

# THE CAMPAIGN GUIDE 1977

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## PREFACE

This is the twenty-second Campaign Guide in a series which started in the last century. As usual we have attempted to make certain that in presenting the Conservative case the Guide is based on accurate and reliable information and statistics.

With a minority Government living from crisis to crisis, it is not easy to know exactly when to publish this Guide. We thought it sensible to bring it out now, to mark three years of Labour Government. It is up-to-date to the time of going to press in February/March.

I want to thank particularly Tony Greenland who has once again edited the Guide. This is an immensely onerous task which he has carried through with his customary ironic good humour. I also want to express my gratitude to my other colleagues in the Conservative Research Department who have helped to write this Guide at a time when they have also been working hard on day-to-day briefing of the Shadow Cabinet and Parliamentary Party, and on the development of policy for the next Conservative Government.

*March 1977*

*Conservative Research Department.*

C.F.P.

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## **1. THREE YEARS OF LABOUR GOVERNMENT**

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*“Between the pair of them, Sir Harold (Wilson) and Mr Callaghan and their wretched Governments have impoverished and all but bankrupted Britain. Socialism has failed our nation. Away with it, before it does the final damage ... for the Conservative Party politics has always been about something more than gaining power. It has been about serving the nation. We are above all a patriotic party ... nothing that's bad for Britain can ever be good for Conservatives. What we have been concerned with is how we can tackle this crisis, how we can ensure the prosperity, the freedom—yes—and the honour of Britain. The very survival of our laws, our institutions, our national character—that is what is at stake today” (Mrs Thatcher, Brighton, 8th October 1976).*

## **(A) LABOUR'S MANDATE**

The Labour Government came to power in March 1974 after a General Election which produced the largest poll in the nation's history but an uncertain verdict. For the first time since 1929 no party emerged with an overall majority in the House of Commons. After the Liberals had turned down Mr Heath's offer of a coalition, the Labour Party was able to form a minority government on the strength of their five-seat lead over the Conservatives, although in the election Labour polled over 200,000 fewer votes than the Conservatives. Labour's total vote was in fact smaller than at any election since 1935, and their share of the poll (37·1 per cent) was lower than at any time since 1931. The weakness of Labour's electoral position—there was a majority of over seven million votes against them—and their inability to command an overall majority in Parliament did not, nevertheless, inhibit Mr Wilson and his colleagues from claiming that they had a mandate to implement the extreme policies they had hatched while in opposition between 1970 and 1973.

Labour were determined, in the words of their manifestos in both February and October 1974, to “bring about a fundamental and irreversible shift in the balance of wealth and power in favour of working people and their families”, through nationalisation, tax increases, indiscriminate subsidies, increases in public spending (except on defence) and so on. They claimed in February that they were “ready with the policies essential to rescue the nation”. As they then said in October, “at the heart of this ... programme to save the nation lies the Social Contract between the Labour Government and the trade unions”.

The Labour Government was re-elected in the General Election of 10th October 1974. Although the Labour vote actually fell by nearly 200,000 from the February total, and its percentage of the total UK vote only rose from 37·1 per cent to 39·2 per cent, the number of Labour MPs increased from 301 to 319. Thus, although 60·8 per cent of those voting gave their support to other Parties, Labour had a majority of three in the Commons over those other Parties (excluding the Speaker, the Chairman of Ways and Means and the two Deputy Chairmen, who are non-voting officials of the House).

This majority has now effectively been removed by the Conservatives gaining three seats in by-elections: Woolwich West, Walsall North and Workington, with swings of 7·6, 22·5 and 13·2 per cent respectively. However, the Government can normally count upon the support of Mr Gerard Fitt, of the Social Democratic and Labour Party in Northern Ireland, and, when he is present, of Mr Frank Maguire, who is an

independent Irish Republican. The Government has also been sustained in office by the occasional support and more frequent abstention or absence of Liberals, Nationalists and certain Ulster Unionists.

## **(B) THE COST OF THE LABOUR GOVERNMENT**

Three years later we can see the results of Labour's policies to "rescue the nation".

Public spending has nearly doubled in money terms, with the predictable and predicted consequences not only for taxes and borrowing, but also for inflation and unemployment.

Prices have risen by nearly 70 per cent. £500 left in a bank current account in February 1974 would by December last year have been worth in real terms only £302. At the end of 1976, industrial production was below the level reached during the 3-day week. Unemployment has more than doubled. The number of school leavers seeking jobs has increased almost twelve-fold.

The "working people", who were supposed to gain "wealth and power", find, if they are poor, that they are taxed to pay for their own benefits. A Labour Minister admitted in the assumed privacy of the Cabinet Room that they receive less help than they did under the last Conservative Government. A Labour Government is again making the poor poorer.

Families are paying on average £480 more income tax a year than under the last Conservative Government. Britain now has the highest starting rate for income tax in the world and only four countries have a higher top rate of tax on earned income. (It is not surprising that since the war Labour Governments have had to increase Inland Revenue staff by 35,000.)

In the three years since March 1974, government borrowing has amounted to £1,529 per household, compared with £449 in the four years to March 1974. Interest on government debt per head in 1976-7 is twice as high as in 1973-4 and the burden will continue to increase. The United Kingdom's overseas debts in December 1976 stood at £8,395 million (equivalent to £428 for each family in the country); all this will have to be repaid in the fairly near future. This compares with £1,030 million in 1973 (£53 per family). The pound has fallen on the foreign exchanges by 26 per cent against the US dollar.

To borrow a phrase of Mr Callaghan's—"I give these figures to emphasise that we *can* do better because we *did* do better" (Swadlincote, 21st February 1974).

## **(C) RESPONSIBILITY FOR THE SITUATION**

Why is the country in this situation today? It is not necessary to be unfair to the Labour Government in order to condemn it. The truth is a savage enough critic. So we can concede that the incoming Labour Government faced a number of grave problems in 1974. We can concede, too, that it has had to cope at a time of considerable international difficulty. Nevertheless, its failures have been spectacular, and even the “plea in mitigation” is pretty frail.

**Labour's Inheritance.** The suggestion that the last Conservative Government was the architect of today's crisis is patently absurd and can be quickly disposed of:

(i) The Conservative Government reacted to the 1973 increase in oil prices by cutting public expenditure and tightening control of the money supply. The Conservative Party fought the February 1974 election arguing:

“... let no one suppose that as a nation we can deal with the immediate problem without hardship and sacrifice. It (the increase in oil prices) will impose a greatly increased burden on our balance of payments and for the time being will make us poorer as a nation than we would otherwise be” (*Firm Action for a Fair Britain*, Conservative Election Manifesto, February 1974).

From the start, Labour reversed the policy of restraint (both in public spending and incomes) and launched a programme of extreme Left-wing legislation.

(ii) Since by the October 1974 campaign Labour ministers were saying that all was well in the economy, they can hardly turn round now and blame today's problems on the last Conservative administration.

(iii) On 2nd November 1971, less than 17 months after the 1970 election had seen the return of a Conservative Government, Sir Harold Wilson asked:

“How many more years ... would he (the Prime Minister) have to be in office before he was prepared to take his own personal responsibility and accept his Government's responsibility for the state of the nation under his Government, as a result of his Government's policies” (*Hansard*, 2nd November 1971, Col. 32).

It is now 36 months since the return of a Labour Government.

**World Factors.** Nor can Labour blame all their troubles on what is happening in the rest of the world:

(i) Even when the last Conservative Government faced an unprecedentedly steep rise in world prices, Sir Harold Wilson claimed: “It is all the fault of world prices, they say. Blame the foreigners. It is nothing to do with us. Well, it is time to nail the lie” (Porsmouth, 16th February 1974). World commodity prices have gone up by about one-tenth under the Labour Government; they doubled under the Conservatives.

(ii) While all our competitors abroad have had to deal, like us, with inflation and unemployment, our record is worse than virtually everyone else's (see tables on page 126 and page 211).

# (D) REASONS FOR LABOUR'S FAILURE

There are three main reasons for the Labour Government's failure.

**Move to the Left.** First, after their defeat in 1970, Labour moved sharply to the Left. As Lord George-Brown (former Deputy Leader of the Labour Party) said:

“... We have been taken over. And we have been taken over by a collection of people who call themselves ‘activists’. But they are for the most part people who do not believe in our way of life or in our social democratic outlook ... And these fellows have now captured control of the Labour Movement at every level: constituency parties; trade union branches; executives of the Trade Unions; the General Council of the TUC; the Labour Party National Executive; and the Shadow Cabinet” (*The Times*, 9th December 1972).

In Opposition, the growing influence of the Left was seen in the increasingly irresponsible behaviour of the Labour Party, which about-turned on wage restraint, Europe and industrial relations; supported inflationary pay claims and the strikes to obtain them; and even condoned the breaking of the law and industrial action for political ends.

The Left's influence was also crucial in the development of policy. The Labour Party Conference in 1973 committed the party to its most Left-wing programme for years (until the latest policy document published in 1976). Most of this 1973 programme found its way into Labour's election manifesto the following year, which included proposals for a massive extension of nationalisation and state control of private industry, higher taxation, and subsidies, less choice in education and health, and big cuts in Britain's defence forces. Labour have been scrupulous about implementing these policies; other promises, for example on inflation and unemployment, have been jettisoned in the process.

Since 1974, the influence of the Left has been marked in Government, in Parliament and in the internal affairs of the Labour Party. The main victims have been our economic health, our national security and some of our fundamental liberties (which Mr Foot, Deputy Leader of the Labour Party and self-styled libertarian, has been conspicuously vigorous in suppressing).

**The Cost of the October Election Victory.** The second cause of our present problems was the Labour Government's behaviour between the February and October elections in 1974. During those months, the national interest was sacrificed for Labour's electoral benefit. Subsidies and public expenditure were increased, restraint in pay bargaining was abandoned, government borrowing was allowed to get out of control and industry was penalised. As in 1964–6, Labour's over-riding objective was to win an early election, whatever the cost to the nation and however much Labour ministers felt it necessary to distort the truth. Sir Harold Wilson and Mr Healey have a certain reputation in these matters, and even the more squeamish observers may not have been unduly surprised at Sir Harold's assertion less than 24 hours before polling

day that prices, unemployment and the balance of payments were all improving, or Mr Healey's claim that prices were only rising by 8.4 per cent. However, the truth had few friends anywhere in the Labour Party at that election. Even Mrs Williams, for example, could claim:

“All one can say about inflation is that it is beginning to move downwards” (BBC Radio, 20th September 1974).

**Social Contract.** The third reason is the arrangement which Mr Callaghan said stood alone

“between the nation and ever higher prices and heavier unemployment” (BBC TV, 17th July 1974).

More accurately, Sir Geoffrey Howe has described this arrangement as the Government giving “promises that ought not to have been given in exchange for promises that could not be fulfilled” (London, 12th May 1976). After three years of the Social Contract there are people without work, and families with bills they cannot pay, who may find it difficult to agree that the principal cause of their problems is, in Sir Harold Wilson's words,

“the boldest experiment in civilised government that Britain has ever seen” (Cardigan, 28th September 1974).

## **(E) MR CALLAGHAN AS PRIME MINISTER**

There have recently been some faint signs of improvement in our affairs—or at least signs that things are not getting worse as rapidly as they were. Economic reality has broken through in one or two areas of public policy (for example, even some trade union leaders are calling for lower levels of direct taxation, though they do not seem to comprehend that it is high public spending under their Social Contract which has driven taxes to present levels).

But the main credit for any improvement rests with our international creditors. They have once more put a brake on the headlong dash to disaster of a Labour Government, which largely depended on *their* money for *its* profligacy. A Labour Government has again had to don a straitjacket provided by the International Monetary Fund; and the nation is in their debt—in every sense.

Unhappily, Labour's progress towards sanity has been too slow; and it began long after Conservatives had pointed out exactly what needed to be done to restore our economy to health. On public expenditure, for instance, the Labour Government persistently refused to contemplate the cuts urged on it by Conservative spokesmen. What is more, for every step they take towards common sense, Labour Ministers invariably take a step in the opposite direction.

Hopes that all this might change with the advent of Mr Callaghan have been sadly dashed. While it is true that he has removed some of the widely celebrated trappings of No. 10, and even picked up with some enthusiasm one or two Conservative themes such as the importance of raising educational standards, he has failed to capitalise on the great fund of goodwill which he enjoyed when he became Prime Minister. **Mrs Thatcher** said on that occasion:

“So long as the Government acts in the national interest it's entitled to national support ... Mr Callaghan's got the chance to make a fresh start and I very much hope that he'll take it” (6th April 1975).

Mr Callaghan has not taken this chance. His actions have belied his words. He spoke when he went to No. 10 of the need for “a national effort”; but he spent his first months in office ramming divisive Socialist legislation through the House of Commons. He has talked of encouraging industry and profits; but he has gone ahead with nationalisation, put new burdens on private enterprise and threatened industry with the plans of Mr Murray and Mr Jones for trade union control. He has condemned borrowing; but he has presided over a Government which depends for its life on what it can borrow from more successful countries where free enterprise or mixed economies are not sabotaged by Socialism. He has on occasion had strong words to say about Labour's left-wing National Executive Committee and about extremist infiltration of his Party; but he has declined to condemn the growing Marxist influence in its ranks, and has been leader of a party which has appointed a Trotskyist as its Youth Officer and has adopted its most Left-wing programme since the war.

## **(F) THE CONSERVATIVE WAY**

Immediately after the 1976 Labour Party Conference had overwhelmingly endorsed this programme, the Conservative Party published its own strategy document *The Right Approach*. This provided a complete contrast with Labour's policy; not least, as Mr Anthony Shrimley pointed out in the *Sun*, it was different in that it contained

“no threats against any section of the community” (4th October 1976).

*The Right Approach* set out the policies which Conservatives believe are necessary in order “to restore hope and confidence to a disillusioned British people”, and to restore Britain's economy and society “in due time to health”.

The main aims of this political strategy were stated as follows:

- “To enable the country to live within its means, through the reduction and control of public expenditure and the rebuilding of a healthy and thriving mixed economy in which taxes can be lower and profits can fulfil their proper function.
- “To strengthen Parliament and the rule of law, reducing the scale and powers of bureaucracy and providing better protection for the rights of the individual.
- “To extend ownership, so that many more of our citizens have a stake in the community.



- “To encourage self-help and family life, while making it possible for the strong to help the weak effectively.
- “To improve educational standards, and to ensure that merit and initiative are encouraged and adequately rewarded.
- “To maintain Britain's security and interests, and to increase her influence abroad, not least through a whole-hearted contribution to the development of the European Community.”

As *The Times* observed, the Conservatives

“want to carry out policies which in the main represent what commonsense would suggest and the majority of the nation would prefer” (4th October 1976);

or, in the words of the *Financial Times*, there is almost nothing in the document

“with which a middle of the road English voter—or a social democrat of, say, the German variety—would be likely to disagree” (4th October 1976).

These are the policies for capitalising on the opportunities provided by North Sea oil, and for steadily rebuilding our shattered economy. They have been consistently and responsibly advocated by the Conservative Party. They follow the dictates of common sense and command the majority support of the nation. Yet because of the nature of the Labour Party where, in the words of *The Right Approach*, to all intents and purposes “only the Left is left”, these common-sense policies are not being implemented today. They will not be implemented by a Labour Government, whether it is led by Sir Harold Wilson or Mr Callaghan. As **Mrs Thatcher** has said:

“... the Britain we are seeking is a Britain which could never have been founded on Socialism ... Today it is the Conservatives and not the Socialists who represent the true interests and hopes and aspirations of the working people” (Brighton, 8th October 1976).

## APPENDIX

### CHRONOLOGY OF EVENTS SINCE FEBRUARY 1974

#### 1974

- 28th February: The General Election resulted in a Labour majority over the Conservatives of 5 seats but Opposition parties held a majority of 33 over Labour.
- 4th March: Mr Heath resigned after the Liberals had refused to join a coalition. Sir Harold Wilson became Prime Minister.
- 5th March: Sir Harold Wilson announced his Cabinet.
- 6th March: Mrs Williams, Prices Minister, announced more stringent price controls and extensive food subsidies.  
The miners agreed to a 22 per cent pay settlement.
- 8th March: Britain returned to a five day working week.  
Mr Crosland announced a rent freeze affecting 8,500,000 tenants.
- 11th March: Mr Prentice announced the phasing out of the 11-plus examination.

APPENDIX  
**CHRONOLOGY OF EVENTS SINCE FEBRUARY 1974**  
**1974**

- 12th March: The Queen's Speech included proposals for the repeal of the Industrial Relations Act and the Housing Finance Act, increases in food subsidies, housing subsidies, pensions and other social benefits, "the redistribution of wealth", and discussions with the TUC and CBI on "methods of securing the orderly growth of incomes on a voluntary basis."
- 20th March: Mrs Williams announced a £21 million bread subsidy.
- 26th March: Mr Healey introduced his first Budget containing a 3p in the £ rise in income tax and a number of other increases in taxes and charges and providing £500 million for food subsidies.
- 2nd April: President Pompidou of France died.
- 11th April: An amnesty was announced for all immigrants who had entered the country illegally before January 1973.
- 3rd May: The Industrial Relations Court (NIRC) ordered the seizure of the financial assets of the AUEW for contempt of court after the union had refused to pay a £47,000 damages award resulting from the dispute at Con-Mech.
- 6th May: £280,000 in cash and securities were seized from the AUEW.  
Herr Brandt resigned as German Federal Chancellor.
- 7th May: Mr Foot referred to the NIRC Judge Sir John Donaldson as "some fool or some trigger happy judicial finger".
- 16th May: Herr Schmidt was sworn in as Federal Chancellor.
- 19th May: M. Giscard d'Estaing was elected President of France.
- 23rd May: Labour held Newham South in a by-election.
- 19th June: The Government was defeated on an amendment to the Finance Bill to provide for the retrospective repayment of some £10 million of taxes paid by trade unions which had chosen not to register under the Industrial Relations Act.
- 20th June: The Government was defeated in the Commons after a debate on a Conservative motion condemning its plans for nationalisation and control of industry. It was also forced to retreat on its disproportionate pricing policy for off-peak electricity.
- 26th June: The TUC endorsed "Collective Bargaining and the Social Contract", a statement of eight "guidelines" which union negotiators were expected to follow after the lifting of the stage 3 pay limits.
- 27th June: The Conservatives defeated the Government on its policy of massive rate increases in certain areas, thus forcing Labour to re-examine its entire policy on rates.
- 1st July: The Industrial Relations Court was abolished.
- 8th July: Hospital consultants started a work-to-rule and "go slow" campaign against the phasing out of pay beds.
- 11th July: Mr Varley proposed state control of all offshore oil and gas.
- 16th July: The Government was defeated on a Conservative amendment to the

APPENDIX  
**CHRONOLOGY OF EVENTS SINCE FEBRUARY 1974**  
**1974**

- Finance Bill to increase the number of small businesses entitled to pay a reduced rate of corporation tax.
- 18th July: Mr Foot announced the setting up of a Royal Commission on the Distribution of Income and Wealth.
- 20th July: Turkish forces invaded Cyprus.
- 22nd July: The Government was defeated in the House of Lords on various amendments to the Trade Union and Labour Relations Bill.  
Mr Healey introduced his second Budget: VAT cut by 2%, food subsidies increased by £50 million and the job premium paid to firms in regional development areas doubled.
- 24th July: The Government was defeated on an Opposition amendment to the Housing Bill to enable tenants carrying out home improvements to have their rateable values adjusted downwards.
- 25th July: The Pay Board, set up by the Conservatives in 1973, was abolished.
- 30th July: The amendments to the Trade Union and Labour Relations Bill on which the Government had been defeated in the Lords were again passed on referral to the Commons.
- 31st July: Mr Benn revealed the names of 13 ship repairing firms and 6 engine builders to be nationalised.
- 1st August: The Confederation of British Industry reported “a striking collapse in business optimism”.
- 8th August: The White Paper on Capital Transfer Tax (Cmnd. 5705) was issued.  
The White Paper on Wealth Tax (Cmnd. 5704) was issued.
- 9th August: President Nixon resigned.  
Vice-President Gerald Ford was sworn in as 38th President of the USA.
- 15th August: The White Paper, *The Regeneration of British Industry* (Cmnd. 5710), including the Government's proposal to set up a National Enterprise Board for the purpose of taking over selected companies was published.  
Court Line collapsed.
- 30th August: The National Institute of Economic and Social Research forecast mounting inflation and 675,000 unemployed by 1975.
- August: The price of electricity rose by 27½ per cent.
- 1st September: Mr Scanlon threatened to use the AUEW block vote against the Social Contract at the TUC congress.
- 2nd September: The Trades Union Congress opened.
- 3rd September: Mr Callaghan made an appeal to the unions to back the Social Contract.
- 4th September: The Trades Union Congress voted to back the Social Contract.
- 9th September: Total UK unemployment was 682,000.<sup>(1)</sup>

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**CHRONOLOGY OF EVENTS SINCE FEBRUARY 1974**  
**1974**

- September:  
10th        The Conservative manifesto was published.
- September:  
12th        Mr Crosland announced a White Paper (Cmnd. 5730) to nationalise all  
September: development land.
- 15th        The Ferranti group asked the Government for financial help.
- September:  
16th        The Labour Party published its manifesto.
- September:  
17th        The Liberal Party published its manifesto.
- September:  
              The Devolution White Paper (Cmnd. 5732) was published.
- 18th        Sir Harold Wilson announced the date of the General Election as 10th  
September: October.
- 23rd        Mr Healey estimated the current rate of inflation as 8.4 per cent.
- September:  
24th        Mr Healey expressed the hope that inflation could fall to 10 per cent by  
September: the end of 1975 and “into single figures” the year after.
- 26th        Mr Healey said he was “certain we can get through the whole of next  
September: year with well under a million unemployed”. He added that it was not  
necessary for “living standards to fall in order to conquer inflation”, and  
that he had “absolutely ruled out a (pay) freeze”.  
Sir Harold Wilson claimed that “price rises in the shops are slowing  
down”.
- 7th         Mrs Shirley Williams said there was “no evidence of price increases  
October: stored up in the pipeline”.
- 10th        In the second 1974 General Election the Labour Party won a majority of  
October: 3 over all other parties.
- October:    Published figures showed that inflation was 17.1 per cent over the year  
September 1973-September 1974.
- 29th        The Queen's Speech included proposals to set up the National Enterprise  
October: Board, introduce Capital Transfer Tax, nationalise development land,  
and remove the Conservative amendments designed to protect  
individuals in union closed shops.
- 3rd         Consultants and senior medical staff started to work to rule.
- November:  
12th        Mr Healey's third Budget: £1,500 million relief to industry, and a further  
November: £600 million injected into the economy. 25 per cent VAT on petrol.
- 13th        The Petroleum Revenue Tax was announced.
- November:  
3rd         Mr Mason announced £4,700 million defence cuts.
- December:

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**CHRONOLOGY OF EVENTS SINCE FEBRUARY 1974**  
**1974**

- 6th December: British Leyland asked the Government for financial help.
- 13th December: Inflation was 18.3 per cent over November 1973–November 1974.
- 19th December: An inquiry under Lord Houghton of Sowerby was set up into whether public funds should be made available to political parties.
- 30th December: Aston Martin went into liquidation.
- 31st December: Burmah Oil asked for Government financial help.

