green Paper' of August 1988 (*The Social Market Economy*, Green paper No. 42).

Yet what the practical implications of this 'social market' are still remains wholly unclear – even to the SDP's membership. At a fringe meeting to discuss the 'social market' at the 1988 Torquay conference, SDP Vice President Mr Ian Wright confessed that 'there are around 150 people here. About 140 wouldn't have a clue what the social market was, and the other ten probably have different ideas' (*The Independent*, 19th September 1988).

Deception on Defence. The SDP claims to share the firm Conservative position which has led to arms reductions. 'We have never wavered in our belief that Britain needs a strategy of deterrence to ensure her defence' (*Deterrence: the Role of Britain, Europe and the Atlantic Alliance*, White Paper No. 16, p.1). Yet this ignores the fact that both Dr Owen and Mr John Cartwright (the SDP defence spokesman) voted with the Liberals *against* Cruise deployment in Parliament (*Hansard*, 31st October 1983, Col. 710–12). As Mr John Cartwright has since observed:

'This sorry saga should be a warning to Social Democrats of the risks involved in compromising for short term political purposes on something as vital as national defence'

(*Defence and Disarmament – The Dual Track*, Campaign for Social Democracy, pamphlet no. 3, p.5.)

Furthermore, the SDP has still not entirely shaken off all traces of the ‘Alliance’s’ confused and weak defence policy. For instance, the ‘White Paper’ on deterrence reaffirmed the SDP’s commitment to ‘the concept of a battlefield nuclear weapon free zone in Central Europe’ (p.ii) – a policy which could only increase instability on the East/West frontier.

2. STILL ON THE LEFT

Undermining Education Reform. The 1988 Torbay Conference of the SDP criticised the provisions of the Education Reform Act 1988 relating to Grant-Maintained schools. Although the parliamentary SDP voted against the second reading of the Bill in the House of Commons, they nevertheless supported the principle that the decision to opt out should be a matter for the parents of pupils at the school in question to decide by ballot. Yet delegates voted for an amendment to give votes in such ballots to the ‘local community’ – i.e. to users of the school’s facilities in the area, and to parents of children at ‘feeder’ schools (*The Independent*, 19th September 1988).

Cowardice on Coal. The Party produced a ‘White Paper’ – *Power with Responsibility: Building a Social Market in Energy* – during the summer of 1988 which broadly supported the Government’s policies on privatisation of the electricity supply industry, nuclear energy, and the plan to privatise British Coal. The Paper had to be shelved for consultation, however, when it became clear that the Conference would not support coal privatisation (*The Independent*, 19th September 1988).

Redistribution of Wealth. The SDP has made it clear that it supports measures intended to effect substantial further redistribution of wealth. They have declared that ‘tax and benefit policies should not simply raise necessary revenue, they should help promote social justice’ (*A Fair Deal, Tax and Benefits Reform*, Green Paper No. 39), and consequently have proposed a variety of measures of tax and benefit reform. These include:

- replacing the Community Charge with a Local Income Tax (*A Fair Deal*, p. 14);
- scrapping the ceiling on National Insurance contributions (*A Fair Budget – Fair Tax, Fair Benefits*, p. 4);
- abolishing the married man’s tax allowance (*ibid.*, p.7);
- ‘confining all tax reliefs and allowances to the basic rate’ (*A Fair Deal*, p. i).

Counting the Cost. One initial report on the SDP’s plans for tax and benefit reform suggested that the eventual cost of the measures would be in the region of £7 billion a year (*The Guardian*, 25th August 1988).

(F) THE SLD, THE SDP AND LOCAL GOVERNMENT

1. THE IRRESPONSIBLE APPROACH

The SLD and SDP feel that their views on the role of local government are one of their main distinguishing features. They claim to stand for a vision of local government distinct from both the Conservative and Labour parties.

Yet for most practical purposes, the SLD and SDP proposals for a ‘distinct approach’ to the role of local government turn out to be little more than a watered-down version of what Labour has to offer. The two Parties propose to increase both the bureaucracy and the number of tiers of local government, while reducing the accountability of councils and paralysing them by inflicting PR upon them. In particular:

- They support replacing the Community Charge with a Local Income Tax, which would be expensive to collect but would still leave millions paying nothing in local bills for local services, thereby undermining accountability (for further details, see p.000).
- The SLD propose to ‘require all public authorities to be equal opportunity employers and amend the law to enable them to award public contracts only to those public companies which implement equal opportunities policies’ (*The Rights and Liberties of the Citizen*, p. 10).
- Neither the SLD nor the SDP have yet discarded the ‘Alliance’ proposal in *The Time Has Come* to reintroduce the GLC in the form of a ‘London ... regional assembly’ (p. 75).

