NOTE OF A MEETING WITH THE TUC ECONOMIC COMMITTEE HELD IN ROOM 29/2, H.M. TREASURY ON TUESDAY, 29TH MAY, 1979

The Chancellor received members of the TUC Economic Committee at the Treasury yesterday to hear their Budget representations. Annex 1 lists those present at the meeting.

2. After an exchange of courtesies Lord Allen asked Mr. Murray to present the views set out in the TUC meeting note of 29th May which had been sent to the Chancellor. A copy is attached as Annex 2. In an opening statement Mr. Murray made four main points:

(a) He hoped the Chancellor would feel able to continue the free and frank exchanges of view on economic matters which the TUC had enjoyed with the previous administration.

(b) He believed the TUC and the Government were in broad agreement upon the principal objectives of economic policy: achievement of steady and sustained economic growth, higher levels of employment, a satisfactory external balance and improving living standards.

(c) The TUC did not believe that the country's economic problems derived from monetary imbalance or could be solved solely by monetary means. The problems were those of structural imbalance at which much of the tripartite Industrial Strategy was aimed. He hoped the Government would wish to see the tripartite approach continue in being.

(d) The economy was suffering from a deficiency in demand which required a judicious stimulus in the Budget. The TUC were not looking for a neutral or a deflationary Budget. With a suitable fiscal stimulus it was within our capacity to attain 3 per cent growth or more without threat to the balance of payments.

3. Replying, the Chancellor assured Mr. Murray of his readiness to enter into the fullest possible discussions with the TUC on a range of matters of common interest and concern. He went on to endorse the emphasis Mr. Murray had given in his remarks on the need to tackle structural problems. Much the most important objective was to bring about an improvement in the supply side of the economy, particularly in manufacturing output which had singularly failed to respond to the increase in domestic demand and living standards over the past year, with inevitable consequences for our balance of trade in manufactures. Mr. Murray replied that structural problems had to be approached from both an international and a domestic dimension. He hoped particularly that the Government recognised the serious consequences of growing import penetration on the viability of key industries and the need for urgent attention to be given to the implications of technological change. (He referred in passing to the first of a series of TUC conferences on this subject beginning the following day.) For their part, the TUC were not unaware of the importance to the economy of new businesses.

4. Mr. Murray then turned to a more detailed exposition of the TUC's proposals for the Budget. These were particularly designed to encourage the process of structural change. Mr. Murray's main points were as follows:-

(a) Lower income tax, with priority given to improvements in tax thresholds rather than cuts in the basic rate of tax.

(b) No increase in indirect taxes, which would simply put up prices.

(c) No increase this year in company taxation with the exception of an increase in PRT to cream off the windfall gains in profits by the oil companies brought about by higher oil prices.

(d) A steady increase in public expenditure in line with growth in the economy. A high level of public expenditure was desirable for many reasons, not least to improve infrastructure. Whilst the TUC would support sensible policies to eliminate waste, they were opposed to indiscriminate cuts of the kind discussed in the press. These were not in the national interest and would lead to higher unemployment especially among school leavers and newly qualified graduates. Nor would cuts be helpful in the activities either of the nationalised industries or the National Enterprise Board.

(e) Opposition to sales of assets: the TUC felt it was contrary to the principles of fiscal integrity to finance income tax reductions by disposals of capital assets. A great deal of apprehension had been expressed to the TUC about this aspect of the Government's policy.

(f) The Chancellor should not give undue attention to the size of the PSBR which in terms of GNP was not out of line with the level in other countries. The TUC were not persuaded that there was a direct causal relationship between the PSBR and the level of inflation or the scale of private manufacturing investment. Given the estimating errors, the Chancellor should be advised against excessive preoccupation with a particular level of public sector borrowing.

(g) The social security uprating should be based on the increase in earnings if, as seemed likely, that exceeded the growth in prices.

(h) An increase of £1 in child benefit in November.

Mr. Murray concluded these remarks with two general points. First, he assured the Chancellor that the TUC had offered similar advice to Mr. Healey before the General Election. Second, they valued the opportunity for discussion with Ministers and hoped particularly that the Chancellor and the Chief Secretary would favour continuing the close involvement of the TUC in the PESC exercise which the last Government had initiated.

5. In reply, the Chancellor took note of the views Mr. Murray had expressed on the Budget. But the TUC would not have overlooked what the previous Chancellor, Mr. Healey, had been saying about the balance between direct and indirect taxation. Both sides of the account had to be looked at together. In discussion with trade unionists he had gained the clear impression that the 40 per cent combined marginal rate of income tax and national insurance contributions was the cause of widespread dissatisfaction among ordinary working people. He had detected considerable support for reducing income tax at all income levels nearer to that of other countries. Mr. Murray acknowledged the grass roots pressure for lower income tax. But the TUC believed that trade unionists favoured higher personal allowances to cuts in the basic rate of tax. These were preferable both on grounds of equity and because of their greater effectiveness in promoting extra demand. Higher tax thresholds also helped the Inland Revenue by taking more people out of tax. More generally, the Chancellor suggested that it was unrealistic to believe that our economic problems could be solved simply by expanding the economy. Income tax had to be paid for either by reducing public expenditure or by putting greater weight on taxes on expenditure. Demands to cut income tax, increase public expenditure, but not put up company taxes or indirect taxes simply did not add up. Nor was it wise to neglect a PSBR which, for 1978/79, had exceeded the previous Chancellor's target by around £¾ billion. Mr. Murray had raised a number of important points which would provide an agenda for discussion for some months ahead.

6. Mr. Murray then invited other members of the Economic Committee to comment. In a brief discussion, Mr. Clive Jenkins endorsed the Chancellor's view that the performance of the supply side of the economy was not good enough. He also urged the Chancellor not to dispose of the large energy corporations. Mr. Geoffrey Drain reinforced Mr. Murray's request for continued TUC involvement in the PESC exercise. Finally, Mr. Parry, as Chairman of the TUC Social Security Committee, associated himself with the TUC target of aligning child benefit and national insurance child dependancy rates by November 1980 and with the need for a generous social security uprating in November.

(A.M.W. BATTISHILL)
30th May, 1979

ANNEX 1

Those present at the meeting:

Chancellor of the Exchequer	TUC Economic Committee
Mr. Ian Stewart, MP	Lord Allen
Sir Anthony Rawlinson	Mr. Chapple
Sir Lawrence Airey	Mr. Christopher
Mr. Littler	Mr. Drain
Mr. Lovell	Mr. Duffy
Mr. Unwin	Mr. Fisher
Mr. Davies	Mr. Gill
	Mr. Jenkins
Mr. Gracey (Inland Revenue)	Mr. Parry
	Mr. Murray
	Mr. Willis
	Mr. Lea
	Mr. Callaghan
	Mr. Percy
	Mr. Barber