<sup>1</sup>These figures for unemployment in the UK include the seasonally fluctuating figure for adult students unemployed. The Government ceased to include adult students in the unemployment totals after March 1976, but all previous peaks for unemployment under both Conservative and Labour Governments have included adult students. Detailed unemployment figures appear on page 273.

**1975**

- 4th January: British Rail raised its fares by 12½ per cent overall.
- 13th January: An ambulance service officers strike started. A strike of dustmen started in Scotland.
- 20th January: Mr Prentice announced his plan to phase out direct grant schools.
- January: Total UK unemployed was 776,000.
- January: Electricity prices increased by 4½ per cent. Gas prices increased by 12 per cent.
- 4th February: The first ballot in the Conservative leadership elections took place: Mrs Thatcher obtained 130 votes, Mr Heath 119 and Mr Hugh Fraser 16. Mr Heath resigned as Leader of the Conservative Party.
- 8th February: Mr Healey said that the number of pay deals outside the Social Contract was “far too large”.
- 11th February: Mrs Thatcher was elected Leader of the Conservative Party after the second ballot, in which she obtained 146 votes, Mr Whitelaw 79, Sir Geoffrey Howe and Mr Prior 19 each and Mr Peyton 11.
- February: Mr Healey said that inflation was the main threat to jobs.
- 18th February: Mrs Thatcher announced her first Shadow Cabinet. The Industry Bill, to set up a National Enterprise Board designed to nationalise profitable private companies *inter alia*, passed its Second Reading.
- 26th February: The House of Commons approved the Government's proposal to hold a referendum on Britain's EEC membership by 312 votes to 262.
- 3rd March: Mr Prentice stated that “the trade unions must not welsh” on their side of the Social Contract. This was later criticised by Sir Harold Wilson.
- 14th March: The National Institute of Economic and Social Research said, “so far the Social Contract has failed”.

## 1975

- 18th March: The Government recommended an affirmative reply to the EEC referendum question after the Cabinet was reported to have voted 16 “yes” and 7 “no”.  
The National Executive of the Labour Party advised a “no” vote in the referendum.
- 19th March: The Confederation of Health Service Employees gave the Government an ultimatum to phase out paybeds by 8th May.
- 20th March: The Commons voted in favour of a plan to give Government money to political parties in respect of their Parliamentary work.
- 24th March: Workers in the engineering industry demanded a 30 per cent pay rise.  
The Housing Finance (Special Provisions) Bill, seeking to indemnify the Clay Cross councillors, had its Second Reading.
- 31st March: Mr Alexander Shelepin, ex-head of the KGB, arrived in Britain on an invitation from the TUC.
- 9th April: Mr Eric Heffer, Minister for Industry, was dismissed from the Government, after speaking in Parliament against the Government motion recommending an affirmative vote in the EEC referendum. The Commons voted in favour of such a vote by 396 to 170.
- 14th April: Total UK unemployment was 940,000.
- 15th April: Mr Healey introduced his fourth Budget: increased VAT on all luxury goods to 25 per cent, motor vehicle licences increased by 60 per cent and income tax increased by 2p in the £. The £ closed at \$2.3675.
- April: The average increase in basic pay for 13 million employees was 32.5 per cent over 12 months.
- 24th April: The Ryder Report was published. £1,400 million of Government money was said to be needed to nationalise British Leyland.
- 26th April: The Labour Party special conference voted by 2 to 1 for Britain's withdrawal from the EEC.
- 28th April: The Employment Protection Bill received its Second Reading.
- 29th April: The Community Land Bill giving local authorities power to acquire all development land received its Second Reading.
- 30th April: South Vietnamese forces surrendered to the Communists.
- April: Electricity prices rose by 5½ per cent.
- 18th May: British Rail raised its fares by 15 per cent.
- 30th May: The NUR rejected a 27.5 per cent pay rise.
- 6th June: After Britain's first national referendum the country decided by a majority of over 2 to 1 to stay in the EEC.
- 10th June: Mr Benn was moved from the Department of Industry to the Department of Energy. At the start of the week, the £ was valued at \$2.32.
- 16th June: The 20 year old Simonstown Agreement with South Africa was terminated by Britain.
- 20th June: Under the threat of a national strike a 29.8 per cent pay rise was agreed with the NUR. Sir Richard Marsh commented “This settlement will do enormous damage to the industry”.

## 1975

- 21st June: Mr Healey gave the TUC 6 weeks to tighten up the Social Contract.
- 26th June: Woolwich West by-election: this Labour seat was captured by the Conservatives after a 7.5 per cent swing. Mrs Gandhi declared a state of emergency in India.
- 30th June: The £ started the week valued at \$2.23. Sir Harold Wilson denied the need for panic measures in a speech at the Royal Agricultural Show.
- 1st July: Mr Healey told the Commons that the Government was prepared to impose statutory controls on pay if no voluntary agreement was reached with the TUC.
- 5th July: At the end of the week the £ was valued at \$2.19 having fallen by 3.4 cents.
- 9th July: The fall in the £ prompted the TUC to accept a limit on pay increases of £6 per week.
- 11th July: Mr Healey introduced his fifth "Budget". A White Paper, *The Attack on Inflation* (Cmnd. 6151), limiting pay rises to £6 per week and freezing salaries over £8,500 for 12 months, was introduced.
- 14th July: Total UK unemployed passed the 1 million mark (1,088,000).
- 23rd July: Mr Reg Prentice was asked by the General Management Committee of his constituency party to resign.
- 26th July: A year after the TUC had formally adopted the Social Contract, the *Daily Mirror* described it as "a shameful flop."
- 30th July: Helsinki conference on European security opened.
- July: The price of electricity rose by around 35 per cent.
- August: The rate of price inflation reached its peak—a 26.9 per cent increase over the previous 12 months.
- 4th August: The Government was defeated on a provision in the Housing Finance (Special Provisions) Bill to remove the disqualification of the Clay Cross councillors from office.
- 20th August: Sir Harold Wilson asked the British public "to give a year for Britain".
- 27th August: With a bomb in a Caterham pub, the IRA started a wave of bombing in England that continued until late autumn.
- 4th September: Dr Kissinger brought about an Israeli-Egyptian agreement by which Israeli troops were withdrawn from parts of the Sinai peninsula.
- 7th September: British Rail raised its fares by 15 per cent.
- 8th September: Total UK unemployed was 1,249,000.
- 30th September: At the Labour Party Conference, Sir Harold Wilson claimed that Labour was "the natural party of government", while admitting that "our inflation (is) more than twice that of our competitors".
- October: The price of gas rose by 20 per cent.
- 5th November: NEDC meeting at Chequers proclaimed the "new industrial strategy".
- November: Mr Stonehouse, Labour MP for Walsall North, was committed to trial on

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- 18 out of 23 charges.
- 7th November: The Government applied to the IMF for £975 million.
- 11th November: Mr Gough Whitlam was dismissed as Prime Minister of Australia by the Governor General.
- 19th November: The Queen's Speech included proposals to nationalise aerospace, shipbuilding and shiprepairing, to extend the Dock Labour Scheme, compel local authorities to turn their schools into comprehensive schools, and to remove paybeds from NHS hospitals.
- 20th November: General Franco died.
- 27th November: Ross McWhirter was assassinated by the IRA.
- 29th November: In the New Zealand General Election, the National Party won a massive victory over the governing Labour Party. Mr Muldoon became Prime Minister.
- 2nd December: The Aircraft and Shipbuilding Industries Bill received its Second Reading.
- 4th December: The Court of Appeal ruled against the Home Secretary on TV licences.
- 5th December: Detention was ended in Northern Ireland.
- 11th December: A plan to restore the death penalty was rejected in the Commons by 369 votes to 217.
- 13th December: In the Australian General Election, the Liberal-Country Party coalition defeated Mr Whitlam's Labour Party. Mr Fraser became Prime Minister.
- 28th December: Sir Harold Wilson claimed in his New Year message: "We come out of 1975 more united, more determined and more realistic about what has got to be done".

## 1976

- 1st January: The IMF agreed to grant Britain a loan of £975 million.
- 4th January: Mr Healey said that "to have attempted to cut the public sector deficit ... would have been cruel madness".
- 8th January: Total UK unemployment was 1,430,000.
- 11th January: Mr McGahey, Vice President of the NUM, was elected Chairman of the Communist Party.
- 15th January: Mrs Thatcher reshuffled her Shadow Cabinet.
- 19th January: The Devolution White Paper (Cmnd. 6348) was published.
- 21st January: Concorde left Heathrow on its first commercial flight.
- 24th January: Mr Roy Jenkins warned that public spending could not go beyond 60 per cent of the Gross Domestic Product without threatening the values of a



## 1976

- plural society.
- 29th January: Fifty Labour MPs abstained from voting with the Government after a debate on Unemployment.
- 4th February: The Education Bill, obliging local authorities to turn all their schools into comprehensives, received its Second Reading.
- 10th February: The Dock Work Regulation Bill passed its Second Reading.
- 12th February: The Government published a plan to spend £220 million in creating jobs.
- 18th February: Britain recognised the MPLA in Angola.
- 19th February: The White Paper on Public Expenditure (Cmnd. 6393) revealed cuts in planned spending. Actual expenditure, however, was to increase substantially.
- 2nd March: Lord George-Brown resigned from the Labour Party over the issue of press freedom.
- 4th March: Coventry by-election: the Labour majority was halved.
- 5th March: The £ fell below the two dollar level.
- 8th March: The £ fell 5 cents in the day.
- 10th March: The Government was defeated by 28 votes after a debate on the Public Expenditure White Paper, in which 37 Labour MPs deliberately abstained.
- 11th March: The Government won a vote of confidence in the House of Commons by 17 votes. The Conservatives retained Wirral and Carshalton in by-elections, with 13·3 per cent and 8·4 per cent swings respectively in their favour.
- 16th March: Sir Harold Wilson resigned as Prime Minister. The £ stood at \$1·91.
- 28th March: British Rail raised its fares by 10 per cent on Inter-City trains and 17½ per cent in London and the South East.
- 1st April: The £ fell 3·2 cents in the day, and closed at \$1·88.
- 5th April: Mr Callaghan was elected Leader of the Labour Party and became Prime Minister. In his first Prime Ministerial broadcast he said that borrowing “cannot go on indefinitely”.
- 6th April: Mr Healey introduced his sixth Budget, containing an offer of tax reliefs if a 3 per cent pay limit were agreed by the trade unions.  
Mr Healey claimed that “we can still achieve our target of under 10 per cent (inflation) next winter”.  
The £ closed at \$1·86.
- 8th April: Mr Callaghan appointed his first Cabinet. Mr Foot became Leader of the House and Lord President of the Council, and Mr Crosland Secretary of State for Foreign and Commonwealth Affairs.  
Total UK unemployed: 1,460,000.
- 17th April: Phnom Penh, capital of Cambodia, fell to the Communists.
- 27th April: The Health Services Bill, to abolish pay beds, received its Second

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Reading.

- 29th April: Mr Callaghan rebuked Mr Benn for abstaining on a Left-wing NEC motion attacking the Government's spending cuts.
- 2nd May: Mr Healey claimed that the new pay agreement "could bring Britain home and dry within the next 18 months".
- 5th May: The TUC obliged the Government to concede a 5 per cent pay limit, instead of 3 per cent, as originally proposed. The £ closed at \$1.825.
- 6th May: In the local government elections in England and Wales the Conservative Party gained 1,812 seats.
- 7th May: Mr Healey claimed that the pay agreement "means more jobs and more in the shopping basket".
- 10th May: Mr Thorpe resigned as Leader of the Liberal Party.  
Mr Healey claimed "we are going to get unemployment down faster than any other country".
- 12th May: Mr Grimond agreed to become the temporary leader of the Liberal Party.
- 21st May: The £ fell 2½ cents in the day, and closed at \$1.78.
- 25th May: Mr Callaghan claimed: "I believe it is the judgment of central bankers generally that sterling at present is under-valued". The £ stood at \$1.79.
- 27th May: The Government carried its motion to waive the rules on hybrid Bills by one vote, as the result of a Labour MP dishonouring a pairing arrangement. This resulted in the closure of the 'usual channels'.
- 28th May: *Labour's Programme for Britain 1976*, published.
- 1st June: The "Cod War" was ended by an agreement which benefited Iceland.
- 7th June: The Government secured a standby loan of £5,300 million from thirteen countries in an attempt to check the fall of sterling, which closed at \$1.75.
- 24th June: In the Rotherham by-election the seat was held by Labour but there was a swing of 13.3 per cent to the Conservatives.
- 30th June: White Paper, *The Attack on Inflation: the Second Year*, (Cmnd. 6507) was published.
- 3rd July: Mr Healey claimed that "the long awaited economic miracle is in our grasp".
- 15th July: The Thurrock by-election: the seat was held by Labour but there was an 11 per cent swing to the Conservatives.
- 16th July: A TUC special congress rejected Mr Healey's planned spending cuts of £1,000 million, but accepted Stage Three of the pay restraint.
- 20th July: Unprecedented Government "guillotine" on five controversial Bills was passed.
- 21st July: The British Ambassador, Mr Christopher Ewart-Biggs, was assassinated in Dublin.
- 22nd July: Mr Healey introduced his seventh "Budget", announcing plans to cut public expenditure by £1,012 million and for a 2 per cent increase in employers' National Insurance contributions.
- 26th July: Tameside Council won an appeal to keep its grammar schools.

## 1976

- 28th July: The TUC-Labour Party Liaison Committee published *The Next Three Years*.
- 30th July: The High Court ruled that Mr Shore, the Industry Secretary, could not prevent Mr Freddie Laker's Skytrain from competing with British Airways on the London-New York route.
- 1st August: Stage Two of Government's pay restraint began.
- 2nd August: Mr Mulley lost his appeal to the House of Lords over Tameside schools.
- 6th August: Mr Stonehouse, former Labour Minister and MP, was sentenced to seven years imprisonment for corruption and fraud.
- 7th September: The Bank of England withdrew its support from the £ which fell by 13 cents in the following three weeks.  
The Labour Party published proposals to nationalise the main clearing banks and insurance companies.
- 9th September: Total UK unemployed was 1,588,000.  
Mao Tse Tung died.
- 10th September: In the Cabinet reshuffle, Mr Rees went to the Home Office, Mr Mason to the Northern Ireland Office and Mrs Williams became Secretary of State for Education.
- 19th September: In the Swedish General Election, the Socialists were defeated after 44 years in power.
- 20th September: Mr Andy Bevan was selected as Labour Party National Youth Officer.
- 27th September: The Labour Party Conference opened in Blackpool.
- 28th September: In the first two days of the Labour Conference the £ fell by 6½ cents, and closed at \$1.637.  
Mr Healey turned back at London Airport from flying to important conferences he was to attend at Hong Kong and Manila. Mr Callaghan told the Labour Conference "for too long this country has trodden the primrose path and borrowed money from abroad—it still goes on".
- 29th September: Mr Healey announced his intention to apply for a loan of £2,300 million from the IMF. He said that there would be "riots in the streets" if Britain failed to get this help.
- 30th September: Mr Callaghan claimed that if the Labour Government's policies failed there would be "a totalitarian Government of the Left or Right".
- 3rd October: *The Right Approach*, the Conservative policy document, was published.  
General Election in West Germany: the Social Democratic Chancellor Schmidt remained in office by a narrow majority.
- 5th October: The Conservative Party Conference opened in Brighton.
- 7th October: Mr Healey introduced his eighth "Budget". The Bank of England minimum lending rate rose to a record level of 15 per cent.

## 1976

- 21st October: A report from Public Accounts Committee revealed that mismanagement by Government departments “cost the country £1,000 m.”  
Mr Healey at the Lord Mayor's Banquet said: “Living standards will have to suffer a further fall ...”
- 25th October: Mr Callaghan said that living standards had “fallen this year and will fall again next year”. He threatened that if Britain did not obtain the IMF loan he might withdraw British troops from Germany.
- 27th October: The Labour National Executive voted to support a lobby of Parliament against cuts in Government expenditure. The £ fell to \$1.565: the lowest level in nearly three years of Labour Government.
- 28th October: The Geneva Conference opened under the Chairmanship of Mr Ivor Richard, a former Labour MP who was UK Ambassador to the United Nations, to discuss the formation of an interim Government in Rhodesia for the transitional period to Black majority rule.
- October: The price of gas rose by 12½ per cent.
- 3rd November: Mr Carter elected President of the United States.
- 4th November: The Conservatives captured Walsall North and Workington in by-elections with swings of 22 per cent and 13 per cent respectively. Labour held Newcastle Central.
- 10th November: The Government was defeated twice on the Dock Work Regulation Bill, which as a result was virtually emasculated.
- 18th November: The squeeze on bank lending was further intensified.
- 24th November: The Queen's Speech included proposals to set up Assemblies in Scotland and Wales, provide for direct elections to European Parliament, reintroduce the Bill to nationalise aerospace, shipbuilding and shiprepairing, and enable local authorities to develop their direct labour building activities.
- 2nd December: The Conservatives retained Cambridge in a by-election with an increased majority.
- 15th December: Mr Healey's ninth “Budget”: a £2,500 million cut in public expenditure. The Labour Party NEC voted to confirm the appointment of Mr Andy Bevan.
- 16th December: The Scotland and Wales Bill received its Second Reading.
- 21st December: Mr Prentice resigned from the Government over its “drift”.
- 29th December: Mr Ivor Richard left London for a tour of Southern Africa in an effort to find a solution to the Rhodesian problem.

## 1977

- 3rd January: A Gallup Poll carried out for the BBC showed that 54 per cent of voters regarded Mr Jack Jones as more powerful than the Prime Minister. Mr Jones said that 1977 would be the “year of the beaver”.
- 5th January: The Prime Minister announced the membership of Sir Harold Wilson's

## 1977

- January: Committee to “review the functioning of the financial institutions” in the City. It included Mr Len Murray and Mr Clive Jenkins.
- 7th January: The Rhodesian Government rejected the settlement proposals put forward by the British Government.
- The Society of Motor Manufacturers announced that imported cars had taken a record 46 per cent of the British market in the previous month.
- 10th January: Central bankers announced a further \$3,000 million standby safeguard for sterling.
- 14th January: Lord Avon died.
- Mr Sam Silkin, Attorney General, refused to give his assent to an application by a private organisation for an injunction against two Post Office Unions who were planning a boycott of postal and telephone services to South Africa.
- 15th January: At a specially convened hearing the Court of Appeal granted a temporary injunction to prevent the two Post Office Unions from boycotting mail to South Africa until the Court had heard the Attorney General give his reasons.
- 19th January: Mr Andy Bevan started work at Transport House.
- 20th January: Mr Jimmy Carter took office as the 39th President of the USA.
- 23rd January: Mr Ian Smith rejected fresh British proposals for a Rhodesian settlement.
- 25th January: The Bullock Committee's Report on Industrial Democracy was published. It proposed a process by which companies with more than 2,000 employees should have the same amount of trade union nominees on the board as shareholder representatives.
- Total UK unemployment was 1,458,000.
- 27th January: The Court of Appeal rejected the Attorney General's argument on his constitutional role. Lord Denning said, “He (the Attorney General) has no prerogative to suspend or dispense with the laws of England”.
- 6th February: The 25th anniversary of Queen Elizabeth II's accession to the throne was celebrated.
- 7th February: The *Daily Mirror* started serialising *The Politics of Power* by Mr Joe Haines, Sir Harold Wilson's former press secretary. This reopened controversy over Sir Harold Wilson's “Kitchen Cabinet” and his 1976 resignation honours list. Sir Harold, Lady Falkender and other close associates entered the controversy over the following ten days.
- 7th February: The latest figures showed that the rise in wholesale prices over the previous 12 months was 19.6 per cent.
- 10th February: Mr Joe Gormley, President of the NUM, and the Vauxhall shop stewards, added their criticisms of the Social Contract and pay restraint made earlier by Mr David Basnett, General Secretary of the General and Municipal Workers' Union, Mr Frank Chapple of the electricians' union and the

## 1977

British Leyland, Ford's and Chrysler shop stewards.

14th February: Britain had a record visible trade deficit of £545 million in January 1977.

18th February: A fresh rise in the retail price index showed that inflation over the year January 1976–January 1977 was 16.6 per cent.

## 2. ECONOMIC SITUATION

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### Speaking Note

- Political motivation underlies the whole of the Labour Government's failure to deal with the economy. It inspired the irresponsible support for militancy during the miners' strike and the February 1974 election, and the reckless unleashing of wage inflation after it. It is at the root of Labour's failure to understand or cope with a mixed economy. A party whose aim is the extension of public ownership is unlikely to foster private enterprise.
- This inherent weakness of Labour governments has worsened since 1974 with the growing strength of the Left wing, thinly disguised latterly by the reluctant acquiescence of militants in distasteful measures, such as cuts in public expenditure, in order to keep the Government in office at all costs.
- Capitulation to militancy in 1974 brought the country to the brink of hyper-inflation. The first Social Contract was bought at the price of abandonment of wage controls; drastically increased public expenditure; more wasteful subsidies; nationalisation and creeping nationalisation through the National Enterprise Board; the introduction of Capital Transfer Tax; and soaring unemployment as the consequence of inflation.