2. THE RECORD

Council Representation. The SLD and the SDP between them claim some 3,000 local councillors. Exact figures for each party are impossible to ascertain, since a large number of councillors were elected as ‘Alliance’ candidates, and have not yet made clear which camp they belong to. It is clear, however, that the SLD have a far larger number than the SDP, and have overall control in 19 authorities.

Incriminating Evidence. The record of councils run formerly by the ‘Alliance’, and now by the SLD, is the only hard evidence there is to show what SLD policies really involve. In the words of their ‘Green Paper’, *Quality Diversity and Choice*, ‘in local government Social and Liberal Democrats are not a Party of opposition ... where we have already been in power, our distinct approach in and to local government offers a very real alternative to both municipal socialism and centralising Conservatism’ (p.27).

The record of the SLD's ‘distinct approach’, however, does nothing to inspire confidence.

Soaring Rates. The natural instinct of SDP and SLD Councillors is to ally themselves with Labour. The ratepayers foot the bill.

- Notwithstanding the leap in rates when the 'Alliance' assumed control in Devon in 1986, by July 1987 the 'Alliance' had succeeded in overspending so greatly (by £2.5 million on education and social services alone) that it was forced out of office (*Western Evening Herald*, 31st July 1987).
- 'Alliance'/Labour-run Cambridgeshire produced a rate rise of 33 per cent for 1986–7 which put up the rate bill for industry and commerce from £62 million to £82 million. (*Cambridge Evening News*, 26th February 1986).

Paralysing Local Government. When in the past the 'Alliance' have been unable to patch together a deal with Labour to raise spending and rates their usual course of action has been to render any administration impossible by refusing to co-operate at all.

- In Humberside in 1985–6, the 'Alliance' and Labour refused to co-operate with each other in any schemes for saving money. The County Council consequently overspent its budget by almost £4 million (*Scunthorpe Evening Telegraph*, 19th December 1985).

The Cost of Ideology. The SLD have reaffirmed their commitment to the Liberal policy of 'decentralisation' – despite the fact that the financial consequences of this have already proved disastrous where it has been tried.

- Devon ratepayers found out in 1987 precisely what the SLD's commitment to 'decentralisation' meant in practice, when the council split the Social Services Department into 34 autonomous divisions. The Council claimed the reorganisation would be self-financing: within seven months, however, it had cost an extra £200,000 and had created a financial crisis (*Exeter Express and Echo*, 24th August 1987).
- Tower Hamlets Borough Council's decision to create what they called 'community identities' by splitting the borough into seven neighbourhoods, cost the country's poorest borough £15 million (*London Daily News*, 15th April 1987).

Higher Spending – but Worse Services. Most of the extra money the SLD raises goes on creating more council employees on higher pay rather than improving services.

- In Sutton, the SLD Borough Council awarded a 15.5 per cent pay rise to their staff in 1988 – over twice the level of the nationally-agreed amount. A 1988–9 rate increase of 8.5 per cent was announced to help cover the cost, despite a substantial increase in the Rate Support Grant (*The Guardian*, 7th January 1988).
- In the three years since the 'Alliance' took control of Wiltshire County Council with Labour's help, rates have had to be increased by 50 per cent to pay for the 890 new staff created by the administration (*Western Daily Press*, 24th February 1988).

Socialism by the Back Door. Wherever the ‘Alliance’ and the SLD have gained power locally they have frequently implemented the policies of the far Left.