- Excessive tightening of price control in the run-up to the October election contributed to a liquidity crisis in industry.
- The price of acceptance of wage restraint in the inflation crisis of mid-1975 was a further extension of subsidies, still higher public expenditure and more nationalisation. Tolerance of restraint has almost certainly been due as much, or more, to alarm at rising unemployment and at the rate of inflation as to loyalty to a Labour government.
- The proportion of national income accounted for by public expenditure has increased substantially—from 50 per cent to about 60 per cent of GNP in two years. Even massive increases in taxation have financed only a small part of this increase. The Public Sector Borrowing Requirement was £4 billion in 1973–4; in 1976–7 it was expected to be nearly £12 billion. The Government is now borrowing nearly one pound in every five that it spends; and one pound in every ten that it spends goes to service government debt.
- Unemployment has, as a result of inflation and excessive public expenditure, risen during the last two years to levels not seen since the 1930s. Unless public expenditure is cut back, the money and resources will not be available for industry to invest, expand and provide new jobs to replace those that have permanently disappeared as a result of changing markets and methods. The risk is that shortage of funds will lead to an inflationary increase in the money supply.
- Industrial recovery, provision of new employment, and ability to participate in the revival of world trade depend upon higher profits and more realistic tax policies. The Labour Government pays lip-service to the necessity for a substantial shift of resources from the public to the private sector, and of higher profits as part of the NEDC industrial strategy, while maintaining rigid price control and imposing new burdens on industry, in particular the pay-roll tax increase in employers' national insurance contributions.
- The expenditure cuts belatedly announced in July and December 1976 were inadequate and fell for the most part on the private sector—in particular on the already heavily unemployed construction industry. The £550 million to be cut from government spending as part of the July measures, (mostly in the form of deferment of capital projects) and the £1 billion cuts authorised in December fell upon social and health services, regional assistance, education and defence: while hundreds of millions were still to be spent on nationalisation and indiscriminate subsidies.
- The Labour Government has relied heavily, as previous Labour Governments have done, on overseas borrowing. Some £8,395 million had been borrowed by December 1976, before any drawings were made on the new IMF or bank credits. Interest on, and repayment of, this debt will impose a severe burden on our balance of payments for many years to come.
- A Conservative government would, as a matter of urgency, make room for industrial recovery by cutting back public expenditure and interference in industry; by allowing firms to earn and retain profits for investment, expansion and innovation; by changes in income and capital taxes to restore incentive to work and save and provide for the family and the future; and by removing the threat of nationalisation and state interference. Only this way can we create the wealth to pay for the standard of public and private consumption we want, and that other more successful private enterprise economies abroad enjoy.

## (A) LABOUR LEGACY, 1970

The Conservative Government elected in June 1970 inherited a steadily worsening situation: a stagnant economy in which confidence had been destroyed by Labour mismanagement; trade unions were in revolt against restraint, and wage inflation was soaring. People in general were resentful after six years of falling, or at best unimproved, standards of living following the thirteen Conservative years in which these had risen faster than ever before.

**Collapse of the National Plan.** Overseas confidence had been shattered within weeks of the Labour Government taking office in 1964 by the clear indication given in Mr Callaghan's first Budget that the Government intended to spend beyond the capacity of the taxpayer to pay. Grandiose proposals for 25 per cent growth in the economy over five years set out in the National Plan published in September 1965 were scrapped less than a year later when a balance of payments crisis brought a sharp reversal of policy. Voluntary restraint of prices and wages in accordance with the Declaration of Intent between Government, industry and trade unions of December 1964 was abandoned and a six-months statutory freeze on prices and wages introduced, together with severe deflationary measures. Sir Harold Wilson was later to say:

“We have taken steps which have not been taken by any other democratic government in the world. We are taking steps with regard to prices and wages which no other government, even in wartime, has taken” (Speech to New York bankers, reported in *The Times*, 30th July 1966).

By January 1967 unemployment had doubled and it continued to increase thereafter. Economic growth slowed from the rate of 3·8 per cent achieved under the Conservative Government in 1963–4 to a bare 2·1 per cent on average between 1964–70. Industrial production also rose on average by 2·1 per cent a year. Prices rose by nearly 30 per cent in six years, and wage rates by almost 36 per cent. After increases in tax and insurance contributions, real personal disposable income went up by only 8·4 per cent—little more than 1 per cent a year. For many people standards of living actually declined.

**Worsening Industrial Relations.** Resistance to wage restraint was shown in a rapid increase in industrial disputes, particularly the short ‘wildcat’ variety. The number of days lost through strikes soared from 2,277,008 in 1964 to 10,980,000 in 1970. Militant new leaders were elected in many unions. Mrs Castle proposed new powers to control strikes in a White Paper, *In Place of Strife* (Cmnd. 3888), published in January 1969. Draft legislation based upon it was however withdrawn in June 1969, when Sir Harold Wilson and Mrs Castle capitulated to left-wing opposition—despite Sir Harold's earlier assertion that the legislation was essential to the continuance of the Labour Government in office. Statutory price and wage controls came to an end in December 1969, and wages soared.

Mr Richard Crossman later admitted:



“The main fact is that we won the 1966 election by choosing the moment of wage inflation before prices had really been felt to rise, and obviously were seeking to do it again in this election of 1970” (“The Key to Number 10”, Radio 4, 15th April 1971).

**Industrial confidence steadily declined**, after successive rounds of deflationary measures, a squeeze on bank credit, the introduction of Selective Employment Tax and rigid price controls. Industrial investment increased scarcely at all between 1965 and 1968. By December 1969 there were 750,000 fewer people in employment than four years before.

**Public expenditure** meanwhile rose by one-third in real terms between 1964–5 and 1969–70—about three times faster than the real increase in Gross Domestic Product over the same period. Taxation was by 1970 some £3 billion higher than it would have been if the 1963 rates of tax had remained in force. Devaluation of the pound from \$2.80 to \$2.40 in 1967 gave an impetus to exports, but raised prices on the home market.

## **(B) CONSERVATIVE RECORD, 1970–4**

### **1. FIRST STEPS**

The tasks facing the Conservative Government in June 1970 were formidable:

- To bring accelerating inflation under control.
- To reduce public expenditure and make possible reductions in tax.
- To restore confidence and incentive to industry and individuals through tax reform.
- To provide a new framework for industrial relations.

It was a matter of bringing a stagnant economy, fast falling behind our overseas competitors in output, productivity and standards of living, back to life. It became a matter of resisting world pressures of both inflation and recession that were far stronger and more deep-rooted than they at first appeared to be.

Mr Anthony (now Lord) Barber, Chancellor of the Exchequer, paved the way for the policies that the Government intended to follow in his first major economic statement in the House of Commons on 27th October 1970. A rapid review of public expenditure resulted in cuts of over £300 million for 1971–2, making possible substantial cuts in taxation. The measures included:

- A 6d cut in income tax from April 1971, the first cut in the standard rate for 11 years.
- A cut in Corporation tax from 45 to 42½ per cent—the first cut in company tax for 11 years.

- A return to profit-linked investment incentives, abolition of investment grants, increase in depreciation allowances, and restoration of free depreciation in the Development Areas.
- A cut in public expenditure by £329 million from the level planned for 1971–2; and £1,100 million by 1974–5; the rate of growth of public expenditure cut from 3·5 per cent to 2·8 per cent a year in real terms.
- The introduction of improved welfare allowances and the new Family Income Supplement.

## 2. CONTROL OF INFLATION

The Conservative Government recognised that recovery from the explosive wage and price inflation that it inherited could only be gradual. A start was made in defusing wage demands by cutting taxes when, in his March Budget, Lord Barber cut the standard rate of income tax and increased children's allowances, halved SET, and in July 1971 cut purchase tax. An increase of £135 in personal allowance in March 1972 meant a tax saving of £1 a week to taxpayers. The Government, meanwhile, set an example in restraining wage costs by resisting irresponsible wage claims in the public sector—a policy of keeping each award one per cent below the last, or “N—1” as it came to be known.

**Success of Voluntary Restraint.** This approach met with considerable success. The rate of inflation which had risen to 13 per cent, at an annual rate, in the first half of 1971, largely as a result of massive wage increases, was cut to less than half—5·8 per cent—in the six months ending in July 1972.

In July 1971 in order to reduce pressure for wage increases, the CBI asked 200 of the largest firms to sign a declaration that they would do their utmost to limit unavoidable price increases to five per cent or less. In return the nationalised industries agreed to exercise similar restraint. Consequent shortfalls in their investment funds were made good by borrowing from the National Loans Fund. Price restraint, however, came under increasing pressure as world prices rose in 1972.

**Counter-Inflation Measures 1972–3.** Despite the considerable success of the CBI's voluntary price restraint initiative, the rise in import prices was inevitably followed by price increases on the home market. The pressure for larger wage increases intensified. Inflationary settlements for the miners and railwaymen in the early months of 1972 weakened the voluntary wage restraint that had also been operating with considerable success. Other groups refused to recognise that these had been special cases and were determined to catch up.

During the summer of 1972 the Government, the CBI and the TUC were engaged in extensive talks on the objectives of economic management and measures to restrain inflation.

Full agreement was reached on the three objectives:

- i. The maintenance of a high rate of growth and improvement in real incomes.
- ii. An improvement in the position of the low paid and pensioners.

iii. Moderation in the rate of cost and price inflation.

Agreement on means to achieve the third objective was nearly reached. The Government put forward an extensive list of proposals which included voluntary restraint of prices, with a CBI recommendation that increases should not exceed 4 per cent in 12 months, and with similar restraint on nationalised industry and other government-controlled prices; voluntary limits on retailers' margins; protection for living standards, especially of the low paid, with a flat-rate pay increase limit of £2 (equivalent to 13 per cent on earnings below £20 a week, and 8 per cent on average earnings), and with threshold agreements to give increases of 20p a week for every 1 per cent rise in the index of retail prices beyond 6 per cent during the following 12 months; 50p increases in the needs allowance to limit the effect of rent increases for those in receipt of rent and rates rebates; FIS payments and other benefits to continue for 12 months regardless of increases in incomes; and a £10 Christmas bonus for pensioners.

**Breakdown of Negotiations on Voluntary Restraint.** The TUC, which had wanted statutory control of prices, finally rejected the proposals because the Government could not guarantee to hold the rise in fresh food prices to 5 per cent. The Government nevertheless went ahead with its social benefits, pensioners' bonus and needs allowance proposals. The failure to reach agreement on voluntary restraint of wages, and the difficulty of restraining prices while wages were soaring led the Government with great reluctance to introduce statutory controls. These were announced by Mr Heath in a statement to the House of Commons on 6th November 1972. A White Paper, *A Programme for Controlling Inflation: The First Stage* (Cmnd. 5125), was published the same day, and implemented in the Counter-Inflation (Temporary Provisions) Act, 1972. This imposed a temporary standstill on prices and incomes for 90 days, with provision for a 60 day extension. This was used to extend the standstill on incomes until 31st March 1973, and to 27th April for prices, to cover the transition from purchase tax and SET to VAT. A second White Paper, *Programme for Controlling Inflation: the Second Stage* (Cmnd. 5205) accompanied fresh legislation.

**The Counter-Inflation Act 1973** set up the Price Commission and the Pay Board as independent quasi-judicial bodies to regulate prices and incomes in accordance with codes approved by Parliament. Prior notification was required of pay awards affecting over 1,000 people, or price increases proposed by major firms. Smaller settlements and smaller firms' prices were regulated by notification or spot checks. The extent to which cost increases could be passed on was regulated, and profit margins and dividends controlled. Pay increases over 12 months were not to exceed 4 per cent of the average pay bill per head over the previous 12 months, plus £1 per head—giving an advantage to the low paid.

**The third stage of the policy**, announced by Mr Heath on 8th October 1973 and set out in *The Price and Pay Code for Stage 3* (Cmnd. 5444), came into force in November. Strict control of prices, profits and dividends was continued, with further provision for the improvement of standards of the low paid, encouragement of investment and productivity. Pay increases could be either £2.25 per head per week—benefiting the low paid, or up to 7 per cent with a limit of £350 a year for any individual, and scope for bargaining within the group. A margin of 1 per cent was allowed for anomalies and premium payments for unsocial hours; threshold

agreements could give allowances of up to 40p a week for a 7 per cent increase in the Retail Price Index, and for every 1 per cent rise beyond this.

**Results of the Policy.** Some 5,800 settlements were reached during Stage 2 of the policy, covering 13.7 million workers. Incomes kept ahead of prices. The fairness of the policy was widely recognised: the first two stages of control on wages were not challenged. *The Economist* estimated (8th September 1973) that, but for the controls introduced in November 1972, prices ten months later would have been 20 per cent higher; and added that since the 6 per cent rise in productivity between November and June offset the 6½ per cent rise in earnings, the rise in wage costs per unit of output had virtually stopped overnight. Import prices meanwhile rose by 24 per cent between November 1972 and August 1973; raw material costs of manufactured foods by 28 per cent; and retail prices by 3½ per cent. Average earnings rose by some 8.1 per cent during the same period.

**The World Commodity Price Boom 1972–3.** During 1972 world commodity prices rose faster than at any time since the Korean war in 1950—by some 90 per cent on average. Wheat prices, for example, rose from £28 a ton in 1972 to over £100 a ton in 1973, largely as a result of the failure of the Russian and Chinese grain harvests. Beef, also, was in very short supply and prices soared. During the 1960s the terms of trade had been largely in our favour: in 1972–3 they turned very sharply against us (see Chapter 10, p. 259).

### 3. PUBLIC EXPENDITURE

It has been alleged by the Labour Party that public spending rose very sharply between 1970 and 1974, both absolutely and as a share of GDP. In fact, the increase during the last two years followed on two years in which expenditure previously planned was substantially cut; and, since GDP was growing fast the total share of public expenditure changed little over the period:

#### INCREASE IN TOTAL PUBLIC SPENDING IN REAL TERMS OVER PREVIOUS FINANCIAL YEAR

1970–1	1971–2	1972–3	1973–4	1974–5 (Labour)
%	%	%	%	%
2.9	1.9	5.0	9.5	11.5

#### SHARES OF GNP AT FACTOR COST

##### *Total Public Spending Current & Capital Spending on Goods & Services*

	%	%
1970	50.6	26.0
1973	51.1	25.8

The 1972 White Paper on Public Expenditure (Cmnd. 5178) forecast an average increase in public spending in demand terms up to 1976–7 of 3 to 3½ per cent a year, an acceptable increase in relation to the 5 per cent rate of growth forecast for the economy.

**Temporary Increase in Public Expenditure.** During 1971 and 1972 public expenditure was deliberately increased, as part of the strategy for raising the rate of growth, and with it productivity in the economy. This was endorsed by the all-party Expenditure Committee of the House of Commons in their Seventh Report (*H. of C. 450 July 1972 p. xiii*): “We think that the use of public expenditure to correct short-term deficiency of demand is an essential element of policy”. As Lord Barber made clear, however, the increase in spending was intended to be temporary, and to slow down during 1973 and thereafter:

“... that is what is now happening. So from now on public expenditure will be increasing less fast than the national income” (London, 18th October 1973).

The response of industry and of demand to reflationary measures was slow until the second half of 1972. On 21st November Lord Barber announced that certain capital projects were to be brought forward, at a cost of £100 million in 1973–4 and £500 million in 1974–5, tapering off thereafter to an increase of 1.5 or 2 per cent a year. It was recognised that this, coupled with far-reaching structural reforms in the banking system introduced in 1971, would result in a temporary increase in the money supply.

**Money Supply.** The Bank of England's paper, *Competition and Credit Control*, issued on 14th May 1971 was intended to bring greater flexibility and competition into the banking system, more changes in interest rates and more flexible liquidity ratios. The control of the money supply was to be exercised by the Bank of England through its right to call for special deposits.

The money supply increased substantially during 1972 and 1973 (see Chapter 11, p. 282). This was in part the result of reflationary measures that were intended to taper off as the economy recovered. A number of special factors were also involved. These included ‘Arbitrage’ transactions by borrowers who drew money from their banks and re-lent it to them at higher rates. This had the effect of artificially and misleadingly inflating the money supply figures. Individuals and companies, meanwhile, had substantially increased both their savings and their borrowings from the banks.

**Restraint on Expenditure and Money Supply.** Successive measures were taken to bring the increase in money supply under control. Short-term interest rates were allowed to rise sharply in June 1972 to counter an outflow of currency. The banks were asked to limit credit for financial transactions and property companies, and to give preference to industry (*Hansard*, 6th March 1973). The public sector made net repayments of debt to the banks in 1972, and the public sector deficit of £2,850 million was financed by sales of gilt-edged stocks and the running down of foreign exchange reserves. Public expenditure was cut by some £225 million net in the April 1973 Budget.

In May 1973 Lord Barber announced further cuts in public expenditure amounting to £100 million in 1973–4 and £500 million in 1974–5, in order to ensure that public sector demand for resources allowed enough margin for industrial expansion, exports and private consumption to enable the 5 per cent growth rate in the economy to be sustained.

**Further Measures in response to the Energy Crisis.** The drastic change in the outlook for the economy as a result of the oil crisis and, in the short term, of the miners' dispute in the autumn of 1973 (see p. 27) made further cuts essential. The quadrupling in the price of oil between October and December 1973 represented a loss on our balance of payments of some £2,000 million a year.

The threat of an embargo on supplies by the OPEC countries, coupled with the shortage of coal, meant, inevitably, an interruption in economic expansion. Resources had to be diverted from home consumption into exports to make good the deficit. Accordingly, on 17th December Lord Barber announced cuts of £1,200 million in public expenditure for the financial year 1974–5. Capital programmes of all departments were reduced by one-fifth, and their total procurement of supplies and other current expenditure on goods and services by one-tenth. Investment in the energy industries and in public sector housebuilding was exempt. The cuts represented a decrease of over 3½ per cent in public expenditure on goods and services for the following year, instead of the 3 per cent increase previously planned for.

Lord Barber emphasised that he had chosen to cut public expenditure rather than to raise taxes, at a time when many people would be suffering hardship—a decision criticised by Mr Healey as “discrimination in favour of the private individual” (*Hansard*, 17th December 1973, Col. 966).

At the same time controls on hire purchase and a new form of control on bank lending (“the corset”) were introduced. The clearing banks were asked to limit arbitrage transactions: they were to place non-interest bearing special deposits with the Bank of England if their interest-bearing liabilities grew at more than a specified rate.

**International Payments and Exchange Rates.** The international monetary situation was disturbed by measures to protect the dollar announced in August 1971, and major industrial countries floated their currencies until parities were renegotiated in the Smithsonian Agreement of December 1971 (see Appendix III, p. 742). This fixed the exchange rate of sterling at £2.48 to the dollar.

Lord Barber made clear in his Budget statement in March 1972 that the exchange rate was no longer to be treated as sacrosanct:

“It is neither necessary nor desirable to distort domestic economies to an unacceptable extent in order to maintain unrealistic exchange rates, whether they are too high or too low”. (*Hansard*, 21st March 1972 Col. 1354).

The recovery in the British balance of payments made possible the repayment by April 1972 of all the short-term overseas debt inherited from the Labour Government. In July 1972, when sterling came under pressure, the £ was allowed to float.

## **4. TAX REFORM AND PROMOTION OF INDUSTRIAL RECOVERY**

The cuts in taxation which Lord Barber announced in November 1970 and implemented in his March 1971 Budget were the first step in a well-prepared programme of reform designed to make the tax system less onerous, more fair, and more conducive to effort, efficiency and growth. The unified system of income tax announced in 1972 and introduced in 1973, abolishing surtax and substituting the investment income surcharge on investment incomes of over £2,000 a year, made the system much clearer and less discouraging to saving and investment. The adoption of the imputation system of Corporation Tax removed the discrimination against distributed profits to encourage the flow of funds into more productive uses. The substitution of a single-rate VAT for purchase tax and SET in 1973 removed the discrimination against service industries, and ended many anomalies. Proposals for a tax credit scheme and for reform of capital taxation were published for discussion.

**Promotion of Industrial Recovery.** The extent to which confidence in industry had been shattered by six years of Labour government became increasingly clear in the slow response to stimulus in the form of tax cuts and improved incentives. As *The Times* commented:

“Now the goal of full employment and rapid economic growth can alone heal the wounds and unite the classes.... The Chancellor has not lacked the will to restore full employment and promote economic growth. It is merely that his sums have been belied by events, mainly because of the uncharacteristic behaviour of the economy in recent years. ... Political and economic judgement alike require the Chancellor to go all out for full employment” (Leading article, Budget day, 21st March 1972).

In his March 1972 Budget Lord Barber introduced further reflationary measures with the intention of raising the growth rate to 5 per cent. Taxes were cut by £1,200 million. The *Times* commented:

“... even so it is by no means certain whether he has done all that was required of him on either economic or social grounds” (22nd March 1972).

The Industry Act 1972 introduced an improved and more flexible package of regional incentives to deal with high rates of unemployment in the Development Areas, with provision for assistance to industry in other areas as well where necessary in the national interest. The response from industry was rapid.

## **5. INDUSTRIAL RELATIONS REFORM**

Alarm at the deterioration in industrial relations and the mounting toll of wildcat strikes increased after the withdrawal by the Labour Government in 1969 of its proposed legislation. Conservative proposals were published in 1968 in a booklet, *Fair Deal at Work*, and the Industrial Relations Bill based on them was introduced, first as a Consultative Document, in October 1970. The Act received the Royal Assent on 5th August 1971, and most of its provisions came into effect in February 1972. Despite sustained trade union resistance, the introduction of a comprehensive framework of law on industrial relations had considerable effect in encouraging the more careful drafting of collective agreements, and in curbing wildcat action (see also Chapter 8, p. 212).

## 6. THE ENERGY CRISIS—AUTUMN 1973

In the autumn of 1973 the whole economic outlook for oil importing nations was drastically changed as a result of the decision by the major Middle East oil producers to cut back the production of oil, and to increase its price by almost 400 per cent between October and November. Severe shortages developed and several Western European countries introduced petrol rationing. In Britain, the Government called for a ten per cent reduction in consumption and prepared to introduce rationing if it proved necessary.

**The Miners' Dispute.** The effects of the oil shortage in this country—an 18 per cent fall in deliveries in December alone—were made immeasurably worse by the imposition of an overtime ban by the miners on 12th November 1973, in support of a pay claim greatly in excess of the Counter-Inflation Stage 3 policy limit, under which they had been offered some 16½ per cent (compared with some 7 per cent on average for most people under Stage 3). The Pay Code for Stage 3, with its provision for extra pay for unsocial hours, had been drawn specifically to cover special cases such as theirs. The ban resulted, as the miners had intended, in drastic cuts in output. Within three weeks about one-third of normal production was being lost.

It became urgently necessary to conserve stocks of fuel. On 13th November the Government announced a State of Emergency, to enable it to take adequate measures to restrain consumption and safeguard production for exports. The measures at first included the imposition of a 50 m.p.h. speed limit, controls on oil exports, a ban on display and advertising lighting, and a 10 per cent reduction in the use of oil for commercial premises, aviation and shipping. On 13th December the Prime Minister announced further cuts, designed to conserve fuel supplies and prevent coal stocks falling below the critical 7 million tons level, which would, without the restrictions, have been reached early in February. In order to reduce electricity consumption by a further 20 per cent, from 17th December large continuous process users were limited to 65 per cent of their normal electricity consumption, and from 31st December use of electricity in industry and commerce was limited to three specified consecutive days each week.

Despite acceptance of the limit by the vast majority of unions, the miners' leaders made it abundantly clear that they intended not merely to seek increases beyond the permissible limit but to destroy the whole policy of restraint. Mr Michael McGahey, Vice-President of the NUM and president of the Scottish branch of the union wrote:

“The Government, of course, and its Phase Three policy stand in the way of solution and will have to go before a solution becomes remotely possible ... we shall break Phase Three and we shall do all we can to bring the Government down” (*Morning Star*, 30th November 1973).

Other union leaders plainly recognised the danger. Mr Frank Chapple, General Secretary of the Electrical, Electronic, Telecommunications and Plumbing Trades Union, wrote:



“I believe that there is a group of workers whose purpose is not a pay settlement—any kind of settlement—for trade unionists. It is to topple the Government. And not just the Tory Government, but our whole democratic system”. (*Sunday Express*, 23rd December 1973).

In the face of this all too evident disregard of the national interest, and the very grave dangers that threatened the economy, *either* if the miners succeeded in breaking the pay limit and opening the door to yet faster inflation, *or* if the worsening fuel shortage brought industry, power supplies—even sewage plants—to a standstill, the attitude of the Labour Opposition was irresponsible in the extreme. Far from supporting the Government's determination to bring inflation under control, the Labour Party were bent only on making political capital out of its difficulties. Mr Wedgwood Benn promised that:

“The Labour Party will now be giving full support to the trade union movement” (Wells, 23rd November 1973).

Sir Harold Wilson declared, “The miners must be supported” (22nd November 1973), and lost no opportunity of making known his claim that the dispute could and would be quickly settled by a Labour government.

On 5th February 1974 after a strike ballot the NUM executive decided to call a complete strike in the mines from 10th February,—because, as Mr Gormley explained, “the overtime ban which we have had on for the last 10 weeks has not been biting as deeply as we thought” (BBC, 22nd January 1974). The General Election was announced and when Mr Heath called on the miners to suspend their action for the duration of the campaign, Sir Harold Wilson refused to support him—although even Mr Gormley tried to get the strike postponed.

## **(C) THE LABOUR GOVERNMENT, 1974: INFLATION UNLEASHED**

**Abandonment of Wage Restraint.** The path that the new Labour Government intended to follow was clear from the outset. They fought the election on a platform of peace at any price. Mr Wilson had made clear that he intended to settle the miners' strike—and did. The 22 per cent award, which gave increases ranging from £6·71 to £16·31 a week, far from being treated as a special case was the prelude to large numbers of massive wage claims. The Pay Board was to be abolished: restraint had clearly been abandoned. The Government's minority position in Parliament made it fairly certain that no attempt would be made to reimpose any form of control until after a further general election.

The Labour Party, meanwhile, had been committed by their 1973 Conference and by their February 1974 election manifesto to the most Socialist programme in their history—a programme variously costed at £5·5–6·6 thousand million a year (Labour Party estimate), £2,000 million (Mr Healey's estimate at Leeds, 13th February 1974) and £4,000 million—the Treasury's official estimate. This was quite apart from the £10,000 million that their programme of nationalisation was likely to cost.

During the election campaign and before it, Labour blamed the Conservative Government for rising prices—despite the 100 per cent increase in world commodity prices—and promised strict controls and food subsidies—“massive subsidies” according to Mr Edward Short, “selective use of subsidies” according to the Manifesto.

Mr Healey's **first Budget** was presented on 26th March 1974 within a month of Labour taking office. It was typical of Labour Budgets both in its severity and in its irrelevance to the problems the country was facing. Indeed, the seeds of the Government's failure were sown during their first six months in office.

First, it raised taxes more than had any previous Budget—£1,387 million in a full year. Acting on the false belief that industry's profits had been rising substantially (in fact they represented only 6·8 per cent of national income in 1973, compared with 13·0 per cent in 1964) and that firms' liquidity was high, it imposed £420 million additional taxation for 1974–5 through increasing corporation tax and doubling the rate of advance corporation tax for that year, and raised employers' National Insurance contributions by £500 million. In total, over £1,100 million more was taken from industry in that year. The massive shake-out of labour and spate of bankruptcies that followed showed how wrong Mr Healey's assumption had been. He was forced by soaring unemployment to draw back, and in three succeeding budgets to attempt to undo the damage.

**Increase in Prices.** Secondly, nationalised industry prices were to rise very sharply. Increases were inevitable if the cost of nationalised industry losses to the taxpayer was to be reduced, but Mr Healey accompanied them with increases in indirect taxes of some £680 million. Even after allowing for the effects of £500 million additional food subsidies and a rent freeze, prices were officially estimated to rise by 1·5 per cent (*Hansard*, 1st April 1974, Col. 269) or, as the *Financial Times* estimated on 28th March, by 2½—3 per cent. A substantial burden was thus imposed on ordinary families at a time when restraint in incomes was most urgently needed.

The tax increases in the March Budget contributed substantially to the record 3·4 per cent increase in prices in April alone—an increase particularly damaging since it accelerated the triggering of the threshold increases under Stage 3 of the Conservative counter-inflation policy.

Mrs Shirley Williams, then Minister for Prices and Consumer Protection, warned as early as 9th June 1974 in a speech at Swansea that by the autumn inflation could be running at 20 per cent. This was in spite of the downturn in world market prices which had followed the price explosion of 1972–3. *The Economist* All Commodities Index showed that, from a peak in February 1974, prices had fallen by some 10 per cent by July 1974 compared with an increase of 108 per cent between mid-June 1972 and the end of February 1974. On the basis of this reversal in world prices Mr Healey, in contrast to Mrs Williams, claimed:

“We have a good chance of reducing the rate of inflation over the next 12 months, provided that wage increases do not outstrip increases in productivity” (*Labour Weekly*, 31st May 1974).

**Higher Taxes and Increased Expenditure.** In addition, the basic rate of income tax was raised by 3 (new) pence in the £—thus more than wiping out Lord Barber's cut of 6 (old) pence (2½ new pence) in his first Budget. Higher rate bands were raised by 3 per cent, the top rate by 8 per cent—to give a top marginal rate on investment income of 98 per cent, by far the highest in the Western world. Mr Healey's attempt to reduce the threshold to the investment income surcharge to £1,000 was defeated in the House of Commons; but re-introduced in his autumn Budget.

Not only did Mr Healey undermine any attempts at restraint in incomes and prices, but his programme of increased expenditure of £1.2 billion set the pattern for the Government. He made much of his intention to cut the public sector borrowing requirement by £1.5 billion to £2.7 billion. In the event it was nearly doubled during the year, to £7.6 billion and the cuts imposed by Lord Barber in December 1973 were to a great extent swamped by increases elsewhere.

**Overseas borrowing.** Mr Healey announced that a loan of \$2.5 billion for ten years had been negotiated with a number of foreign banks—the largest loan ever raised in the international capital markets. In addition, the Bank of England had agreed with the Federal Reserve Bank of New York that the limit on short-term financial support available under the inter-central bank swap arrangements between them should be raised from \$2 billion to \$3 billion.

**Exchange controls** were tightened. Rules governing investment in the non-sterling area were extended to cover investment in the EEC and in the overseas sterling area. Investment overseas was to be financed without official exchange: the former 'ration' of £1 million official exchange for any project each year was withdrawn. The requirement that 25 per cent of the proceeds of the sale of portfolio investment in non-sterling countries must be sold in the official market was extended to sales in the overseas sterling area.

## **(D) PRE-ELECTION IRRESPONSIBILITY**

During the summer of 1974, at a time when urgent action was needed both to restrain inflation and ward off the unemployment to which it was all too clearly giving rise, the Government marked time.

In June, agreement was announced with the TUC on a Social Contract (see p. 32). Mrs Shirley Williams tightened the Price Code without regard to the effects on firms' financial positions, as part of the attempt to present a favourable picture on inflation in time for the October election. Later, in an attempt to undo at least some of the damage inflicted on industry, the Code was revised. A new Code, containing a number of concessions, came into force in December 1974 (see chapter 5, p. 132).

**8.4 per cent Inflation.** On 22nd July, in a vote-catching mini-Budget, Mr Healey cut VAT from 10 to 8 per cent—at a cost of £600 million in lost revenue, and immense inconvenience and cost to thousands of shopkeepers and traders—clearly in order to produce a sudden drop in the Index of Retail Prices in August which enabled him to

make his notorious claim that inflation “was currently running at a rate of 8·4 per cent” (Press Conference, 23rd September 1974) (Mr Healey had projected the highly untypical months of June, July and August into an annual rate). As Conservatives pointed out, wages calculated on the same basis were rising at 40 per cent. But the Pay Board and statutory restraint were abolished on 25th July 1974.

**More Overseas Borrowing.** Mr Healey, in his announcement on 22nd July, claimed as a success the loan of £1·2 billion negotiated with the Shah of Iran to be drawn in 3 separate loans by public bodies within three years—again setting the pattern that the Government were to follow: of depending on overseas borrowing to sustain an exchange rate that their own policies were putting at risk.

Other election “sweeteners” announced as part of the reflationary mini-Budget were:

- Relief for rate payers whose rates went up by more than 20 per cent in 1974, equal to 60 per cent of the excess over 20 per cent: cost £150 million.
- Increase in needs allowance for rent and rate rebates: cost £60 million in a full year.
- A further £50 million to be spent on food subsidies (out of £500 million allocated in April).
- Regional Employment Premium doubled from £1·50 to £3 per man per week.

The effect of the measures was to increase the borrowing requirement by £340 million for 1974–5.

**False Optimism and Electioneering.** The picture presented by Labour Ministers in the October election campaign was one of false optimism. For example:

Mr Healey

“I am certain we can get through the whole of next year with well under a million unemployed” (*People and Politics*, BBC TV, 26th September 1974).

*There were over a million unemployed 11 months later.*

Sir Harold Wilson

“We are top of the league in the fight against inflation” (*Daily Telegraph*, 2nd October 1974).

*In 1975 we were top of the league of inflation among major industrial countries.*

Sir Harold Wilson

“Unemployment ... is beginning to fall; the balance of payments shows a substantial improvement, the pace of inflation and price rises is moderating ... but now we are being inundated with gloom and doom from the Conservative leadership” (Press Conference, 9th October 1974).

Mr Healey

“We have in fact succeeded in doing very well on our own this year—I have cut the inflation rate I inherited by half” (*Panorama*, BBC 1, 23rd September 1974).

*By the following June he had doubled the rate which he falsely claimed to have halved.*

<b>Percentage increase in Index of Retail Prices during previous 12 months</b>	
February 1974	13.2
September 1974	17.1
June 1975	26.1
September 1975	26.6

## **The Social Contract**

The ‘contract’ on which the Labour Government relied from 1974 onwards had its origins in a joint TUC&/Labour Party document entitled *Economic Policy and the Cost of Living* issued on 28th February 1973.

The February 1974 Labour Manifesto pledged a Labour Government to create

“The right economic climate for money incomes to grow in line with production”.

Mr Hugh Scanlon, President of the AUEW, indicated the Contract's limitations when he said that to describe it as an incomes policy would “create misunderstandings” (*Daily Telegraph*, 23rd February 1974).

On 26th June 1974 the TUC fulfilled—or considered that it had fulfilled—its side of the contract when it endorsed a statement of eight “guidelines” which union negotiators were expected to follow after the lifting of the Stage 3 limits. The guidelines' nearest approach to precision on wage restraint was the statement that:

“The scope for real increases in consumption at present is limited, and a central negotiating objective in the coming period will therefore be to ensure that real incomes are maintained”.

The document also stated that the 12 month interval between wage increases should in general continue to apply. Even these broad guidelines were qualified in the passage relating to the tasks to be performed by the Conciliation and Arbitration Service:

“The fact that these are in the form of general considerations, which negotiators should tailor according to the circumstances of particular negotiating situations, and not rigid limits to be applied regardless of their circumstances, means that a conciliator or arbitrator could take them into account without prejudicing the essential task of providing a settlement of the dispute before him”.

It was scarcely surprising that many wage settlements were reached in the summer of 1974 far in excess even of the TUC guidelines. For example: oil tanker drivers employed by BP and Shell Mex—30 per cent; 55,000 Electrical contracting workers—41 per cent from January 1975; NUBE clearing bank staff—14 per cent on top of earlier increases amounting together to 18 to 30 per cent during the year.

In spite of these breaches of the Social Contract guidelines Sir Harold Wilson claimed during the autumn election campaign:

“The Social Contract *is* working because we are making it work. It is our answer in the short term, the medium term and the long term to the problems of a modern industrialised society” (Bury, 26th September 1974).

In the same speech he described the Contract as “the boldest experiment in civilised government that Britain has ever seen”. In fact, it came to represent one of the greatest threats ever made to our economy at a time of crisis. Its price was wasteful expenditure on food and housing subsidies; commitment to nationalisation both outright and creeping (through the NEB), punitive and politically-inspired taxation (CTT and attempts at Wealth Tax), and, above all, the abstention from any necessary measures—such as restraint in public expenditure—with which the TUC did not agree. The sweeping away of the Conservative Industrial Relations Act, and the introduction of the Trade Union and Labour Relations Bill and the Employment Protection Bill—with its sanction for closed shops even at the expense of press freedom; the Dock Work Regulation Bill with its threat both to jobs and to supplies; even the abandonment of the promised child credits—all these have been part of the price paid by the Labour Government for a contract on which the *Daily Mirror* delivered an apt verdict in its editorial on 26th June 1975:

“Let's face it, the social contract is a shameful flop; a national sick joke”.

**Increasing Interference in Industry.** This was part of the price paid by the Government to win TUC support for the Social Contract. The Labour Party Manifesto in February 1974 had committed the party to the nationalisation of shipbuilding, ship repairing and the manufacture of air frames, and to taking over profitable sectors of individual firms. Plans were taken a step nearer fulfilment when Mr Wedgwood Benn published a paper entitled “Current Work Programme” on 17th June 1974. This defined the role of the National Enterprise Board. Planning Agreements were to be arranged with the top 100 industrial companies.

On 15th August 1974 the Government's proposals for industry were published in detail in a White Paper inappropriately titled *Regeneration of British Industry* (Cmnd. 5710). Mr Benn had already on 30th June announced the Government's intention to nationalise all the major shipbuilding companies. On 20th August Mr Fred Mulley, then Minister for Transport, set out in a letter to representatives of the industry plans to nationalise all the ports—including efficient smaller ports such as Felixstowe and Shoreham not included in the previous Labour Government's Bill to nationalise the ports (which lapsed at the 1970 election).

The Labour Government's intention to pursue extreme Socialist and interventionist policies towards industry was apparent in Sir Harold Wilson's choice in March 1974

of Mr Benn as Secretary of State for Industry, and Mr Eric Heffer as Minister of State. Even Sir Harold, however, evidently recognised that their patently extremist approach would cause alarm, and he allowed it to be known that he had taken over the co-ordination of industrial policies. In a speech at Huyton on 14th June 1975 he explained that Mr Benn was simply setting out “what we as a party pledged last year.”

Eventually, after the Common Market Referendum Campaign, in which Mr Benn was a leading protagonist of the anti-EEC movement, the then Prime Minister recognised the need to avoid further alarm in industry, and moved Mr Benn to the Department of Energy on 10th June 1975, replacing him with Mr Eric Varley. Mr Benn's influence, as Chairman of the Labour Party's Home Policy Committee, is nevertheless all too evident in proposals for further nationalisation and even more sweeping interference in industry—with public ownership of at least one major firm in each industry—put forward in Labour's policy document, *Labour's Programme for Britain 1976* (see Chapter 28, p. 697).

## (E) CRISIS IN INDUSTRY—AUTUMN 1974

The effects of this combination of seriously ill-judged measures were not slow in coming. Mr Healey's initial assumption that profits were substantial and rising, and firms' liquidity high, was in reality entirely false. As the *Bank of England Quarterly Bulletin* reported in March 1976:

“Profitability has fallen over a long period of years, but was particularly low in 1974 and 1975 ... Allowing for inflation, the real post-tax rate of return on the capital stock of industrial and commercial companies was roughly halved between 1960 and 1973, and would have disappeared completely in 1974 but for the introduction of tax relief on stocks in November of that year. For profitability to improve, output and profit margins will each need to rise ... the present system of price restraint—based on the historic cost margins and reference levels prevailing when the code was introduced—would, if maintained, help to prevent a return to adequate profitability”.

**Liquidity Crisis.** The result of the imposition of £1,100 million in additional taxation and employers' national insurance contributions (see p. 29), together with the tightening of the Price Code, was a serious crisis of liquidity in industry in the autumn of 1974. Over the whole year, the total financial deficit of industrial and commercial companies amounted to £3,933 million (*Bank of England Quarterly Bulletin* June 1976). Company liquidations soared to 3,720 and reached a record total of 5,393 in 1975.

**Falling Investment.** Industry's investment intentions had been at record levels at the end of 1973: a 15 per cent increase was expected in the following year. Under the pressure of the oil crisis and Mr Healey's Budget this collapsed within months to a bare 5 per cent increase forecast in June 1974. Meanwhile, the enormous increase in raw material prices had vastly increased industry's tax liability, since the wholly artificial ‘profit’ represented by the appreciation in the value of stocks was fully taxable.

The National Institute for Economic and Social Research indicated how great had been the deterioration in the economy in five months of Labour Government when its *Economic Review* published on 30th August 1974 forecast:

“On present policies, we anticipate stagnant output, rising unemployment and somewhat greater inflation than we foresaw last May, with a slower improvement in the balance of payments”.

Mr Healey's **third Budget** was presented on 12th November—a second attempt to repair the damage inflicted by his first, and to ward off further unemployment. At the time of the election Mrs Shirley Williams had said:

“There is no evidence at all of price increases stored up in the pipeline” (Press Conference, 9th October 1974).

Prices nevertheless went up. Mr Healey raised the VAT on petrol to 25 per cent, announced increased nationalised industry prices, and some price controls were relaxed.

**Relief for Stock Appreciation.** Tax relief on stock appreciation was introduced in order to relieve the liquidity crisis that had hit many firms—largely as a result of the March Budget. Companies were to be able to reduce the value of their stocks on which current tax bills were based, by an amount by which the increase in values of stock exceeded 10 per cent of the trading profits of the business. This was described as an interim measure until the Sandilands Committee reported (see Chapter 4, p. 103). Small firms, however, were excluded from the relief until the spring Budget. Initial allowances for industrial buildings were increased from 40 to 50 per cent; and £1,000 million was to be made available for medium-term loans to industry through Finance for Industry (see Chapter 6, p. 147).

The relief was far from adequate. The benefit was, in any case, offset by new and extremely damaging politically-inspired taxes—the Capital Transfer Tax, Development Land Tax and Petroleum Revenue Tax introduced in the autumn and spring Finance Bills, and the Oil Taxation Bill (see Chapters 4 and 9). Discouragement to saving and investment by CTT was made worse by the reintroduction of the £1,000 a year threshold to the investment income surcharge on which the Government had been defeated in the summer.

## **(F) THE ROAD TO HYPER-INFLATION**

**Conservative Warnings.** In December 1974 Mrs Thatcher warned of the implications of the rapidly accelerating rate of inflation:

“The rate of inflation is not static. It is accelerating. The annual rate of increase last December was 10.6 per cent. Last March it was 13.5 per cent. This December the annual rate of increase is 18.3 per cent, and next year rates of about 25 per cent are forecast. ...



“... even the other day the Chief Secretary [to the Treasury, Mr Joel Barnett] was acting as if there were a kind of trade-off between inflation and unemployment. That seems to some of us very old-fashioned economics. The danger of inflation at this rate is that it will lead to massive unemployment of a kind which we have not seen in this country for some time and which most of us never wish to see again” (*Hansard*, 17th December 1974, Col. 1387).

In January 1975, shortly before becoming Shadow Chancellor of the Exchequer, Sir Geoffrey Howe warned that:

“Britain is posed today on the brink of hyper-inflation. It could destroy our society, as it did Germany in the 1920's. There is only a wafer thin margin of error between our present condition and British inflation of between 50 and 100 per cent a year, or even higher ... that is why it is of such paramount importance for us to come to grips with this present inflation” (*Huddersfield*, 10th January 1975).

**Labour Warnings.** Even some members of the Labour Cabinet had recognised the danger. Mr Reg Prentice, then Secretary of State for Education, warned in a speech on 1st March 1975 that wage inflation was getting out of control and that unions must not ‘welsh’ on the Social Contract—only to be castigated by Sir Harold Wilson for “kicking people in the teeth” (*ITV World in Action*, 3rd March 1975), and to be accused by Mr Foot of “economic illiteracy” (*The Times*, 3rd March 1975). Mr Healey had already said that the number of pay deals being concluded outside the TUC guidelines was still

“far too large—large enough to threaten Britain with mass unemployment unless their number can be vastly reduced” (Interview on Radio Leeds, 8th February 1975).

and

“Britain herself could be bankrupt if the national wage bill were too high this year. Inflation is the main threat to jobs in Britain now” (London, 11th February 1975).