- 46 ‘Alliance’-led or supported councils have declared themselves ‘anti-Apartheid’ zones (*Anti-Apartheid Movement Survey*, November 1987).
- The ruling ‘Alliance’ group on Sutton Borough Council attempted to obtain ratepayers' money to fund the Sutton TUC Resources Centre because they claimed it provided ‘a useful service to some community groups’ (*Council Minutes*, 12th January 1987). The Council was forced to back down following strong Conservative opposition.
- In late 1985 the ‘Alliance’-run County Council in Wiltshire approved plans to shut both of Salisbury's grammar schools – even though these schools have produced the best A-level results in the county (*Western Gazette*, 13th September 1985).
- The County Council in Cambridgeshire, under SLD/Labour control, voted to study ways of linking the County and the Soviet Union (*Cambridge Evening News*, 28th July 1988).
- Following the example of the Socialist administrations in Southampton and Lambeth, the Lib-Lab authority in Gloucestershire carried through a motion declaring the county to be an ‘Anti-Apartheid Zone’ and it undertook ‘in co-operation with the Anti-Apartheid Movement to organise and encourage... activities to promote public understanding of the situation in Southern Africa’ (*Council Minutes*, 23rd April 1986). As part of this policy, library staff ‘spend more time evaluating new publications on Southern Africa to ensure as far as possible that the information contained is accurate and balanced’ (Recreation and Leisure Committee Agenda Item No. 13, 3rd December 1987).
- Schools in Lib/Lab Wiltshire were told not to use illustrations of teddy bears, steam trains, toy soldiers, toadstools, or elves as teaching aids in subjects such as mathematics. The county's multi-cultural working party on education stated in a circular that: ‘These images mostly stem from the nurseries of the 19th or early 20th centuries. But whatever their history, their flavour is definitely European and, on the whole, middle class. Children who have not been brought up to know about these myths will view them as alien and the images as strange. And so they will not serve their purpose of making the mathematics friendly’ (Quoted in *The Daily Telegraph*, 2nd March 1987).

24. THE GREEN PARTY

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(A) SUPPORT AND STRUCTURE

Three Name Changes in Fifteen Years. The Green Party has had some difficulty in deciding on a suitable name. It was founded as the People's Party in 1973; it changed its name to the Ecology Party in 1975, before becoming the Green Party in 1985 (imitating the environmental parties of continental Europe).

Support. In the 1987 General Election the Green Party fielded 133 candidates and won 89,354 votes. In 1983, the Ecology Party put up 109 candidates and obtained 54,077 votes.

Membership has risen to over 8,000 from approximately 3,000 in 1982. In local government, the Green Party currently holds 2 seats on county councils, both presented to them by defecting Liberals; they have 10 seats on district councils, 7 of which were provided by turncoat Liberals or Independents; and 81 seats on parish and town councils. The Green Party has said that it intends to put up candidates in every Euro-constituency in the 1989 European elections.

Structure. The Green Party claims to be non-hierarchical and annually elects three 'co-Chairs' instead of a leader. The co-Chairs are elected from 'Council' which has 30 members (22 elected by local area branches and 8 by postal ballot at the 'Autumn Conference'). In addition to the co-Chairs, 6 'speakers' are elected each year to act as Party spokesmen.

From its premises in Balham the Green Party publishes a bimonthly newspaper, *Econews*, and an array of books, pamphlets and leaflets.

(B) A LEFT-WING PARTY

Friends in CND. The Green Party has a long-standing relationship with Women for Life on Earth (WLE), the main organisation behind the women's peace camps. An alliance between the Ecology Party and the WLE was forged in 1983 and, at the Party Conference in the same year, delegates declared that WLE had 'the same beliefs as us' (*The Guardian*, 14th March 1983). The Green Party maintains a commitment to unconditional nuclear disarmament. Miss Lindy Williams, Green party policy coordinator, has said:

'I think that one of the major obstacles facing CND and the whole peace movement is the fact that so many people really feel that if we abandon nuclear weapons the Russians would walk in ... There is plenty of evidence that the Soviets do not intend invading us' (*Sanity*; August 1987).

Anti-Europe. The Greens remain hostile to the EC. Though Mr Jonathon Porritt, former chairman of the Ecology Party, believes that Community anti-pollution directives have enhanced the natural environment in Britain, Miss Jean Lambert, prospective Green Euro-candidate for North East London, has stated:

'It is obvious we are opposed to the fundamental nature of the EC as a trading body, as an expanding superpower and because of its influence on the Third World' (*The Independent*, 17th October 1988).

In a draft paper, the Greens revealed that they consider the European Community to be 'fundamentally flawed' in its basic objective of economic growth (*The Guardian*, 14th October 1988).

Their hostility to the Community was also made clear in their 1987 General Election Manifesto: 'We are opposed to UK membership of the Common Market' (p.25). They also called for 'the scrapping of plans for the Channel Tunnel' (p.19).

Left-wing Policies. Their extreme left-wing stance emerged clearly in their 1987 Manifesto. To achieve an 'ecologically sound world' the Green Party called for the introduction of a 'Basic Income Scheme'; a levy on land values called 'Community Ground Rent'; the imposition of the 'Conservation Tax' and 'Pollution Charges'; selective tariff protection to encourage local production to cut imports; the replacement of private banks with 'community banks'; the disengagement of the UK from the international money market; the devolution of taxation to district authorities; immediate and unconditional nuclear disarmament; withdrawal from NATO; severe restrictions on cars and aircraft; the abolition of the present educational system and its replacement with what they term nebulously 'education for life'; the phasing out of nuclear reactors within four years; the appointment of a cabinet minister for animal rights; the promotion of gay and lesbian rights; and the support for holistic and alternative medicine. They also called for the introduction of proportional representation, the ending of election deposits and a 'noticeable decline' in the population.