Speaking at a time when prices were rising on his own 3 month basis of calculation at 25 per cent a year; when earnings had risen by almost 28 per cent in the previous 12 months; when unemployment was up by a quarter in a year and rising fast, and production was falling, Mr Healey was justified in expressing concern.

**April 1975 Budget.** Mr Healey's fourth Budget, however, presented on 15th April 1975, did nothing to relieve the position. It was described by **Mrs Thatcher** as a “steady as she sinks” Budget (*Hansard*, 15th April 1975, Col. 326).

Once again, taxes were raised—by £1,251 million—a total exceeded only by Mr Healey's first Budget a year earlier. Income tax rates were raised and indirect taxes went up by £785 million with a new 25 per cent rate of VAT, only partly offset by raising income tax thresholds insufficiently to compensate for inflation. But government spending was to continue unchecked. It had already risen by 9½ per cent in 12 months, or 11½ per cent after allowing for the cuts announced by Lord Barber in December 1973. Paying lip service to the need to cut the borrowing requirement—£10 billion would, he said, involve “unacceptable risks”—Mr Healey announced cuts of

£1.1 billion, but not to take place until the following year. In the event his £9 billion estimate for 1975–6 became £10.8 billion. A Temporary Employment Subsidy was to be introduced to relieve in small part the effect that soaring wage inflation combined with rigid price controls was having on unemployment: many firms were going into liquidation and there were massive redundancies. Tax relief on stock appreciation was belatedly extended to small companies; but for many it came too late to save them from bankruptcy.

## (G) THE “ATTACK” ON INFLATION, 1975

**Inflation out of control.** The sense of crisis—both in Britain and among our creditors abroad—mounted rapidly in the summer of 1975. The exchange rate of the £ fell from \$2.41 in March to \$2.15 in July. This was hardly surprising in view of the acceleration in the rate of inflation. The following table shows the percentage changes in the main indicators during the twelve months ended in June 1975.

	%
Index of Retail Prices	+26.1
Basic weekly wage rates	+33.3
Average weekly earnings	+25.6
Index of Industrial Production	–8.6

Mr Healey virtually admitted the failure of the Social Contract when he said in a speech at Leicester on 21st June:

“... in almost six weeks from now we must be able to convince the world that we have a policy that will work for getting inflation under control”.

With basic weekly wage rates rising by 33.3 per cent in the year ending in June, and prices up by 26 per cent, compared with an average increase of 10 per cent for our competitors, the need was all too obvious. The Prime Minister, at the Royal Agricultural Show on 30th June, denied that panic measures were necessary. Nevertheless the following day Mr Healey told the House of Commons that inflation had to be brought down to 10 per cent the following year, by statutory means if necessary, and that measures could not be delayed beyond the following week. The CBI and the TUC were invited to immediate discussions.

**Unemployment** meanwhile rose to 1,036,000 in mid-July—with the biggest one-month rise between June and July since 1930. Mr Foot admitted on 24th July 1975:

“Not since March 1940 has unemployment in the UK been over the million mark and there is no point in attempting to minimise the situation” (Statement on the July unemployment figures).

*(The total included adult students registered as unemployed.)*

The OECD forecast that unemployment in the UK would rise to 1½ million in 1976. Unemployment on this scale might well have been avoided had the Government acted earlier to restrain inflation, as other countries had done, instead of boasting complacently that we had avoided the rates of unemployment they had suffered. The consequence of the delay was that our unemployment was to be higher for far longer than theirs.

**Pay Restraint.** The White Paper, *The Attack on Inflation* (Cmnd. 6151) was presented to the Commons on 11th July by Mr Wilson. Part of a TUC document, *The Development of the Social Contract*, was included as an appendix—and in some important respects it differed from the main document. The proposals were embodied in the Remuneration, Charges and Grants Act (Royal Assent, 1st August 1975).

*A limit of £6 a week* was to apply to all increases in pay from 1st August 1975 to 1st August 1976. There was to be no increase at all for those earning £8,500 a year or more. The only exceptions were to be movements towards equal pay before the Equal Pay Act came into force on 31st December 1975; and workers completing agreements before 1st September who had not had a rise for twelve months. Operation of Pay Research in the Civil Service was to be suspended, but annual incremental scales were to continue.

Where an employer in the private sector gave an increase in excess of the limit, the whole increase might be disallowed for price increases—even where the employer would otherwise be covered by a low profit safeguard under the price code. Discretionary assistance under the Industry Act would be withheld from employers who broke the limit, and a company's observance of it would be taken into account in allocating contracts under Government purchasing policy. Reserve powers to fine employers who exceeded the limit were to be embodied in legislation to be introduced if it proved necessary. It would, in addition, provide for compulsory notification of all wage settlements. But no parallel sanctions were proposed for workers who infringed the limit. The Government refused, however, to publish the draft Bill, and gave varying accounts of its state of preparedness.

**Statutory or non-Statutory?** There was considerable confusion over whether the controls were to be regarded as statutory or not. Sir Harold Wilson said enigmatically that “It is a question of terminology. I am more concerned with the policy than trying to find a name for it” (Press Conference, 11th July 1975), but insisted that he rejected “the idea of statutory policies based on criminal sanctions against workers” (*Hansard*, 11th July 1975 Col. 902).

Mr Foot strenuously insisted that the policy was voluntary and implied that he would resign if the reserve Bill were brought in. But he also said:

“If it were not for the (statutory) measure (the Remuneration and Charges Bill) which we shall propose tomorrow, it would be impossible to carry out the voluntary policy” (*Hansard*, 22nd July 1975 Col. 129).

Mr Eric Heffer, however, declared:

“There is no question about it. Whatever my Hon. Friends try to say this is a statutory policy ... it is no good denying it ... there is no question about it that this is a statutory incomes policy” (*Hansard*, 21st July 1975 Col. 101).

Excessive pay increases given by local authorities would be disallowed for rate support grants; and the Government took powers under the Remuneration, Charges and Grants Act to restrict the payment of grant to local authorities so that no grant was payable for any part of a pay increase given in breach of the limit. Nationalised industries would not receive subsidies to pay for excessive pay increases, nor would they be permitted to finance them through additional borrowing. Mr Varley, Secretary of State for Industry, made it clear that chairmen of nationalised industries who conceded increases above the limit would be dismissed (*Hansard*, 22nd July 1975 Col. 429). Nationalised industries would also be subject to price control sanction, and be unable to pass on the increase.

Powers were taken to extend the Price Code, otherwise due to expire in March 1976.

**Other measures** included:

- a. A £2 million Exchequer grant for consumer advice centres.
- b. A Price Check scheme (see Chapter 5, p. 133) for a range of goods of special importance in family expenditure.
- c. £70 million to be spent on additional food subsidies (which the Government had already announced were to be phased out) and £80 million on subsidising rents.
- d. The Temporary Employment Subsidy announced in the Budget was to be brought forward as soon as possible.
- e. Public Expenditure was to be reviewed, with the aim of ensuring that there was little growth in spending in 1977–8 and 1978–9 beyond the levels planned for 1976–7.
- f. Cash ceilings were to be introduced on all Government programmes in 1976–7 except where there was a clear case for exclusion, as with social security benefits.
- g. Monetary policy: the Government was committed to use “the full range of instruments available to them to keep the money supply under control”. Bank of England guidance to the banks would ensure that essential sectors of the economy received priority for bank lending.

**Conservative Support for Restraint.** Conservatives, in sharp contrast to the Labour Party's attitude to Conservative wage restraint policies in 1972–3 (see Chapter 28, p. 659), conceded that the measures were a step in the right direction, and, in an amendment to the Government's motion on the measures on 21st and 22nd July, expressed support for the Government's belated commitment to reduce the rate of inflation. But they regretted the failure to reduce public spending and promote the prosperity of the private sector, and deplored the Government's extension of indiscriminate subsidies on food and housing and its blind persistence in nationalisation. The adoption of cash ceilings, as distinct from sanction for programmes regardless of any increases in their cost, had been urged by the Conservatives for many months, and was welcomed. But the £20 billion addition to

public spending in two years already planned gave small grounds for optimism over the effectiveness of the Government's eleventh-hour conversion to restraint.

**Mrs Thatcher** summarised the Conservative view when she said in the debate on the measures:

“Unless the Government are prepared to reduce public expenditure there will be no room whatsoever for manufacturing industry to take advantage of the improvement in trends which will come within a year. All the money is going into Government spending at the moment. As soon as industry wants to take advantage of rising trade, it will withdraw the money, it will restock, and it will need still more for working capital, leaving a gap in Government financing. The Chancellor knows very well that the danger is that in about a year, unless he has made a full reduction in public expenditure, he will have to finance it by printing. That is why it is vital to make cuts in public expenditure now” (*Hansard*, 21st July 1975, Col. 85).

**Application to the IMF.** On 7th November 1975 the Government applied to the International Monetary Fund to draw £975 million—more than any British government had ever borrowed from the Fund in the past. £575 million of this was to be drawn from the oil facility negotiated earlier in the year—it was claimed that the application was submitted then in case the total facility was exhausted by the drawings of under-developed countries. The remaining £400 million represented the first credit tranche of normal borrowings from the Fund.

Mr Healey claimed that, apart from the requirements to notify the IMF of UK policies for conservation and new production of energy, and to refrain from introducing new, or intensifying existing, restrictions on trade without first consulting the Fund, there would be no monitoring by the Fund of Government policies as a result of this drawing (*Hansard*, 10th November 1975, Col. 922).

## **(H) THE “CHEQUERS STRATEGY” FOR INDUSTRY**

Labour's policy towards industry took what appeared to be an uncharacteristic and more hopeful turn with the presentation by Mr Healey and Mr Varley of a paper setting out “a programme for developing a strategy” (see also Chapter 6, p. 156) at a meeting of the National Economic Development Council held at Chequers on 5th November 1975. The paper set as the objective the development of a high-output, high-wage economy largely by reversing the alarming and accelerating decline in manufacturing industry. Among a number of hopeful signs the paper recognised the need for a return to a higher rate of industrial productivity; for the Government to pre-empt less of national resources; and for priority to be given to industrial development over consumption and even social objectives.

Within days, however, the approach set out in the document was attacked by the Tribune Group in a statement repudiating it as being “in diametric opposition to the decisions of the Labour Party Conference”, and attacked by Mr Eric Heffer because

the new strategy “accepts private enterprise in the future” (*Hansard*, 6th November 1975 Col. 584).

The new strategy was in any case belied only a fortnight later by a Queen's Speech of a very different tone; by the highly expensive rescue of American-owned Chrysler plants in the UK; by the re-stated intentions vigorously to enforce price controls; to proceed with the nationalisation of the aircraft and shipbuilding industries—despite Mr Healey's admission a year earlier that nationalisation created problems for the management of government debt (see p. 45)—and to increase Government spending still further.

**A Damaging Programme for the Second Year.** “A dreadful Queen's Speech” was *The Times* heading to a leading article on 20th November 1975, which went on to comment:

“It is clear that the national interest would be better served by Parliament ceasing to legislate at all for a year than by Parliament enacting this cliquish rubbish. There are at least seven Bills promised which will do more harm than good; some of them will do real and lasting damage”.

The National Institute for Economic and Social Research was equally gloomy. Its November 1975 *Economic Review* said:

“The forecasts we have presented for the UK economy ... are perhaps the most depressing since this review was launched in 1959: high unemployment, high inflation with a mere hint of further slowdown, substantial current balance deficits and high public sector borrowing requirement. Even if we look to the very end of 1977, there are few hints of an improvement in any of these points”.

## **(I) APRIL 1976 BUDGET AND CASH LIMITS**

Mr Healey's fifth Budget was presented on 6th April 1976—the day after Mr Callaghan had succeeded Sir Harold Wilson as Prime Minister.

Mr Callaghan had opened his premiership with a challenge to the country:

“No one owes Britain a living and may I say to you quite bluntly that despite the measures of the last 12 months we are still not earning the standard of living we are enjoying. We are only keeping up our standards by borrowing, and this cannot go on indefinitely. There is no soft option ... we need a national effort. ... Tell the people, consult the people, trust the people and we can win the people to whatever measures are required” (Ministerial TV Broadcast, 5th April 1976).

The contrast with the Budget statement could hardly have been more marked. **Mrs Thatcher** said of it:

“The Budget gives away money that the Chancellor has not yet even borrowed. It is a big borrower's Budget from a soft-options Chancellor” (*Hansard*, 6th April 1976 Col. 289).

The Budget was presented at a time when (a) the exchange rate of the £ had fallen from \$2.37 on the previous Budget day in March 1975 to \$1.87; (b) our rate of inflation was still almost double that of any of our major competitors; (c) unemployment was at the highest level for 30 years and still rising; and (d) recovery in other countries was well advanced while ours had scarcely begun. Yet Mr Healey offered one of the most indecisive Budgets on record, although he described it as “likely to prove the most crucial of the present Parliament” (*Hansard*, 6th April 1976, Col. 232).

**Tax Cuts conditional on Pay Restraint.** Its central feature—nearly £1,000 million worth of cuts in income tax through higher personal allowances and raised thresholds to higher bands of tax—was made conditional upon the TUC's acceptance of a limit on pay increases of 3 per cent for the twelve months from 1st August 1976 to 1st August 1977.

Mr Healey meanwhile raised indirect taxes—on petrol, beer and tobacco—by £370 million.

**A Major Shift of Resources.** Mr Healey defined two objectives for the Budget: to create the conditions in which output and productivity were most likely to recover, and in which wages and costs could be kept as low as possible. He did neither. He said:

“Britain enters the phase of world recovery with handicaps none of her partners carries. It will be even more difficult for us than for them to achieve full employment together with external balance. We can do it only if we produce a major shift in the use of our resources away from private and public consumption towards exports and investment ... our success depends in the end on improving the performance of our manufacturing industries” (*Hansard*, 6th April 1976, Col. 239).

Instead, the ‘shift in resources’ proposed in the Budget was into public spending, with an estimated public sector borrowing requirement of £12 billion—£1.2 billion more even than that of the previous year. Rigid price control was to be maintained despite evidence of the damage it was causing.

**Falling Profits.** The Bank of England pointed out in its *Quarterly Review* in March 1976:

“Even more important has been the way in which inflation—and the fact that accounting and pricing policies have not been fully adapted to it—has eroded profits. Profits have fallen in many other countries, but the fall has been greater in this country, where inflation has also been worse ... when adjustment is made for price changes and for stock appreciation, the profitability of industrial and commercial companies has declined steadily over the last fifteen years, both in terms of the pre-tax return on capital employed and even more spectacularly, in terms of the post-tax return. The terminal year in those calculations, 1974, was probably a particularly bad

year, as 1975 may also have been; and profits should show some recovery as inflation ebbs and as expansion proceeds. But a lot of ground has been lost, and profits are unlikely to be restored to an adequate level unless the need for conscious adjustments to this end is realised”.

Mr Healey offered only minimal help through modifications to relief on stock appreciation; and the prospect of more nationalisation and further interference from the NEB.

**Cash Limits.** A gesture towards restraining public sector spending came with the publication of the White Paper, *Cash Limits for Public Expenditure* (Cmnd. 6460), on Budget day. Conservatives had long called for a limit to be set to actual spending: hitherto control had been exercised over public sector programmes but not over the vast increase in their cost at a time of high inflation. Major sectors of public spending were, however, excluded from the limits set in the White Paper, which were implemented from Budget day (see Chapter 3, p. 64).

**Failure to deal with Structural Problems.** Mrs Thatcher summed up the Chancellor's failure to touch the underlying structural problem—that we were living beyond our means—when she said:

“He is treating the economy as though it were a patient with two diseases, the first being influenza, which we could say is similar to the recession we are experiencing, and the other being cancer, which is equal to the underlying and growing deficit. He is saying, in effect, that when the patient is recovering from influenza, or looking a little better, we can ignore the cancer and not do anything about the structural growth, which will go on destroying the patient unless we destroy it. He has left that untouched” (*Hansard*, 6th April 1976, Col. 285).

Overseas judgement on the inadequacy of the Government's measures was demonstrated by a massive run on the £ in the weeks following the Budget. From a dollar parity of \$2.48 fixed in the Smithsonian agreement in December 1971, the £ had fallen to \$1.87 on Budget day 1976, and to \$1.72 by 7th June. After much pressure for urgent action to halt this decline, Mr Healey yet again bought time to stave off the harsh measures needed by further borrowing (see p. 42).

‘**An Economic Miracle**’. Mr Healey based his proposals on forecasts that were at best shaky and at worst wildly optimistic. He aimed to reduce unemployment to three per cent by 1979, by achieving unprecedented increases in output, investment and exports. The all-Party Public Expenditure Committee of the House of Commons effectively revealed how unrealistic was his approach in their report published a few days before the Budget:

“We wish to point out that the achievement of the Government's objectives stated above presupposes a substantial improvement in the performance of the economy—indeed, by UK standards, almost an economic miracle. For example, to reduce unemployment to 700,000 in 1979 would require an increase in manufacturing output of 8½ per cent per annum from 1976 to 1979 (assuming of course, that the public expenditure plans are adhered to). This compares with the fastest rate hitherto achieved over a three-year period since the war of six per cent (1952–55). As for



private fixed investment the Treasury's required growth rate of five per cent per annum between 1974 and 1979 implies a growth rate of about 10½ per cent per annum between 1976 and 1979, which is higher than any rate reached for a three year period in the last 20 years. Similarly, the required annual increase in exports is, according to the Treasury, 7½ to 8 per cent from 1974 to 1979, which must mean well over 10 per cent from 1976 to 1979. This compares, with a rate of 8½ per cent achieved in the exceptionally favourable years of 1967–70. When this was pointed out to the Chief Secretary (Mr Joel Barnett), he said that if one based one's views upon the past 'you are giving up all hope ... we are prepared to look with scepticism at everybody's forecasts'. We do not think that we need to comment further" (*Fourth Report of the Expenditure Committee Session 1975–76*, published 2nd April 1976).

**More Overseas Borrowing.** In his Budget speech Mr Healey had foreseen no difficulty in meeting external financial needs in 1976—provided that efforts to control inflation succeeded. On 7th June 1976 he announced that a six-month standby credit of \$5 billion had been arranged with the Central bankers, the Group of Ten countries, Switzerland and the Bank for International Settlements (see p. 70). Mr Healey, as on previous occasions, claimed the arrangement as “an impressive demonstration of international banking co-operation in support of sterling against unjustified market pressure”. In fact, as **Mrs Thatcher** said:

“It is not a sign of confidence, it is a sign of patience ... the Government have bought time or rather borrowed time, to enable them to postpone the hard decisions, time to enable them to carry on for another six months with policies that have failed. They have borrowed to get us deeper and deeper into debt” (*Hansard*, 9th June 1976 Col. 1448).

It was clear that the Government would be forced before long into taking drastic measures to cut spending and reduce borrowing. If at the end of six months drawings on the credit could not be repaid (and already by the beginning of July the first drawings had been made) the Government would have, as Mr Healey had said, to seek a further drawing from the IMF. That this would be given only on stringent conditions was made very clear by the US Secretary of the Treasury, Mr William Simon, at the OECD meeting in Paris on 22nd June when he was reported to have said:

“Lenders will become increasingly reluctant to finance expanding current account deficits unless borrowing nations make fundamental changes in their domestic economic policies” (*Financial Times*, 23rd June 1976).

A warning against higher taxes—the usual weapon of Labour governments—had been given in the Bank for International Settlements' Annual Report, published on 15th June 1976. Referring specifically to Britain, the Report stated:

“In many countries the level of taxation on earned income may have exceeded the limits of economic efficiency, which is another way of saying that the sheer size of the public sector has become a problem. Budget restraints must therefore involve cuts in public expenditure rather than tax increases” (*Financial Times*, 15th June 1976).

## (J) ATTACK ON INFLATION— SECOND YEAR

The final form of the pay limit for the second stage, and the TUC guidelines, were set out in the White Paper, *The Attack on Inflation: the Second Year* (Cmnd. 6507), presented to the House of Commons on 30th June 1976 by Mrs Shirley Williams, together with a consultative document, *Modifications to the Price Code* (Cmnd. 6540).

**The Pay Limit.** On 5th May 1976 the Chancellor had announced that agreement had been reached with the TUC and the CBI on the new pay limit, to operate from 1st August 1976 to 1st August 1977 and that the tax cuts proposed in the Budget statement would be made.

The TUC's assent to further wage restraint was clearly obtained largely as a result of the sense of crisis to which the sharp fall in the exchange rate of sterling had given rise. The agreement was endorsed—by 9,262,000 votes to 531,000—at a special congress of the TUC on 16th June, despite abstention by the railwaymen, and forceful opposition from Mr Clive Jenkins of ASTMS, the power engineers, the train drivers in ASLEF, and airline pilots among others. The view was widely expressed, notably by Mr Jack Jones, originator of the previous year's £6 limit, that two years rigid restraint was the most that was tolerable, and that there must be a return to free collective bargaining in 1977.

The policy allowed negotiation of pay settlements of £2·50 for those earning up to £50 a week; 5 per cent for those between £50 and £80, up to a maximum of £4 at all higher levels of earnings. These increases, like the previous £6, would not be consolidated into basic rates. They were to be paid as a cash supplement to earnings.

The Government claimed that they would be equivalent to an average increase of 4½ per cent on wages and salaries—the overall average falling below 5 per cent only because the higher paid groups, including junior and middle managers with whom Mr Healey had expressed sympathy, would receive substantially less than 5 per cent. People earning over £8,500 a year, who were allowed no increase in 1975–6 could be paid the held-over increase, or that for 1976–7, but not both. London weighting increases could—theoretically—be paid, but had to be offset against the new pay limit, or against the previous £6 limit. Effectively, therefore, the differential was being narrowed, both for higher paid and London-weighted staff.

**Criticism of the Limits.** The squeezing of differentials was only one of the grounds for criticism of the limits. The effect on incentives, and in particular on willingness to work overtime or undertake greater responsibility, was likely to be serious.