Supporting 'Direct Action'. In 1984, members were urged to participate in 'direct action' in support of the miners' strike: the Government was blamed for picket line violence and the Prime Minister was described as a 'bloody-minded ideologist'. They also predicted that the result of a Government victory in the dispute would be a 'national militarised police force' (*The Daily Telegraph*, 8th October 1984).

Friends on the Left. Speakers at Green Party rallies have included Miss Joan Ruddock, Chairman of CND; and Mr Graham Searle, Chairman of the Stop Sizewell B campaign. A recent rally of Socialist Greens was addressed by Mr Tony Benn, and his call for common ownership of land was loudly applauded.

Rent with Division. In addition to splits between fundamentalists (who oppose any dilution of anti-capitalist policies that seek to change the whole industrial basis of society) and realists (who support the gradual solving of environmental problems), divisions have also appeared as a result of the efforts that have been made to start talks with 'radical liberals' in the SLD and with the hard Left both inside and outside the Labour Party. These are two separate initiatives and there are considerable differences of opinion over which is the right course.

Dialogue with the Hard Left. The dialogue between Greens and Socialists has been sponsored by MPs and leading members of the hard Left Campaign Group (such as Messrs Tony Benn, Jeremy Corbyn, and Mr Peter Tatchell). The chairman of the Association of Socialist Greens, Miss Penny Kemp, has said:

‘There are a lot of disillusioned socialists who do not think that the traditional Labour Party is socialist any more. A lot of them are looking for alternatives’ (*Financial Times*, 14th March 1988).

Mr Tatchell, the former Labour candidate for Bermondsey, believes that the Green Party could help to improve the appearance of socialist policies. In an article entitled ‘How Greens can save the left’ he gives the illustration of how extreme policies, which hitherto have been unacceptable to the electorate, might be disguised as progress towards an ‘ecologically based ... economy’ that will produce a ‘*different* standard of living’ (*Labour Briefing*, No 59, March 22nd).

The clearest demonstration of the growing contact between the Greens and the hard left Socialists was the resolution passed by the 1988 Green Party Conference to launch a campaign of civil disobedience against the Community Charge and to withhold payment. A number of hard left Labour MPs such as Mr Bernie Grant, Mr Ken Livingstone, and Miss Diane Abbott have made clear their support for such action.

Talks with ‘Radical Liberals’. While these discussions between Greens and Reds have been taking place, Mr Tim Cooper, Green ‘co-Chair’ in 1987, has started a separate initiative called ‘Green Voice’ to develop closer links with ‘radical, decentralist, non-nuclear Liberals’ (*Financial Times*, 14th March 1988). He is unenthusiastic about the talks that have been conducted with people like Mr Benn, believing that disarray among the SLD and SDP offers a major opportunity for Greens. He has said that ‘many in the Liberal Party feel closer to the perspective of the Green Party than that of the SDP’ (*The Independent*, 21st September 1987). A number of local councillors elected as Liberals have defected to the Green Party and there is a striking similarity between the SLD’s intention to ‘devolve power to the lowest democratic level possible’ (*Social and Liberal Democrats: Quality, Diversity and Choice*, p.8) and the Green Party’s proposals to ‘devolve substantial powers ... away from Westminster, and put them in the hands of local committees’ (1987 General Election Manifesto, p.16).

The One Celebrity. Former teacher Mr Jonathon Porritt is the Party’s best-known member: his mild-mannered appearance belies some strident views. In 1983 he outlined his proposals for a National Income Scheme to provide cash handouts for every individual as of right (*New Statesman*, 11th March 1983). He believes that a ‘Gandhi-style’ campaign of mass civil disobedience might be the best way of opposing a Russian invasion (*The Guardian*, 3rd June 1983) and wrote a Green CND pamphlet that was published in 1984. He believes:

‘The first important ‘socialist’ element of green politics is a redistributive emphasis. What is clear is that you are not going to get an ecological society without a very radical

redistribution of wealth, of land and of the means of production' (*Marxism Today*, March 1984).

As far as the economy is concerned, he would:

'introduce import schemes and tariff barriers as soon as possible so that our obsession with world trade as a means of generating wealth would be turned on its head' (*Marxism Today*, March 1984).

Mr Porritt was an Ecology candidate in local, general and Euro-elections. He was a member of the Ecology Party's Council and its chairman until 1984, when he resigned to become Director of Friends of the Earth. He has not held senior office in the Green Party since it changed its name: but remains the only one of its officers to have made a serious impact on public opinion.

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APPENDIX

1. RETAIL PRICES

(1970–88)

The Retail Prices Index is designed to show the change in the cost of living. The index's make-up and weighting (in the relative importance attached to different goods and services included in the index) reflects monthly price changes in the items purchased by most households, including virtually all wage-earners and most small and medium salary earners. Figures in italics show the percentage change over the previous twelve months.

<i>Year</i>	<i>Jan.</i>	<i>Feb.</i>	<i>Mar.</i>	<i>Apr.</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug.</i>	<i>Sept.</i>	<i>Oct.</i>	<i>Nov.</i>	<i>Dec.</i>
1970	135.5	136.2	137.0	139.1	139.5	139.9	140.9	140.8	141.5	143.0	144.0	145.0
	4.9	4.9	5.1	5.6	6.1	5.9	6.6	6.8	7.0	7.4	7.9	7.9
1971	147.0	147.8	149.0	152.2	153.2	154.3	155.2	155.3	155.5	156.4	157.3	158.1
	8.5	8.5	8.7	9.4	9.8	10.3	10.1	10.2	9.9	9.3	9.2	9.0
1972	159.0	159.8	160.3	161.8	162.6	163.7	164.2	165.5	166.4	168.7	169.3	170.2
	8.2	8.1	7.6	6.3	6.1	6.1	5.8	6.6	7.0	7.9	7.6	7.6
1973	171.3	172.4	173.4	176.7	178.0	178.9	179.7	180.2	181.8	185.4	186.8	188.2
	7.7	7.9	8.2	9.2	9.5	9.3	9.4	8.9	9.3	9.9	10.3	10.6
1974	100.0	101.7	102.6	106.1	107.6	108.7	109.7	109.8	111.0	113.2	115.2	116.9
	12.0	13.2	13.5	15.2	16.0	16.5	17.1	16.9	17.1	17.1	18.3	19.1
1975	119.9	121.9	124.3	129.1	134.5	137.1	138.5	139.3	140.5	142.5	144.2	146.0
	19.9	19.9	21.2	21.7	25.0	26.1	26.3	26.9	26.6	25.9	25.2	24.9
1976	147.9	149.8	150.6	153.5	155.2	156.0	156.3	158.5	160.6	163.5	165.8	168.0
	23.4	22.9	21.2	18.9	15.4	13.8	12.9	13.8	14.3	14.7	15.0	15.1
1977	172.4	174.1	175.8	180.3	181.7	183.6	183.8	184.7	185.7	186.5	187.4	188.4
	16.6	16.2	16.7	17.5	17.1	17.7	17.6	16.5	15.6	14.1	13.0	12.1
1978	189.5	190.6	191.8	194.6	195.7	197.2	198.1	199.4	200.2	201.1	202.5	204.2
	9.9	9.5	9.1	7.9	7.7	7.4	7.8	8.0	7.8	7.8	8.1	8.4
1979	207.2	208.9	210.6	214.2	215.9	219.6	229.1	230.9	233.2	235.6	237.7	239.4
	9.3	9.6	9.8	10.1	10.3	11.4	15.6	15.8	16.5	17.2	17.4	17.2
1980	245.3	248.8	252.2	260.8	263.2	265.7	267.9	268.5	270.2	271.9	274.1	275.6
	18.4	19.1	19.8	21.8	21.9	21.0	16.9	16.6	15.9	15.4	15.3	15.1
1981	277.3	279.8	284.0	292.2	294.1	295.8	297.1	299.3	301.0	303.7	306.9	308.8
	13.0	12.5	12.6	12.0	11.7	11.3	10.9	11.5	11.4	11.7	12.0	12.0
1982	310.6	310.7	313.4	319.7	322.0	322.9	323.0	323.1	322.9	324.5	326.1	325.5
	12.0	11.0	10.4	9.4	9.5	9.2	8.7	8.0	7.3	6.8	6.3	5.4
1983	325.9	327.3	327.9	332.5	333.9	334.7	336.5	338.0	339.5	340.7	341.9	342.8
	4.9	5.3	4.6	4.0	3.7	3.7	4.2	4.6	5.1	5.0	4.8	5.3
1984	342.6	344.0	345.1	349.7	351.0	351.9	351.5	354.8	355.5	357.7	358.7	358.5
	5.1	5.1	5.2	5.2	5.1	5.1	4.5	5.0	4.7	5.0	4.9	4.6
1985	359.8	362.7	366.1	373.9	375.6	376.4	375.7	376.7	376.5	377.1	378.4	378.9
	5.0	5.4	6.1	6.9	7.0	7.0	6.9	6.2	5.9	5.4	5.5	5.7
1986	379.7	381.1	381.6	385.3	386.0	385.8	384.7	385.9	387.8	388.4	391.7	393.0
	5.5	5.1	4.2	3.0	2.8	2.5	2.4	2.4	3.0	3.0	3.5	3.7
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
	3.9	3.9	4.0	4.2	4.1	4.2	4.4	4.4	4.2	4.5	4.1	3.7
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3