The calculation of the increase as an addition to actual earnings meant that the total increase might well be 8 per cent or more, taking into account overtime and piece work payments. And the potential wage explosion when, at the end of the period of rigid restraint there are demands to consolidate two years' increases into basic rates, could be formidable. Sanctions against employers breaking the limit included refusal

by the Price Commission of applications for price increases; ineligibility for public sector contracts and purchases; and withdrawal of Industry Act assistance.

**The Price Code.** A consultative document, *Modifications to the Price Code* (Cmnd. 6540, 30th June 1976), set out changes proposed by Mrs Shirley Williams, after lengthy discussion with the TUC, CBI, the Retail Consortium and other interested bodies. The Government estimated that the reliefs would be worth just under £1,000 million to industry, and would raise the Index of Retail Prices by about 1 per cent over one year. The CBI estimated that abolition of the Price Code would raise prices by about 1·3 per cent—but over an unspecified period. The reliefs included abolition of the productivity deduction; an increase in the rate of investment relief and the mark-up of historic depreciation charges (see p. 132). The reliefs fell far short of what was needed to restore profitability and to make necessary investment both possible and worthwhile—in spite of Ministers' repeated acknowledgement that increased profits were essential. Mr Healey had already promised that:

“The regime will be so modified as to encourage investment and jobs in the economy” (Press Conference, 5th May 1976).

Mrs Williams made much of the fact—set out in the White Paper—that the rate of return on capital, after taking account of the need to replace fixed investment and stocks, was down to 2·2 per cent by 1974, compared with over 10 per cent in the 1960s.

“This has contributed to the recent slump in new productive investment and consequent loss of jobs. The downward trend in profitability must be reversed” (Para. 32 Cmnd. 6507).

## **(K) PUBLIC EXPENDITURE AND BORROWING**

For two years the Labour Government paid lip service to the necessity of cutting the Public Sector Borrowing Requirement. For two years they succeeded only in increasing it. In his first Budget in March 1974 Mr Healey made much of his intention to reduce the previous year's PSBR by £1·5 billion to £2·7 billion. Instead it rose during the year to £7·6 billion. In April 1975 he said that a PSBR of £10 billion represented “unacceptable risks” and sought to reduce it to £9 billion. It became £10·8 billion. In his April 1976 Budget he estimated the PSBR at £12 billion for 1976–7; in July he said that he expected it to be less than this.

**Higher Public Expenditure.** The vast increase in borrowing has been made necessary by the huge increase in public expenditure. This rose by £20 billion, or 50 per cent, in two years, to absorb some 60 per cent of gross domestic product. Mr Roy Jenkins recognised the dangers of this trend when he said:

“I do not think that you can push public expenditure significantly above 60 per cent and maintain the values of a plural society with adequate freedom of choice (*The Times*, 24th January 1976).

The 1976 White Paper on Public Expenditure (Cmnd. 6393) published on 19th February 1976, setting out plans for expenditure up to 1979–80, showed both how great the Labour Government's increase in public spending had been, and that, despite their recent statements that it must be reduced, the Government had no plans for reducing it in total. The cuts proposed in certain programmes would be more than offset by increases elsewhere, in particular in higher interest payments on government debt—now accounting for one pound in every ten that the Government spends (see also Chapter 3, p. 60).

There are three main causes for the increases: inflation, and its effects on the cost of goods and services paid for by the Government; electoral bribes—such as indiscriminate food and housing subsidies; high public sector pay awards; and the outdated technique of forecasting in volume terms, ignoring price changes. The introduction of cash limits in 1976 was intended to deal with this deficiency (see p. 41).

**Paying for Nationalisation.** Some increase in public spending has been inevitable, given the rate of inflation and also the rise in unemployment and other social security benefits as a result of recession. But much is deliberate—and avoidable. Mr Healey had himself recognised the problems of financing nationalisation when he said, during the October 1974 election campaign:

“The speed at which we take over the industries we're going to take over, will depend partly on the problem of accommodating the implications for the gilt-edged market and the Government borrowing requirement .... The central point about the acquisition of assets is that it doesn't involve a demand on real resources ... although it can create problems for management of government debt, and therefore the way in which you phase this in is a matter of very great concern to the Chancellor, with his responsibility for looking after the government's borrowing requirement” (ITV “People and Politics”, 26th September 1974).

Yet he apparently sees no obstacle to proceeding with the nationalisation of the aircraft and shipbuilding industries at a cost of at least £500 million; of building land—£400 million a year when fully in operation; of NEB expenditure on intervention in industry—£1,000 million, at a time when the Government is already borrowing £1 in every £5 that it spends.

**Protestations of Intent to cut Spending.** Both Mr Callaghan and Mr Healey have repeatedly acknowledged the need to cut public spending and borrowing in order to make way for recovery in industry. Mr Healey said in July 1975:

“As industry recovers and the balance of payments improves, it will be very difficult to hold the growth of the money supply, unless we reduce the borrowing requirement to more reasonable levels” (*Hansard*, 21st July 1975, Cols. 65–70).

In the autumn he repeated the theme:

“If we are to take full advantage of the upturn (in world trade) we must increase the resources available for export and investment ... it is essential that our plans for

public expenditure ... do not require intolerable increases in the burden of taxation or divert resources from more necessary purposes” (Mansion House, 16th October 1975).

In the spring and early summer of 1976 the Government made much of the signs of recovery in the economy: the slowing-down in the trend of unemployment; an increase in orders, especially from abroad; a rise in output; and a revival of confidence. By their own admission this was the time to make resources available by restraining the public sector.

Labour's Left wing, however, made it increasingly clear that they were opposed to any cuts in public spending and, indeed, the policy document *Labour's Programme for Britain 1976*, published in May, called for an increase in expenditure of some £4 billion above published estimates.

**Industrial Strategy for Growth.** Mr Callaghan and Mr Healey made further protestations of good intentions at a meeting of the National Economic Development Council on 7th July 1976, called to discuss the first phase of the industrial strategy adopted at the Chequers conference on 5th November 1975 (see p. 39). Mr Callaghan was reported to have stressed the need to avoid bottlenecks in the recovery of the economy, to seek long-term growth and ensure a profitable private sector; and to have hinted that when public expenditure cuts were announced priority for industry would mean that other sectors would bear the brunt. (*Financial Times*, 8th July 1976). Within a fortnight the Government's actions belied their words—as they had in November 1975. Industry bore the brunt of the cuts.

## (L) JULY MEASURES, 1976

The Government's attempts to reconcile the pressures of their own militant Left with the necessity of retaining some measure of confidence from our creditors abroad—the IMF in particular—culminated in a package of measures announced by Mr Healey on 22nd July 1976. Cuts of £1 billion had been widely canvassed for many weeks—and largely discounted—as the minimum needed to pave the way for further borrowing from the IMF when the \$5 billion standby credit expired in December; early in July it became clear that substantial drawings had already been made upon it.

The total cash saving announced by Mr Healey was £1.86 billion to be made in 1977–8; but of this total only £550 million fell on public sector spending, and the greater part of this took the form not of cuts but of deferments (see page 62). The remaining £1.3 billion fell on the private sector—£910 million (£1 billion in a full year) as a straight addition to industrial costs through a payroll tax under the guise of a 2 per cent increase in employers' National Insurance contributions from April 1977. Far from giving priority to industry the Government had once again clobbered it.

**The Payroll Tax** resembled the Selective Employment Tax, introduced by the previous Labour Government in 1966 as a means of 'shaking out' labour from service industries. Its imposition when there were already 1¼ million unemployed could hardly have been more ill-conceived. Mr Healey estimated that as a result of his measures 60,000 more people would remain unemployed in early 1978 than had been forecast. Mr Albert Booth, the Secretary of State for Employment, estimated that there

would be 110,000 fewer people at work, after allowing for the fact that many people do not register as unemployed. And a chief Treasury economist admitted to the Select Committee on Expenditure on 28th July that this figure could well reach 150–160,000.

Sir Harold Wilson had described the effects of such a measure when he said of the Conservative proposal (subsequently dropped) to introduce a 4s a week payroll tax in 1961 that, if it had been introduced in 1957:

“It is clear that it would have intensified the depression and the growth of unemployment which was already on the way. The idea amazes me” (*Hansard*, 18th April 1961, Col. 986).

**Burden on the Private Sector.** The choice of priorities in the expenditure cuts announced was equally incomprehensible—and equally at variance with the objectives of the next phase of the Social Contract approved a week later (see p. 47). Regional assistance was cut by £105 million through reducing the Regional Employment Premium for men to £2 a week (only partly offset by levelling up the women's rate to £2); and by cutting the employer's rebate from the redundancy fund from 50 to 40 per cent, in favour of selective assistance through the NEB and Scottish and Welsh Development Agencies. Capital spending on the National Health Service was cut by £20 million—while £40 million earned from pay beds was being lost through their abolition. Social security benefits were to be cut by £20 million by cutting pensions for people with occupational pensions and postponing housewives' invalidity benefits. A further £100 million was to be cut from the defence budget; £157 million from nationalised industries' capital spending; £87 million from road work and transport; and £146 million from cutting local authority mortgages—at the clear risk of eventually increasing spending on housing if homeless families had to be provided with far more expensively subsidised council houses.

The main burden of these cuts fell on the construction industry—in which there were already over 200,000 men unemployed.

Despite all these measures, the £ significantly failed to recover on the foreign exchange markets.

**The Social Contract ‘Mark II’** was endorsed by the National Executive Committee of the Labour Party and the TUC on 28th July in a most inauspicious demonstration of facing both ways. In a document entitled *The Next Three Years*, the TUC-Labour Party Liaison Committee acknowledged that public expenditure had risen sharply and that the Government had accumulated massive debts at home and abroad in order to maintain employment; that the deficit must be reduced, and far greater emphasis given to the needs of manufacturing industry; and it recognised the impossibility of financing public expenditure by big increases in taxation without putting intolerable strains on policy for beating inflation. But within minutes of approving the contract the Executive also approved Mr Eric Heffer's resolution condemning the cuts in public expenditure announced by Mr Healey a week earlier. Mr Wedgwood Benn reconciled his conflicting roles as a Cabinet Minister and chairman of the Labour Executive Home Policy Committee by being conspicuously absent from the meeting.

The document called for further measures to create a million new jobs in the next three years, to increase training and expand the operation of the Manpower Services Commission; for Planning Agreements with “at least” the majority of the top 100 companies as a matter of urgency; and for an Investment Reserve Fund created with a proportion of firms' profits. The National Enterprise Board should have funds of up to £1 billion a year for creating new jobs and investment. Financial institutions and banks should be reviewed in order to establish closer public supervision and possibly to extend the public sector (see also Chapter 8, p. 229).

Import penetration ceilings should be set for industries and companies with a wide range of “selective policies” and selective import controls. There must be 51 per cent Government participation in all our offshore oil.

Continued price control and subsidies were welcomed. The document called for a more “rigorous and selective approach” to the pricing policies of big companies, and a more concerted effort to deal with prices in the shops; and for special help towards rising fuel bills. It called for industrial democracy legislation to provide organised workers with parity representation on the main boards of companies; ‘a clear commitment’ to introduce a wealth tax during the 1976–7 session; and progress towards a “broad consensus” on top salaries to be expressed as a ratio of the median wage. Pensions must reach half average gross earnings for a married couple and one-third for a single person.

## (M) THE DEEPENING CRISIS

The failure of the Labour Government to take adequate measures to cut spending and to reduce its dependence on borrowing had its inevitable effect on foreign confidence. There was a substantial run-down in official sterling balances in the third quarter of 1976, following a fall of £660 million in the holdings of the oil exporting countries in the second quarter. Confidence was further undermined by the irresponsible behaviour of delegates at the Labour Party Conference at Blackpool in September. A vote in support of incomes policy was followed immediately by one in support of the refusal of some local authorities to carry out spending cuts ordered by the Government; and *Labour's Programme 1976*, with its call for massive additional public expenditure, was overwhelmingly endorsed.

**Fall in the Sterling Exchange Rate.** On the first day of the Conference the exchange value of the £ fell by 2½ cents, from \$1.706 to \$1.680. On the second day, despite Mr Callaghan's declaration that ‘we have lived too long on borrowed time, borrowed money and even borrowed ideas’ (*Financial Times*, 29th September 1976), the £ fell 4 cents to below £1.64—the sharpest ever fall in a single day. Mr Healey hastily postponed his visit to the Commonwealth finance ministers' meeting in Hong Kong and, in a desperate bid to halt the decline in sterling, announced that evening that he was applying to the IMF to draw \$3.9 billion (£2.3 billion), the last credit available to us from the Fund. Mr Healey said:

“The alternative to getting help from the IMF would be economic policies so savage I think they would produce riots in the streets, an immediate fall in living standards and unemployment of three million” (ITN, *News at Ten*, 29th September 1976).

**The Toughest Credit Squeeze on Record.** The exchange rate continued to fall and on 7th October Mr Healey imposed the toughest credit squeeze on record. Minimum Lending Rate was raised to 15 per cent, higher than it had ever been before, and the banks were asked for £700 million in further special deposits of 2 per cent.

Ten days later the money supply figures for September showed that on the wider definition, M3 (see Chapter 11, p. 282), the money supply had risen during the third quarter at an annual rate of 26.9 per cent, and that two-thirds of the 12 per cent increase set by Mr Healey in July as the limit for the whole financial year had already occurred.

On 25th October sterling fell by 7½ cents to \$1.57—by far the worst level it had ever reached. In a statement to the House of Commons, Mr Healey attributed the fall to a report by Mr Malcolm Crawford in *The Sunday Times* the previous day that the IMF and the United States Treasury were likely to insist on the devaluation of sterling to \$1.50 as a condition of granting further credit—a report quickly denied by both the IMF and the US Treasury.

This episode was, as Sir Geoffrey Howe commented:

“A savage condemnation of the Chancellor's management of the economy—namely that 7 cents has been knocked off the value of the pound as the result of a single newspaper story ... it is only by resolute and urgent action in cutting public spending, and by abandoning the partisan and gravely damaging measures that are being forced through this Parliament, that confidence in the pound can again be restored” (*Hansard*, 25th October 1976, Col. 30).

**Further Weakening of Sterling.** The pound fell again after a similar suggestion of devaluation to \$1.50 by a Labour MP, Mr Brian Gould; and still further—from \$1.59 to \$1.565 on 27th October—after the Labour Party National Executive had voted to support a lobby of Parliament to protest against cuts in public spending.

The fragility of the pound was well accounted for by Government complacency and false optimism rather than chance incidents. Mr Callaghan declared at the time of the Labour Party Conference:

“If we were to fail, I do not think another Government could succeed. The result would be a National Government situation and I fear it would lead to totalitarianism of the Right or Left. That is why I am going on hard to succeed. Our policies as a Government are quite adequate for any credit we may ask. We have reduced the rate of inflation by half in 12 months; we have the agreement of industry on what is required; and we are holding back domestic consumption so that exports can take up the slack”. He claimed that other countries showed understanding and even admiration for the way Britain was handling inflation and he did not see why the IMF should take a different view (*Financial Times* report, 1st October 1976).

**Mrs Thatcher**, addressing the Conservative Party Conference, commented:

“It is not surprising that after the events of last week Mr Callaghan should speak about a totalitarian threat. He should know all about that. He faces it in his own party. But it



is arrogant and utterly wrong of him to suggest that the only alternative to his Government is dictatorship. He should have a higher opinion of the British people” (Blackpool, 8th October 1976).

**False Forecasts on Inflation.** The trend of inflation had recently taken a sharp turn for the worse—largely as a result of the effect on import prices of the fall in the value of the pound, together with rising world prices. In July the rate of increase in the retail price index had fallen to 12.9 per cent. Mr Healey had, however, admitted that his aim of reaching single figure inflation by the end of 1976 could not be reached:

“Because of the depreciation (of sterling) which has taken place in recent months, and the increase in commodity prices which has begun, we expect the annual increase in the retail price index at the end of this year to be about 12 per cent rather than single figures, and I hope down to 7 per cent at the end of 1977. We will not get into single figures now until late winter or early spring” (*The Times*, 1st July 1976).

By 14th October the forecast had slipped again:

“Our objective which we intend to ensure is achieved, is to bring our inflation rate down to that of the mean of our international competitors by the end of next year” (*Hansard*, 14th October 1976 Col. 620).

By 11th November Mr Joel Barnett, Chief Secretary to the Treasury, could say only that,

“It remains our objective to bring the United Kingdom inflation rate at least down to the levels of our main overseas competitors. I shall not be satisfied until we have achieved this” (*Hansard*, 11th November 1976 Col. 633).

**Export-led Growth.** On 29th June Mr Callaghan said that,

“Our expansion at present is export-led. I trust that it will continue to be so” (*Hansard*, 29th June 1976, Col. 201).

The following month's trade figures were among the worst on record, and until the end of 1976 exports failed to show the increase that might have been expected as a consequence of the competitive advantage given by devaluation.

Unemployment, meanwhile, though showing a brief recovery in September and October, was expected by forecasters to rise sharply as a result both of continued inflation and of Government measures already taken or obviously shortly to become unavoidable. Investment had been expected to rise substantially in 1977–8, according to both the official Department of Industry and the CBI forecasts. The CBI, however, in their October Survey, reported that confidence in industry had been severely shaken by the credit squeeze and 15 per cent MLR.

**Collapse of Confidence.** Mrs Thatcher summed up the reasons for the failure of confidence both at home and abroad when she said, in the debate on the economic situation on 11th October 1976:

“We have reached the position in which an interest rate of 15 per cent is in danger of aborting the very economic recovery on which we depend to take up jobs in the public sector ... one cannot afford to go on at this rate of public expenditure because one cannot finance it. Unless one cuts (expenditure) one will be able neither to finance this programme nor to achieve economic recovery. That is why the Chancellor's whole economic strategy is in ruins and the country does not now have a strategy .... Of course we would all say that the Government must cut their public expenditure. They have no choice. They cannot go on borrowing .... The Prime Minister talked about the long march. ... We are on the long march, but we are on the wrong road. The further we go down that road—15 per cent is no incentive for economic recovery—the worse it will be for sterling and the worse it will be for Britain” (*Hansard*, 11th October 1976, Cols. 155–6).

Early in November a team from the IMF arrived in London to examine the state of the British economy before setting terms for further credit. The pound meanwhile fluctuated in response to each minor development.

On 18th November the credit squeeze was intensified still further in what the *Financial Times* described as a ‘dramatic effort’ to bring the money supply under control. This took the form of the reimposition of the control over the growth of banks' interest-bearing deposits known as ‘the corset’ applied first in 1973. The banks were to be subject to heavy penalties if their interest-bearing eligible liabilities grew by more than 3 per cent above the average level for the three months to October for the first six months and ½ per cent for an additional two months. This meant that bank lending would have to be cut back severely, particularly to private borrowers.

The reason for the move became clear with the publication of the October money supply figures, showing that 10 per cent of Mr Healey's 12 per cent growth limit over 12 months had occurred in 7 months.

Changes introduced in the rules regulating exchange control effectively removed the last vestige of the United Kingdom's position as the centre of the sterling area by stopping the use of sterling finance for third-country trade. This move was expected to bring an inflow of several hundred million pounds in foreign currency, and to relieve pressure on the banks by releasing funds for domestic purposes.

## **(N) MR HEALEY'S NINTH BUDGET**

On 15th December 1976 Mr Healey announced new measures—his ninth Budget in a little over two and a half years. The proposals were the result of several weeks of negotiation with a team from the IMF over the conditions on which the United Kingdom might be granted the remaining credit tranche of \$3.9 billion from the Fund. This constituted the fifth announcement of major overseas borrowing that Mr Healey had made. In addition to the IMF application, he announced that a new swap arrangement of \$500 million had been arranged with the United States Treasury and the Federal Reserve, and the Bundesbank had offered a standby facility of \$350 million. As usual, Mr Healey presented the granting of the credits, and the probable acceptance of the application by the IMF, as proof of whole-hearted support for the policies of the Government.

The text of the Letter of Intent to the IMF, and the Government's forecasts for the economy (which it was required by the Industry Act 1975 to publish annually) were released on the same day. Mr Healey once again described his policy as being based on the two 'pillars' of the industrial strategy and the Social Contract. But once again the measures he announced were all too likely to undermine both of them. Industry again took the brunt of the cuts in public expenditure and the Social Contract came under further strain through the likelihood of still higher unemployment and prices. Mr Healey proposed that in his Spring Budget he would hope to make cuts in income tax provided that agreement had been reached with the trade unions on wage restraint for the following year—a proposal promptly scotched by Mr Len Murray. After a TUC meeting the following day, Mr Murray was reported to have said:

“If Mr Healey thinks he is going to do some sort of deal with two variables, one of which is pay and one of which is tax, he can forget about it” (*The Times*, 17th December 1976).

The proposals announced amounted, as Sir Geoffrey Howe commented, to an “IMF Budget”:

“We have a sense of relief because it seems that the Labour Government can be prevented from steering the economy towards disaster only when we are under the firm surveillance of the IMF” (*Hansard*, 15th December 1976, Col. 1538).

They also amounted, as Sir Geoffrey pointed out during the debate on the economy on 21st December, to a

“fundamental change of strategy and objectives.... “As a result of what is contained in the Letter of Intent it is perfectly clear that the Rt. Hon. Gentleman has made a major shift in policy and is setting the achievement of monetary objectives as his overriding purpose, with unemployment taking its course alongside that” (*Hansard*, 21st December 1976, Col. 505).

Mr Healey said that

“the measures will cover the next two years. They will form part of a medium-term programme for national recovery to ensure that the 1980s offer us the prospect of an economy fully restored to balance, with high levels of output, employment and real wages and an industry which is vigorous, expanding and profitable” (*Hansard*, 15th December 1976, Col. 1525).

The widespread press criticism of the measures, a further fall in the exchange rate of sterling, and critical comments from overseas indicated that Mr Healey's habitual optimism was not shared.