<i>Year</i>	<i>Jan.</i>	<i>Feb.</i>	<i>Mar.</i>	<i>Apr.</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug.</i>	<i>Sept.</i>	<i>Oct.</i>	<i>Nov.</i>	<i>Dec.</i>
	3.3	3.3	3.5	3.9	4.2	4.6	4.8	5.7	5.9	6.4	6.4	6.8

(Source: *Economic Trends*)

Use of the Retail Price Index. To calculate the impact of inflation on the value of one pound (i.e. 100p) under the last Labour Government (February 1974 to May 1979):

Thus, after five years of Labour Government, a pound would buy less than half the goods it bought in February 1974. Conversely, to establish what earnings of £100 in February 1974 would be worth in terms of May 1979 prices:

Where the period involved covers more than one index, it is necessary to repeat this process. For instance, to calculate the real value of £100 spent in January 1988 at January 1986 prices:

2. AVERAGE EARNINGS

(i) Average Earnings – Whole Economy

(1985 = 100)

Percentage increase on a year earlier

1980	65.0	—
1981	73.3	12.8
1982	80.2	9.4
1983	87.0	8.5
1984	92.2	6.0
1985	100.0	8.4
1986	107.9	7.9
1987	116.3	7.8

(Source: *Employment Gazette*)

(ii) Average Earnings and Hours: Male Manual Workers: All Industries and Services

	Average Weekly Earnings £	Hours	Pounds per Hour
1980	108.6	46.2	2.35
1981	118.4	45.4	2.61
1982	131.4	44.3	2.97
1983	138.4	43.9	3.15
1984	148.8	44.3	3.36
1985	159.8	44.5	3.59
1986	170.9	44.5	3.84

(ii) Average Earnings and Hours: Male Manual Workers: All Industries and Services

	Average Weekly Earnings £	Hours	Pounds per Hour
1987	182.0	44.6	4.08
1988	196.3	45.0	4.36

(Source: *Employment Gazette*)

3. STANDARD OF LIVING

PERSONAL DISPOSABLE INCOME PER CAPITA

	(At 1985 prices)		(At current prices)
	<i>Personal disposable income (£)</i>	<i>Percentage increase/decrease on previous year</i>	<i>Personal disposable income</i>
1974	3,547	—	1,065
1975	3,564	+0.5	1,324
1976	3,559	-0.1	1,529
1977	3,482	-2.2	1,719
1978	3,737	+7.3	2,014
1979	3,942	+5.4	2,414
1980	3,992	+1.3	2,841
1981	3,944	-1.2	3,125
1982	3,938	-0.2	3,394
1983	4,049	+2.8	3,658
1984	4,120	+1.8	3,913
1985	4,206	+2.1	4,206
1986	4,322	+2.8	4,511
1987	4,445	+2.8	4,818

(Source: H.M. Treasury)

4. REGIONAL EMPLOYMENT STATISTICS

	South East	Greater London*	East Anglia	South West	West Midlands	East Midlands
<i>Unemployment</i>						
Percentage change from peak ¹ to January 1989	-48 (7/86)	-40 (7/86)	-54 (8/86)	-47 (7/86)	-43 (8/86)	-39 (8/86)

	South East	Greater London*	East Anglia	South West	West Midlands	East Midlands
<i>Youth Unemployment</i>						
Percentage change from peak ¹ to January 1989	-64 (10/84)	-58 (10/84)	-64 (1/86)	-61 (1/85)	-57 (1/85)	-55 (1/85)
<i>Self-employed</i>						
Percentage change between June 1979 and June 1988	+67	-	+69.6	+96.6	+53.2	+69.8
<i>Confirmed Redundancies</i>						
Percentage change from peak ¹ to 1988	-88 (1981)	-87 (1981)	-87 (1981)	-70 (1981)	-93 (1980)	-75 (1980)
<i>Employment</i>						
Percentage change from low point ² to September 1988	+8 (3/83)	+2 (3/83)	+26 (3/83)	+10 (3/83)	+9 (3/83)	+11 (3/83)

	Yorkshire Humberside	North West	North Wales	Scotland
<i>Unemployment</i>				
Percentage change from peak ¹ to January 1988	-35 (6/86)	-34 (6/86)	-32 (6/86)	-26 (10/86)
<i>Youth Unemployment</i>				
Percentage change from peak ¹ to January 1989	-50 (10/84)	-49 (1/85)	-48 (10/84)	-44 (1/84)
<i>Self-employed</i>				
Percentage change between June 1979 and June 1988	+85.1	+35	+45.5	+26.3
<i>Confirmed Redundancies</i>				
Percentage change from peak ¹ to 1987	-77 (1981)	-80 (1980)	-73 (1981)	-79 (1981)
<i>Employment</i>				
Percentage change from low point ² to September 1988	+3 (3/84)	+0.1 (3/86)	+6 (3/84)	+0.3 (3/83)

* All figures for Greater London are also included in South East

¹ Date or year in brackets denotes peak

² Date in brackets denotes low point

(Source: *Employment Gazette*)

5. REGIONAL UNEMPLOYMENT

Change from peak to January 1989 (thousands, seasonally adjusted, excluding school leavers)

Region	Thousands	Rate (percentage)	Percentage change
South East (including Greater London)	782 (7/86) ¹	8.7 (7/86)	
	406	4.4	
	-376	-4.3	-48
Greater London	406 (7/86)	9.6 (7/86)	
	243	5.6	
	-163	-4.0	-40
East Anglia	83 (8/86)	8.9 (8/86)	
	38	3.8	
	-45	-5.1	-54
South West	205 (7/86)	9.9 (7/86)	
	109	5.2	
	-96	-4.7	-47
West Midlands	338 (8/86)	14.0 (8/86)	
	192	7.3	
	-146	-6.7	-43
East Midlands	199 (8/86)	11.3 (8/86)	
	122	6.3	
	-77	-5.0	-39
Yorkshire and Humberside	306 (6/86)	13.6 (6/86)	
	198	8.3	
	-108	-5.3	-35
North West	440 (6/86)	14.3 (6/86)	
	289	9.6	
	-151	-4.7	-34
North	231 (6/86)	16.8 (6/86)	
	158	10.9	
	-73	-5.9	-32
Wales	176 (3/86)	14.9 (3/86)	
	110	9.2	
	-66	-5.6	-38
Scotland	346 (10/86)	14.3 (10/86)	

Change from peak to January 1989 (thousands, seasonally adjusted, excluding school leavers)

Region	Thousands	Rate (percentage)	Percentage change
	257	10.3	
	-89	-4.0	-26
Great Britain	3,096 (7/86)	11.5 (7/86)	
	2,074	6.8	
	-1,022	-4.7	-33

¹ Date in brackets indicates peak month and year for unemployment in the region.

(Source: *Employment Gazette*)

6. REGIONAL YOUTH UNEMPLOYMENT*

Individuals under 25, male and female.

Change from peak to January 1989

		Percentage change
South East (including Greater London)	294,388 (10/84) ¹	
	105,499	
	-188,889	-64
Greater London	148,636 (10/84)	
	62,840	
	-85,796	-58
East Anglia	31,303 (1/86)	
	11,293	
	-20,010	-64
South West	79,681 (1/85)	
	31,204	
	-48,477	-61
West Midlands	133,482 (1/85)	
	56,811	
	-76,671	-57
East Midlands	76,750 (1/85)	
	34,416	
	-42,334	-55

	Change from peak to January 1989	Percentage change
Yorkshire & Humberside	125,137 (10/84) 62,159	
	-62,978	-50
North West	182,292 (1/85) 92,402	
	-89,890	-49
North	95,308 (10/84) 49,233	
	-46,075	-48
Wales	75,109 (1/85) 35,935	
	-39,174	-52
Scotland	150,305 (1/84) 83,568	
	-66,737	-44

¹ Date in brackets indicates peak month and year for youth unemployment in the region.