**Cuts in Borrowing and Expenditure.** The main feature of Mr Healey's proposals, set out in his statement and the Letter of Intent, was his intention to reduce the Public Sector Borrowing Requirement for 1977–8 to £8.7 billion, instead of £10½ billion which had been indicated in the latest forecast, and to £8.6 billion in 1978–9, instead of £11½ billion. Expressed as a percentage of GNP the PSBR would fall from 9 per cent in 1976–7 to 6 per cent in 1977–8 and rather over 5 per cent in 1978–9.

In order to make this reduction changes were being made in existing plans amounting to £1½ billion in 1977–8 and £2 billion in 1978–9. The statement included changes amounting to £1½ million in each year, leaving a further £½ million to be achieved by unspecified further fiscal changes in 1978–9.

The changes were to be made mainly in public expenditure: £1 billion was to be cut in 1977–8 and £1½ billion in 1978–9. £30 million was to be saved by Civil Service economies; the rate support grant to local authorities was to be reduced from 65½ to 61 per cent; housing capital programmes, and new construction on roads, other environmental services, school and Government accommodation building and water authority capital expenditure was to be cut back. (For details of cuts, see Chapter 3, p. 62). Borrowing approvals for land acquisitions were to be slowed up, the phasing out of food subsidies accelerated, and savings made on school meals and milk. Gas prices were to be increased, and the level of Government financing of nationalised industries reduced. The Regional Employment Premium of £2 a week was to be abolished (on the argument that the Temporary Employment Subsidy of £20 a week was an adequate substitute). The defence budget was to be cut yet again by £100 million in 1977–8, and £200 million in 1978–9—bringing Labour's defence cuts to a total of £8,402 million. Overseas aid was to be cut, and savings made in export credit arrangements.

The Government proposed to raise a further £500 million by selling shares in Burmah Oil acquired by British Petroleum as part of the Bank of England's support operation for Burmah Oil. As Sir Geoffrey Howe pointed out, this sale made “nonsense of the argument previously advanced by the Government that nationalisation has no adverse effect on the public sector borrowing requirement” (*Hansard*, 15th December 1976, Col. 1539). If sales of assets meant relief for borrowing, the reverse must (as Mr Healey had admitted in 1974) be true of spending on nationalisation. This expenditure was, however, to continue.

Excise duties on alcoholic drinks and tobacco were raised by 10 per cent. Overall, the measures were expected to raise the Index of Retail Prices by “less than 1 per cent by the end of 1977” (*Hansard*, 15th December 1976, Col. 1537).

**The Forecasts.** Mr Healey had belatedly admitted in July that it would not be possible to reduce inflation to single figures before the end of 1977—as he had earlier expected to do. The forecast published on 15th December put the increase for the last quarter 1976 to the last quarter of 1977 at 15 per cent—in line with the estimates of some independent forecasters. Output was expected to rise by 2 per cent, compared with the 5 per cent estimated in July. Unemployment was likely to rise further although Mr Healey claimed to have offset the loss of jobs resulting from his package by his proposal to spend a further £120 million on measures to reduce unemployment—by extending the Temporary Employment Subsidy and the Job Creation Programme; introducing a second Accelerated Project Scheme, and further sectoral schemes at a cost of £80 million a year for each of the next two years.

**Mixed Objectives.** Mr Healey restated his view that income tax was too high, and his concern at the narrowing gap between people on social security benefits and those in work. He did nothing to ameliorate either. It was for this discrepancy—for the ninth time—between the Chancellor's aims and his measures that Conservatives criticised

the proposals. Mr Healey's conversion to the cause of reducing public sector borrowing was welcomed. A year earlier he had spoken scornfully of those who endowed the borrowing requirement with "an almost mystical significance" (Mansion House, 17th October 1975). But he had, yet again, clobbered industry with cuts on spending, in particular on capital projects, which would fall almost entirely on private industry while Government current spending was maintained.

**Funding the Sterling Balances.** On 11th January 1977 Mr Healey announced a new \$3 billion standby facility to be operated by the Bank for International Settlements on which Britain will be able to draw to offset net reductions in the sterling balances held by foreign governments over the next two, or possibly three, years (see Chapter 3, p. 70).

**\$1,500 million Euroloan.** On 24th January Mr Healey announced (*Hansard*, Written Answer, Col. 405) that the Bank of England had negotiated a credit of \$1,500 million, with an average life of six years, from a group of major British, American and German banks. Interest would be at a relatively low rate. Final repayment would be made in seven years.

# 3. PUBLIC EXPENDITURE AND BORROWING

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## Speaking Note

### Public Expenditure

- Labour increased the proportion of the gross domestic product taken by public expenditure from 51·1 per cent in 1973 to 59 per cent in 1975—an increase of 15 per cent in two years, compared with an increase of 16 per cent in the six years 1964–70 under the previous Labour Government, and of 1 per cent in the three Conservative years, 1970–3.
- Labour have nearly doubled public spending in money terms, from £34,100 million in 1973–4 to £64,700 million in 1976–7—equivalent to £1,521 per family.
- In 1974–5 Labour spent £6,100 million (over 15 per cent) more than they had projected, largely in electoral bribes before the October 1974 election.
- No genuine cuts in public expenditure are being made by Labour before 1977–8.

### Public Borrowing

- In three years since March 1974 government borrowing has amounted to £1,529 per household, compared with £449 in the four years to March 1974.
- Interest on government debt per head in 1976–7 is twice as high as in 1973–4, and the burden will become increasingly severe.
- The UK's medium and short-term overseas debts in December 1976 stood at £8,395 million, equivalent to £428 per family, compared with £1,030 million in 1973 (£53 per family).

### The Conservative View

- Conservatives believe that high public spending distorts the economy by weakening the private sector and is thus also a threat to freedom.
- The only areas of public spending which should be exempt from cuts are defence, the police and help for the genuinely needy.

## **(A) LONG-TERM GROWTH OF PUBLIC EXPENDITURE**

Since the last war the increase in the share of the national income taken by public spending has been far from steady. In general, public spending as a proportion of gross domestic product (GDP) has risen under Labour governments and remained constant or fallen under Conservative governments. This reflects the Labour Party's belief in collectivism and centralised decision-making, and the Conservative Party's emphasis on the liberty of the individual and independent decision-making in a pluralist society.

In 1946 public spending as a proportion of GDP stood at the relatively high level of 52 per cent in the aftermath of the war. The then Labour Government, in the course of unwinding the war effort, reduced the percentage to 46·1 per cent in 1951.

Successive Conservative governments reduced it still further. Between 1955 and 1960 it never exceeded 42 per cent: in 1964 it was 43·6 per cent.

The Labour Government of 1964 to 1970 rapidly increased public spending as a proportion of GDP: by 1970 it had been raised to 50·6 per cent, a level that until then had only been seen in times of war.

The last Conservative Government reduced public spending's share of GDP to 50 per cent in 1971. It then held it fairly stable between 1970–73. On 17th December 1973 the Conservative Chancellor, Lord Barber, announced spending cuts of £1,100 million for 1974–5. In the event the Labour Government reversed Lord Barber's cuts and increased public spending so rapidly that in 1974 it reached 57·3 per cent of GDP and in 1975, 59 per cent. In two years alone—1974 and 1975—the Labour Government increased the proportion of the nation's wealth taken by the State by over 15 per cent, an increase of roughly the same order as the whole increase between 1964 and 1970.

In October 1976 the Treasury redefined certain parts of public spending for the purpose of calculating the share of GDP taken by public spending. Some of these changes were justifiable and brought the UK more closely into line with other countries, while others were more controversial, for example the new treatment of debt interest (see p. 68). The motive behind the changes is clearly shown by the fact that they reduce the proportion of GDP taken by public spending in 1975 from 59 per cent to 52 per cent. Although the new figure is much lower, this is entirely a matter of presentation. Spending under Labour has increased as a proportion of GDP on whichever measure is used.

The table below not only confirms the argument that Labour governments increase spending and Conservative governments reduce it. It also shows, that, as the Labour Party has become even more dominated by its Left wing, so State control of the economy has proceeded ever faster under successive Labour Governments.

Public Expenditure as a Proportion of GDP at Factor Cost

	<b>Per cent</b>
1951	46·1
1952	46·5
1953	44·9
1954	42·1
1955	41·8
1956	41·0
1957	40·8
1958	40·9
1959	41·2
1960	41·5
1961	42·6
1962	43·5
1963	43·4
1964	43·6
1965	45·3
1966	46·2
1967	50·1
1968	51·0
1969	50·3
1970	50·6
1971	50·0
1972	50·1
1973	51·1
1974	57·3
1975	59·0

(Sources: *Hansard*, 2nd February 1976, Col. 453, and 8th July 1976, Col. 663.)

## **(B) COMPOSITION OF PUBLIC EXPENDITURE**

**Goods and Services and Transfer Payments.** Public spending is of two kinds: (1) spending on “goods and services”, i.e., the direct acquisition of the output of the private sector, and the employment of labour for the provision of services to the public; and (2) “transfer payments”, which are redistributive transfers from and to various sectors of the community made by the State—e.g., subsidies, social security payments, lending and debt interest. From 1948 to 1975 spending on goods and services doubled in real terms, whereas transfer payments rose nearly two and a half times. In 1976–7 transfer payments account for about 45 per cent of all public spending.



**Local Authority Expenditure.** Spending by local authorities has risen particularly fast. In 1946 their spending was equivalent to 5·5 per cent of GDP; in 1964 it reached 6·6 per cent. By the end of the 1964 Labour Government local authorities were spending the equivalent of 8·4 per cent of GDP, and in 1975 the proportion was 17·8 per cent. The rapidity of growth of local authority spending partly reflects the greatly increased responsibilities placed on local authorities by central government, but it also suggests that this is an area in which spending reductions could be achieved.

**Nationalised Industries.** Only the capital expenditure of the nationalised industries is considered to be part of public expenditure. In 1970–1 the nationalised industries accounted for 6·6 per cent of public spending, and in 1976–7 5·8 per cent. The Treasury has changed the presentation of the capital expenditure of the nationalised industries in the 1977 White Paper: only that part of their capital expenditure which is not covered by their internal resources is now classified as public expenditure.

## (C) LABOUR'S RECORD 1974–7

### 1. INCREASES IN PUBLIC EXPENDITURE

Between the financial years 1973–4 and 1976–7 the Labour Government nearly doubled public spending in money terms, from £34,088 million in 1973–4 to £64,716 million in 1976–7. This is equivalent to an increase of £1,521 per family. In real terms the level of spending in 1976–7 is 16·7 per cent higher than in 1973–4.

**Reasons for Labour's Increases.** First, increased public spending is an integral part of the Labour Party's philosophy. As **Mrs Thatcher** pointed out:

“They say to us, ‘Public spending is an absolute good in itself. It is better than private spending; it must be because the Government spend on everyone's behalf, whereas individuals spend on their own behalf, and that, if you are a Socialist, must be selfish’. That is precisely the sort of armchair assumption, conceived in theory and totally contradicted in practice, that has helped plunge this country deeper and deeper into the mire, that has brought us to the money-lenders, to the pawn shop, almost to our knees. Why does Government know better than individuals? Where is the evidence of its superior wisdom?” (Norwich, 20th March 1976).

**Second**, the Social Contract with the trade unions requires the Government—as part of its side of the bargain—to maintain an excessively high level of public spending (see also Chapter 8, p. 229).

**Third**, the Government has tried to justify its increases in public spending by the argument that in a recession higher spending was needed in order to preserve employment. This argument is disposed of by the facts: in a period when public spending nearly doubled, unemployment in Great Britain more than doubled—from 552,000 in March 1974 to 1,253,100 in October 1976 (seasonally adjusted, excluding school-leavers and adult students). Sir Keith Joseph has pointed out:

“At first sight Labour's contention that their spending makes or saves jobs might seem plausible. But when you think it through, you will see that this spending is financed by placing heavier burdens on the wealth-creating private sector which provides so much of the country's employment ... Several Peters go on the dole for every Paul kept in a protected job” (Harrow, 6th March 1976).

**Fourth**, the increased spending in 1974–5 was largely on electoral bribes before the October 1974 election. Both food and housing subsidies were raised in order to cushion people against the necessary adjustment to the oil crisis.

**Fifth**, there was overspending partly for technical reasons. Spending plans were made at “constant prices”, i.e., without taking account of the rapidly increasing cost of the goods and services bought by the public sector.

**Sixth**, labour costs in the public sector rose very rapidly. Between 1973 and 1975 income from employment in the Civil Service and local authorities rose by about 65 per cent, while in the private sector it rose by only 50 per cent.

## 2. CHANGES IN LABOUR'S SPENDING PLANS

There have been six announcements of major changes in the Labour Government's spending plans. The first was the excess of £6,000 million over planned spending in 1974–5. The second change was announced in the 1975 Public Expenditure White Paper (Cmnd. 5879) and later modified by the Budget in April 1975. The fourth change was announced in the 1976 Public Expenditure White Paper (Cmnd. 6393). The fifth was part of the package of economic measures announced on 22nd July 1976, and the sixth was part of the package announced on 15th December 1976. The seventh was announced in the 1977 Public Expenditure White Paper (Cmnd. 6721).

The first four announcements preceded increases in the total of public spending. Conservatives had been pressing for spending cuts since early 1975, but the first genuine cuts to be announced were those in the package on 22nd July 1976 (see p. 62), and these cuts were not to take effect until 1977–8. The sixth and seventh changes included further cuts for 1977–8. The long delay meant that the cuts, when finally made, were probably larger than would otherwise have been necessary.

Spending by the Labour Government in each financial year has been higher than would have been the case if the plans of the Conservative Government had remained in force. Similarly, the spending planned by Labour for future years is higher than the Conservative Government had planned, except in the case of 1977–8.

**Increased Spending in 1974–5.** The £1,100 million spending cuts announced by Lord Barber in December 1973 to take effect in 1974–5 were reversed by Mr Healey in his first year. Furthermore, since another general election was in the offing, further increases in spending were planned. In March 1974 total public spending in 1974–5 was estimated at £39,000 million. In 1975 the Government finally revealed that £45,000 million had been spent in 1974–5, an excess of £6,000 million, or 15 per cent, over the planned level. Most of the excess was the result of deliberate increases in spending on electoral bribes. For example, both food and housing subsidies were

increased in order to keep the cost of living down before the October election. But Parliament and the public were not told of the bulk of the increases until after the October election.

Over a year later Mr Joel Barnett, Chief Secretary to the Treasury, made a virtue of claiming that Labour had deliberately increased spending during an election year:

“We have been spending more than we can afford in current circumstances. But these are decisions which, for political reasons—and, I believe, in the main for very good political reasons—the Government deliberately took” (London, 14th November 1975).

**The 1975 Public Expenditure White Paper** made no provision for total spending to fall. The increased cost of interest payments swamped the small reductions in planned spending on some programmes. In any case, Labour's control of spending at this period was so poor that their forecasts for future years were viewed with considerable scepticism, an attitude that was wholly justified by subsequent announcements, which revealed both that spending was continuing above the projected level, and that the planned path of spending for future years was being altered.

The table below shows that in real terms the spending plans in the 1975 White Paper were substantially higher than those in the Conservative Governments' 1973 White Paper (Cmnd. 5519), and that total spending would rise year by year:

Public Expenditure in Cost Terms 1975–9				
<b>(1975–6 Prices including Relative Price Effect)</b>				
	<b>1975– 6</b>	<b>1976– 7</b>	<b>1977– 8</b>	<b>1978– 9</b>
	£m	£m	£m	£m
Difference between 1973 (Conservative) and 1975 (Labour) White Papers	+4,650	+4,400	+3,800	+3,650
	%	%	%	%
Real percentage increase over previous year in 1975 (Labour) White Paper	1.0	0.8	1.5	2.4

(Source: *Public Expenditure to 1978–9, Cmnd. 5879*)

**The 1975 Budget.** The 1975 Public Expenditure White Paper was published in January. In the April 1975 Budget Mr Healey announced new changes in public spending. £900 million (at 1974 Survey prices) would be cut from spending in 1976–7. Mr Healey stated:

“Cuts in public expenditure ... have become inevitable ... The (1975) White Paper warned that if the economic prospects deteriorated, the expenditure programmes would have to be reappraised. The prospects unfortunately have deteriorated” (*Hansard*, 15th April 1975, Cols. 294–5).

As usual, Mr Healey's systematic over-optimism had meant that he found himself having to reverse policies after a few months. The pattern of optimistic forecasts and high spending plans, followed by economic deterioration and spending cuts, was to be

repeated in 1976. At the time the April 1975 cuts were announced, Sir Geoffrey Howe condemned the Chancellor's strategy of overspending followed by retrenchment:

“Gross overspending by Government—10 per cent up in real terms—is a deliberate consequence of this Socialist administration. The responsibility for the long-to-be-delayed cuts ... too little in substance and too late in their effectiveness—is also that of this Socialist Government alone. But the whole pattern is something for which they must now accept responsibility—the growth in public spending and the cuts which they now in consequence have to make” (*Hansard*, 16th April 1975, Col. 453).

Mr David Howell, a Conservative spokesman on Treasury affairs, also put the Conservative case against the Government's policy of always postponing cuts to the following year:

“Why cannot this reduction be brought forward this year? ... Next year is the time, as the Chancellor has told us, when there will, regrettably, be about a million unemployed. Now is the time when confidence is most precious, when the world is expecting to see a vigorous operation on public spending, and when at least the current expenditure cuts could be brought forward. Treasury ministers will have to forgive both hon. Members and commentators outside if they seem a little sceptical that these cuts will ever take place. If they are needed, they are needed now” (*Hansard*, 17th April 1975, Col. 694).

The proposed reductions for 1976–7 were allocated between programmes as follows:

Reductions in Public Expenditure in 1976–7

**£m 1974 Survey Prices**

Defence	110
Overseas Services	12
Agriculture, Fisheries, Forestry	152
Trade, Industry, Employment	3
Nationalised Industries	100
Roads and Transport	91
Housing	115
Other Environmental Services	85
Law, Order and Protective Services	27
Education and Libraries, Science and Arts	86
Health and Personal Social Services	75
Other Public Services	17
Common Services	12
Northern Ireland	16
Total	901

**1976 Public Expenditure White Paper.** Like its predecessor, the 1976 White Paper anticipated no decline in total public spending, despite the Government's claim that the White Paper embodied cuts. Spending plans were higher than those in the 1975

White Paper. The reduction of £900 million announced in April 1975 for 1976–7 was shown up as completely illusory, as spending in 1976–7 would actually increase. Total spending in real terms would continue to rise in subsequent years as the following table shows.

Public Expenditure in Cost Terms, 1975–9  
(1975–6 prices, including Relative Price Effect)

	1975–6	1976–7	1977–8	1978–9
	£m	£m	£m	£m
Difference between 1975 and 1976 White Paper	+1,500	+2,400	+1,750	+850
	%	%	%	%
Real percentage increase over previous year	2·1	2·5	0·3	0·8

(Source: *Public Expenditure to 1979–80, Cmnd. 6393*)

There were cuts in some programmes, but spending as a whole increased because of higher interest payments necessitated by Labour's reckless borrowing. As Sir Geoffrey Howe pointed out:

“The Chancellor is consuming today what our children and maybe even our grandchildren will have to repay. For that reason, he is having to propose cuts in the social programmes to which his party is committed, so that we can repay the debt burdens that he has incurred” (*Hansard*, 9th March 1976, Col. 276).

After two years of Labour Government and high public spending, during which the state of the economy had deteriorated, the Government was still refusing to take responsibility for the consequences of its policies. Sir Geoffrey Howe said:

“What we have seen is a repetition of the Chancellor's failure to accept any responsibility for Britain's present economic position. Time and again he seeks to pass the burden back somewhere into the increasingly middle distance, appearing to have forgotten altogether his wholly misleading assertions of 18 months ago ... It is high time that he was man enough to accept his responsibility for the present state of the economy” (*Hansard*, 9th March 1976, Col. 273).

Conservatives condemned the Chancellor for having waited too long before cutting public expenditure rather than cutting when he was first urged to do so by the Conservative Party. Sir Geoffrey Howe said:

“The Chancellor knew [in April 1975] what he should have done, which was to begin cutting public spending then so as to create more room for an expansion in the private sector now. His failure to do that has resulted in still more jobs being lost in the past and in the present” (*Hansard*, 9th March 1976, Col. 281).

The Government claimed that its policy was in fact to shift resources from the public sector to manufacturing industry. Mr Healey said:

“We must make room in the next few years for a big shift of resources into manufacturing industry ... But it will be physically impossible to achieve the further

improvement on which we can build further progress towards our social objectives unless we make room for it now by levelling off public expenditure for a few years once recovery is well under way” (*Hansard*, 9th March 1976, Col. 266).

But Sir Geoffrey Howe pointed out that the Government could scarcely claim to be reducing the public sector's call on resources when it was increasing spending on damaging and divisive Socialist measures:

“It is time to spell out how much this Socialist Government have cost us this year through Socialist measures over and above the programmes inherited from the last Conservative Government ... They include food subsidies, increasing housing subsidies, the National Enterprise Board, industrial assistance programmes ..., nationalisation of building land, the enforced comprehensivisation of schools, the abolition of pay beds, the nationalisation of oil, shipbuilding and aircraft and ... the extension of the Dock Labour Scheme. The total cost, in this coming year, of these programmes is just over £1,700 million. And if we add to that the extra debt interest this year, in addition to the programmes foreshadowed by Mr Barber—as he then was—that represents an additional £2,300 million. So we have a total being spent this year, on the extra cost of Socialism, of about £4 billion” (*Hansard*, 9th March 1976, Col. 287).

Sir Geoffrey commented thus on the Government's priorities:

“There are cuts in health, education, and the prevention of crime. It is strange to think that the Labour Party believes in cuts at the heartland of the Welfare State simply to pay for the huge increase in the cost of borrowing over the past two years over which it has presided. It is tragic that the Chancellor is leaving virtually no room for the shift towards future profitable investment which the White Paper regards as necessary” (*Hansard*, 9th March 1976, Col. 282).

**Economic Assumptions Behind the 1976 White Paper.** The White Paper gives certain projected rates of economic growth. The new resources that become available as a result of that growth can then be allocated between the public sector—whose share of resources is determined by the level of public spending—and other parts of the economy. The higher the rate of economic growth which is assumed, the more resources will be left for exports, investment and consumption by individuals. If the rate of economic growth turns out to be very low, and public spending is high, then other parts of the economy will gradually lose some of their share of economic resources to the public sector.