(Source: *Employment Gazette*)

7. CONFIRMED REDUNDANCIES BY REGION

	Change from peak to 1988	Percentage change
South East (including Greater London)	105,878 (1981) ¹ 13,000 ²	
	-92,878	-88
Greater London	54,998 (1981) 7,279	
	-47,719	-87
East Anglia	11,463 (1981) 1,442	
	-10,021	87
South West	30,998 (1981) 9,389	
	-21,609	-70

	Change from peak to 1988		Percentage change
West Midlands	69,436 (1980)		
	4,966		
East Midlands	-64,440		-93
	40,957 (1980)		
Yorkshire & Humberside	10,129		
	-30,828		-75
North West	63,102 (1981)		
	14,682		
North	-48,420		-77
	92,596 (1980)		
Wales	18,076		
	-74,520		-80
Scotland	40,103 (1981)		
	10,800		
Great Britain	-29,303		-73
	45,215 (1980)		
Great Britain	5,817		
	-39,398		-87
Great Britain	59,039 (1981)		
	12,213		
Great Britain	-46,826		-79
	532,030 (1981)		
Great Britain	100,585		
	-431,445		-81

¹ Date in brackets indicates peak year for confirmed redundancies in the region.

² Provisional

(Source: *Employment Gazette*)

8. REGIONAL SELF-EMPLOYMENT

(thousands, not seasonally adjusted)

	1979	June 1988	Increase	Percentage change
South East (including Greater London)	651	1,087	436	67
East Anglia	79	134	86	69.6
South West	146	287	141	96.6
West Midlands	141	216	75	53.2

(thousands, not seasonally adjusted)

	1979	June 1988	Increase	Percentage change
East Midlands	116	197	81	69.8
Yorkshire & Humberside	134	248	114	85.1
North West	214	289	75	35
North	77	112	35	45.5
Wales	124	154	30	24.2
Scotland	160	202	42	26.3
Great Britain	1,842	2,925	1,083	58.7

(Source: *Employment Gazette*)

9. PUBLIC SPENDING

Planning totals in real terms by department

(£ billion, base year 1987-8)

	1978-9 outturn	1988-9 estimated outturn	1991-2 plans	Percentage Change in Real Terms 1978-9 to 1988-9
Defence	15.4	18.1	18.6	18
Foreign and Commonwealth Office	2.2	2.1	2.1	5
European Communities	1.5	0.9	1.3	40
Ministry of Agriculture, Fisheries and Food	1.6	1.8	2.0	13
Trade and Industry	4.4	1.7	1.0	61
Energy	1.1	0	0.5	1
Employment	2.2	3.8	3.3	73
Transport	5.4	4.6	4.8	15
DOE – Housing	7.3	1.9	2.0	74
DOE – Other Environmental services	4.6	4.1	3.9	11
Home Office and legal Departments	4.1	6.8	7.3	66
Education and Science	15.9	17.3	17.5	9
Arts and Libraries	0.7	0.9	0.9	29
Health	15.2	20.4	21.4	34
Social Security	33.7	44.8	49.3	33
Scotland, Wales and Northern Ireland	15.6	16.6	16.5	6

Planning totals in real terms by department
(£ billion, base year 1987–8)

	1978–9 outturn	1988–9 estimated outturn	1991–2 plans	Percentage Change in Real Terms 1978–9 to 1988–9
Lord Chancellor's Department	3.0	3.5	3.8	17
Other Departments	0.8	0.3	0.3	63
Reserve			8.8	
Privatisation proceeds Adjustment		-5.7 0.4	-4.2	
Planning total	134.9	144.4	161.1	7

(Source: *Public Expenditure White Paper, January 1989*)

10. INDUSTRIAL PRODUCTION

(Average 1985 = 100)

	Total Production Industries	Total Manufacturing Industries
1974	90.2	109.0
1975	85.3	101.5
1976	88.1	103.4
1977	92.7	105.4
1978	95.3	106.0
1979	99.0	105.9
1980	92.5	96.7
1981	89.6	90.9
1982	91.3	91.1
1983	94.7	93.7
1984	94.9	97.6
1985	100.0	100.0
1986	102.2	100.9
1987	105.8	—
1988	109.8	—

(Source: H.M. Treasury)

11. PRODUCTIVITY

OUTPUT PER PERSON EMPLOYED

(1985 = 100)

Whole Economy Manufacturing Industries

1974	82.3	77.5
1975	81.1	73.5
1976	83.4	77.3
1977	85.7	78.7
1978	87.9	79.6
1979	89.4	79.9
1980	87.4	76.8
1981	89.3	79.5
1982	93.1	84.7
1983	97.0	91.9
1984	98.0	97.2
1985	100.0	100.0
1986	102.4	103.0

(Source: H.M. Treasury)

[Index Omitted.]