The 1976 White Paper assumed absurdly high growth rates. The inflated levels of public spending which it contained could therefore be made to appear smaller in proportion to the resources available in the economy as a whole. The White Paper envisaged an average annual rate of growth of GDP of 3·4 per cent from 1974 to 1979, which is faster than any sustained growth the UK has achieved since 1963. Even if such a rate of growth were achieved, public spending in 1979–80 would be 53 per cent of GDP, still higher than any figure reached under the last Conservative Government.

Sir Geoffrey Howe pointed out:

“The White Paper forecasts from which these projections are extracted are unreliable, unsustainable and far exceeded in their optimism the most euphoric passages in the late lamented National Plan. Upon those foundations it is perfectly clear that the Chancellor has failed to grapple with the problems which are very serious and formidable. The prospect is a bleak one” (*Hansard*, 9th March 1976, Col. 284).

**July 1976 Measures.** Mr Healey's idiosyncratic forecasting continued. On 22nd July 1976 he announced that the economy was growing at an annual rate of 5 per cent, and that therefore public spending would have to be cut in order to make room for the private sector to use more of the available resources. Spending in 1977–8 would be cut by £1,012 million (at 1976 Survey prices), which would reduce the annual rate of economic growth to 4½ per cent. (Details of the rest of the July measures will be found in Chapter 2, p. 45).

The cuts were of the wrong kind as well as too late. Over four-fifths of them were in capital spending. A reduction in capital spending causes redundancies in private sector firms supplying the Government, rather than in the public sector. The Treasury admitted that 150,000 jobs—largely in the private sector—would be destroyed by the July measures (*Hansard*, Written Answers, 29th July 1976, Col. 397 and *Minutes of Evidence to the Select Committee on Expenditure* [General Sub-Committee, 28th July 1976, p. 14]).

#### July Reductions in Public Expenditure in 1977–8

##### (£m 1976 Survey Prices)

Defence	100
Overseas Aid and other Overseas Services	5
Agriculture, Fisheries, Food and Forestry	105
Trade, Industry and Employment	105
Nationalised Industries Capital Expenditure	157
Roads and Transport	87
Housing	146
Other Environmental Services	81
Education and Libraries, Science and Arts	30
Health and Personal Social Services	70
Social Security	21
Common Services	10
Northern Ireland	35
	952
Debt Interest	60
Total	1,012

(*Source*: H.M. Treasury)

**December 1976 Measures.** There was a precipitate fall in the external value of sterling in the summer and autumn of 1976. A loan had to be obtained from the International Monetary Fund (see Chapter 2, p. 50) in order to support sterling. The loan was obtained on condition that the Government made further cuts in public

spending—action which the Conservative Opposition had been advocating for more than 2½ years.

The inconsistency and absurdity of the Chancellor's policies were revealed when he was forced to cut spending in December 1976. According to Mr Healey the July cuts were made because the economy was growing too fast. They came at a time when, he believed, economic growth was at annual rate of 5 per cent. In December 1976 he published a forecast of only 2 per cent growth in 1977, and announced further spending cuts.

The December measures reduced net spending in 1977–78 by £800 million, and in 1978–9 by £1,500 million. About half of the cuts were in capital expenditure, which means that jobs will be lost in the private sector rather than the public sector. The Government claims that there will be a slight increase in employment as a result of the measures, because there was an increase of £200 million in expenditure on job-creation and industrial assistance. This claim should be treated with considerable scepticism. An increase in unemployment as a result of the measures is almost certain. The Department of the Environment estimated that 90,000 jobs would be lost in the construction industry alone. The Treasury estimated that the cuts would cause the loss of some 140,000 jobs.

December 1976 Reductions in Public Expenditure  
(£ million at 1976 Survey prices)

	1977–8	1978–9
Defence Budget	100	200
Overseas aid	50	50
Food subsidies	160	57
Regional employment premium	150	170
Refinancing of fixed rate credits	100	200
Capital spending at CFEs* for industrial training	10	10
Nationalised industries <sup>†</sup>	110	130
Road construction	75	50
Housing	–20	300
Regional water authorities' etc. construction	75	130
Local environmental services: construction and other capital	50	50
Community ownership of development land	35	35
Courts—purchase of sites	2	–
Education—construction	22	11
Other education expenditure, inc. school meals	20	30
Health and personal social services—construction	10	20
Other NHS expenditure	5	5
Northern Ireland	5	10
Property Services Agency	27	45
Expenditure on the Civil Service	30	10
Total	1,016	1,513



December 1976 Reductions in Public Expenditure  
(£ million at 1976 Survey prices)

1977-8 1978-9

\* Colleges of Further Education.

† Savings in requirements for Government finance.

(Source: H.M. Treasury)

**1977 Public Expenditure White Paper.** In January 1977 the Government published the first part of a White Paper (Cmnd. 6721-I) quite unlike any of its predecessors. It gave spending plans for only three years rather than the usual five. It contained virtually no economic analysis: no projection of the growth of resources available for public spending, and no indication of how those resources would be used.

The White Paper anticipates a decline of 2.1 per cent in real terms in total spending in 1977-8, followed by an increase of 1.2 per cent in real terms in 1978-9. Total spending on programmes in 1977-8 will be £2,800 million (at 1976 Survey prices) lower than Mr Healey had originally planned in Cmnd. 5879. Ironically, the consequences of nearly three years of Labour mismanagement have forced Mr Healey to reduce spending in 1977-8 to a level lower than that planned by Lord Barber in his December 1973 White Paper.

The 1977 White Paper demands a much greater reduction in spending from local government than from central government: 7.6 per cent and 1.8 per cent respectively between 1976-7 and 1978-9.

Furthermore, capital spending by Government will fall in the two years 1977-8 and 1978-9 by 23.4 per cent, whereas its current spending will fall by only 0.4 per cent. The construction industry and the private sector will once again have to bear the burden of deflation, while the public sector continues as large as before. There was no reference in the 1977 White Paper to any reductions in the Civil Service.

### 3. CONTROL OF PUBLIC EXPENDITURE

During the first two years of Labour Government, public spending greatly exceeded the target levels set by the Government at the beginning of the financial year. The table below shows the spending planned for each year and the amount actually spent:

Public Expenditure, 1974-6				
	Projected	Actual out-turn	Difference between projection and out-turn	
	£m	£m	£m	Per cent
1974-5	39,005	45,082	6,077	+15.6
1975-6	53,588	56,341	2,753	+5.1

(Sources: *Financial Statements and Budget Reports, Economic Trends*)

Part of the overspending was due to Government policy (see p. 57). But some of it took place simply because the mechanisms for controlling spending were inadequate.

At a time of rapid inflation, planning spending at “constant prices” (sometimes called “funny money”) was bound to lead to overspending.

**Cash Limits.** Throughout 1975 there was considerable pressure from the Opposition for tighter controls on spending, and especially for “cash limits”. In March 1975 Sir Geoffrey Howe said:

“Funny money has just about had its day. Whitehall must be prepared ... to consider accepting the same kind of cash disciplines and controls as any individual must accept over his ordinary budgets, and as any private enterprise organisation must accept over its budgets. Without that, we shall not ... secure effective control of Government expenditure” (*Hansard*, 16th April, Col. 460).

Largely as a result of Conservative pressure, the Government finally adopted cash limit controls in April 1976. The new system (fully described in a White Paper, Cmnd. 6440) covers about three-quarters of spending by central government. Public spending is divided into “blocks”, and a fixed amount of money is allocated to each block. No further funds are supposed to be made available to any block that has exhausted its allocation.

## **4. EFFECT OF HIGH PUBLIC SPENDING ON THE ECONOMY**

In 1974 there was a worldwide recession and an oil crisis, so that even without Labour's increases in spending there would have been economic difficulties. The Conservative Government had planned spending cuts in 1974–5 in order to keep the economy in balance (see Chapter 2, p. 25); the desire to win the October 1974 election led Labour to increase spending, thus causing the country to live even further beyond its means. This was disastrous for a trade balance and currency already weakened by the rise in the price of oil (see Chapter 10, p. 256).

The Labour Government's combination of high spending and uncontrolled wage increases with a tight monetary policy and rigid price controls in 1974–5 caused a vicious squeeze on the liquidity and profitability of the private sector of industry, which in turn led to greatly increased unemployment and a fall in investment (see Chapter 6, pp. 144–5).

The heavier load of taxation and national insurance contributions required by higher spending has meant that more and more ordinary people are losing a higher proportion of their income in taxes. The incentives to work have therefore been reduced.

That part of the increased spending not financed by taxation has to be financed by borrowing. Greatly increased borrowing by the public sector has “crowded out” the private sector by pre-empting finance from the capital markets at high rates of interest with which the private sector cannot compete. Unable to borrow, the private sector cannot invest as much as it should.

Finally, a high level of public spending causes structural distortions in the economy. By 1975, 29 per cent of the nation's work-force was employed by the public sector,

where it is less likely to be employed efficiently. The wealth-creating private sector, on which we depend for our exports, is being squeezed out of the markets for men and materials because it cannot afford to pay what the public sector pays, just as it is crowded out of financial markets.

## (D) THE CONSERVATIVE VIEW

**Economic Considerations.** The Conservative Government perceived that the oil crisis in late 1973 required reductions in public spending. In opposition the Conservative Party has consistently stuck to that position. A shift in the terms of trade meant that the United Kingdom had to consume less and produce more in order to re-establish a balance between imports and exports. For more than two years the Labour Government pursued a policy of increasing expenditure and hence consumption. This made our trade balance worse, increased the rate of inflation and ultimately the level of unemployment.

Conservatives have criticised the level of public spending, in particular because it has led to a catastrophic squeeze on the private sector resulting in high unemployment and many missed investment opportunities over the past two years. The United Kingdom has been left with a misshapen economy—an inflated public sector and an emaciated private sector. It may take several years to restore the balance between the two; but the balance must be restored because it is on the private sector that the country depends for its wealth. As *The Right Approach* says:

“We do not argue that all public spending is bad and that only private spending is good. But too much public spending that the nation cannot afford is bad. It saddles an increasing number of people with a growing burden of tax. It throttles initiative at every level. It destroys jobs. We shall only have a chance of breaking out of the Socialist circle of tax, subsidy, controls, debt and unemployment if we succeed in cutting the overload of public spending.

“The Conservative Party's view that public spending cuts are essential if we are to bring the economy back into balance, and avoid an explosion in the money supply and an acceleration of the rise in prices, has now been accepted by politicians and informed opinion across a very wide political spectrum.”

**Political Considerations.** The political objections to high public spending are as great as—or perhaps greater than—the economic objections. A large private sector is essential if freedom is to be preserved. The Conservative Party has been stressing this for a long time, and even a former member of the Labour Cabinet, Mr Roy Jenkins, said:

“I do not think that you can push public expenditure significantly above 60 per cent [of the national income] and maintain the values of a plural society with adequate freedom of choice. We are here close to one of the frontiers of social democracy” (Anglesey, 24th January 1976).

Mr Jenkins's statement was endorsed by Sir Geoffrey Howe:

“We agree with that. In fact we would put the figure far below 60 per cent. Every time the Chancellor takes another slice out of the average taxpayer's pocket, he takes another slice of freedom with it. We find that intolerable” (*Hansard*, 9th March 1976, Col. 276).

Later, Sir Geoffrey pledged:

“During the last three years [the] figure has jumped from less than 50 to over 60 per cent. I give you this pledge. The Conservative Party will reverse that change” (Brighton, 5th October 1976).

**Conservative Priorities.** Speaking at the 1976 Conservative Party Conference, Sir Geoffrey Howe said:

“We cannot afford subsidies that go to rich as well as poor, to those families that can well afford to pay for their own food and their own housing. We cannot afford not to sell council houses. We cannot afford to go on building endless subsidised council houses when more people would prefer help to buy their own homes. We cannot afford to nationalise aircraft and shipbuilding, to nationalise land, the insurance companies and the banks. We cannot afford Socialism.

“But we must go further than that. Every member of the Shadow Cabinet has agreed that each Department of State will have to contribute to the savings that are necessary. Only three areas will be exempt from this regime: the provision of the best help that we can afford to all those who are in real need; the police, and the defence of Britain” (Brighton, 5th October 1976).

## **(E) PUBLIC SPENDING ON INDIVIDUAL PROGRAMMES**

The table below gives a broad breakdown of public expenditure between different programmes:

Public Expenditure on Programmes as a Proportion of Total Programme Expenditure (1976–7)

*Percentage*

1. Defence	10
2. Overseas services	2
3. Agriculture, fisheries and forestry	2
4. Trade, industry and employment	5
5. Nationalised industries' capital expenditure	7
6. Roads and transport	5
7. Housing	9
8. Other environmental services	4
9. Law, order and protective services	3

Public Expenditure on Programmes as a Proportion of Total Programme  
Expenditure (1976–7)

*Percentage*

10. Education and libraries, science and arts	14
11. Health and personal social services	12
12. Social security	22
13. Other public services	1
14. Common services	1
15. Northern Ireland	3
Total Expenditure on Programmes	100

(Source: *Public Expenditure to 1979–80, Cmnd. 6393*)

## (F) PUBLIC SECTOR BORROWING

### 1. PUBLIC SECTOR BORROWING REQUIREMENT

The Public Sector Borrowing Requirement (PSBR)—the difference between the public sector's expenditure and its revenue—has risen to unprecedentedly high levels under the Labour Government. This has had undesirable consequences for interest rates, which rose to record levels in late 1976, and for the money supply—because if the borrowing requirement is not financed by borrowing from the public the money supply is inflated. (If the Government cannot sell long-term debt, it must sell short-term Treasury bills, which can be used as a base for increased lending by the banks.)

Largely because control of public spending was lost, control of borrowing was also lost in 1974–5 and 1975–6. This is shown by the table below:

Public Sector Borrowing Requirements, 1974–6  
(Current Prices)

	Projected	Actual Out-Turn	Differences between Projection and Out-Turn	Per cent
	£m	£m	£m	
1974–5	2,733	7,926	5,193	+190.0
1975–6	9,055	10,546	1,491	+16.5
1976–7	11,500	—	—	—

(Sources: *Financial Statements and Budget Reports, Financial Statistics*)

All the borrowing requirements of the last Conservative Government—from 1970–1 to 1973–4—added together came to only £8,792 million, or three-quarters of the borrowing requirement for the single year 1976–7.

The borrowing requirement is a field in which Mr Healey has distinguished himself as a forecaster, even by his own standards. In his first budget speech, Mr Healey said:

“I am aiming at a massive reduction in the public sector's borrowing requirement, a reduction of about £1,500 million compared with 1973–4” (*Hansard*, 26th March 1974, Col. 294).

The “massive reduction” of £1,500 million turned out to be an increase of £3,468 million.

In his 1975 budget speech, Mr Healey said:

“A borrowing requirement of over £10,000 million would involve unacceptable risks” (*Hansard*, 15th April 1975, Col. 286).

In the event the borrowing requirement in 1975–6 was £10,546 million. In the same speech he said that his intention was to reduce the borrowing requirement to just over £5,000 million in 1976–7. The current projection for that year is nearly £7,000 million higher.

Mr Healey has on occasion tried to justify the high Public Sector Borrowing Requirement by using new statistical definitions resting on the argument that the financial deficit of “General Government” (a concept excluding some elements in the PSBR and with which international comparisons are possible) is not out of line with other countries. This argument is rendered worthless by the fact that the General Government borrowing requirement is about twice as large as the financial deficit, and is (according to the Government's own statistical publication, *Economic Trends*, May 1976) a better measure of the financial burden involved than the financial deficit.

## 2. PUBLIC SECTOR DEBT INTEREST

The extraordinarily high level of borrowing under the Labour Government means that the public sector will be saddled with a vastly increased load of debt interest for years to come. The table below shows that all the interest paid by the last Conservative Government in the four years 1970–1 to 1973–4 adds up to less than that due to be paid in the two years 1975–6 and 1976–7. Debt interest per head in 1976–7 will be more than three times as high as in 1970–1.

Public Sector Debt Interest (At Current Prices)		
	Total	Per Head
	£m	£
1970–1	2,129	38
1971–2	2,302	41

Public Sector Debt Interest  
(At Current Prices)

	<b>Total</b>	<b>Per Head</b>
1972-3	2,530	45
1973-4	3,254	58
1974-5	3,859	69
1975-6	4,845	90
1976-7*	6,461	115

\*Projected.

(Sources: *Financial Statistics, Financial Statements and Budget Reports Hansard*, 19th February 1976, Col. 784)

The burden will become increasingly severe, as the Government's own projections (at constant prices) demonstrate:

Projected Public Sector Debt Interest  
(£m, 1975 Survey Prices)

<b>1977-8</b>	<b>1978-9</b>	<b>1979-80</b>
7,000	7,500	7,500

(Source: *Public Expenditure to 1979-80, Cmnd. 6393*)

**New Treatment of Debt Interest.** Hitherto, the debt interest of the public sector has included interest paid by central government, local authorities and public corporations, irrespective of how such interest payments are financed. A certain proportion of these payments do not have to be met through taxes or new borrowings. They can be met through the rents and charges by which the public sector also raises revenue. The Government proposes that in future the figures for public sector debt interest published in the White Papers on public expenditure should relate only to payments not financed through such rents and charges. This will have the effect of making public debt interest in future appear far smaller.

There is a certain justification for such a new treatment of interest: some other expenditure in the White Paper is shown net of revenue raised from charges. On the other hand, it might be considered that the full impact of the public sector's expenditure on the rest of the economy should be shown, even if some of that expenditure is financed by means other than taxes or borrowing.

### 3. THE NATIONAL DEBT

The increase in the National Debt since 1973 is shown in the following table:

	<b>At 31st March in each year £m, current prices</b>			
	<b>1973</b>	<b>1974</b>	<b>1975</b>	<b>1976</b>
Net total national debt	36,526	39,490	44,495	54,041
Of which: Privately held debt	26,343	27,716	31,710	40,407

**At 31st March in each year £m, current prices**  
**1973      1974      1975      1976**  
(Source: *Annual Abstract of Statistics*, Bank of England)

## **(G) OVERSEAS BORROWING**

Before he became Chancellor, Mr Healey described overseas borrowing by the Conservative Government as

“begging the Arabs for baksheesh” (*Hansard*, 6th February 1974, Col. 1234).

But in his first Budget speech, Mr Healey made it all too clear that the Labour Government intended to rely on borrowing from overseas. At the same time, he acknowledged the high cost of doing so. He said:

“Borrowing is more sensible, in economic and human terms, than trying to cut imports by massive deflation. But no-one should imagine that is a soft option. The interest has to be paid each year, and this will eat into our surplus on invisible account. Later on, instalments of the capital will have to be repaid as well” (*Hansard*, 26th March 1974, Col. 286).

It is as a soft option that the Labour Government has used loans from overseas. Starting in March 1974, with what he claimed to be the largest loan ever raised in the international capital market, Mr Healey has on five separate occasions announced major loans, or applications for credit, from abroad.

The Labour Government has borrowed abroad on a massive and unprecedented scale, in order to postpone or avoid taking essential but unpopular measures. The fivefold increase in the price of oil since 1973, at a cost of £2 billion a year on our balance of payments, meant that a substantial switch of resources into exports was necessary. It represented a fall of 4 per cent in the real national income of this country—a fall which should have been reflected in a reduction in our consumption at home, or a substantial increase in our output for export. In the very short term, so great an adjustment was not practicable. It was for this reason that the Labour Government raised a major loan on the international capital markets in March 1974 (see p. 70) and in August 1974 the IMF arranged an international oil facility of \$3,360 million. The latter was provided by seven oil-producing countries and was primarily intended for distribution to developing countries that had run into particularly severe balance of payments problems as a result of the explosion in oil prices. The Labour Government has, however, pre-empted a major share of these funds; and it has used them, not to allow time to make the necessary adjustments, but to avoid making them at all.

Instead of curbing consumption, public and private, the Government increased public spending by £20 billion in two years, and allowed wage inflation to soar. They have relied on making good the balance of payments deficit, and, even more serious, the failure of confidence in sterling abroad, by repeated and massive borrowing.



**Interest payments and repayments** will be a serious burden on our balance of payments for many years to come. The Government has gambled on repaying debts out of the proceeds of North Sea oil. As a result, the benefits which we should have enjoyed when the oil is in full production have been to a great extent already pre-empted.

**History of Labour's Foreign Borrowing.** The Labour Government of 1964–70 borrowed £1,460 million in foreign currencies. All but £140 million of this sum was repaid by the Conservative Government of 1970–4. (Throughout this period, about £1,900 million of long-term loans arising out of the Second World War remained outstanding. These loans are always distinguished from the medium and short-term borrowing undertaken since.)

Almost as soon as Labour took Office in March 1974, massive foreign borrowing began again. In his budget speech of 26th March 1974, Mr Healey announced that:

“The Clearing Banks have arranged a loan for \$2½ billion for ten years ... This is, I believe, the largest loan ever raised in the international capital markets” (*Hansard*, 26th March 1974, Col. 286).

In the same speech Mr Healey announced that the short-term swap facility of \$2 billion from the Federal Reserve Bank of New York had been increased to \$3 billion.

On 22nd July 1974 a loan of \$1·2 billion to the National Water Council from the Iranian Government was announced to be drawn down in three instalments. In January 1976 the entire UK quota of \$1·174 million (under the oil facility) was borrowed from the International Monetary Fund (IMF). A further \$800 million were drawn from the IMF in May 1976—the first ‘tranche’ of the UK's quota on ‘General Account’.

As Sterling continued to weaken, a standby credit of \$5·3 billion from the central banks of the major industrial countries was announced on 7th June 1976. This had to be repaid by 9th December 1976, and was intended to give the UK time to put its economy in order. Mr Healey misleadingly called the credit

“An impressive demonstration of international banking co-operation in support of Sterling against unjustified market pressure” (*Hansard*, 7th June 1976, Col. 915).

The economic measures of 22nd July 1976 followed (see p. 62), but the pound fell even faster. Finally, in September 1976 Mr Healey announced that the UK was applying to the IMF for a loan of \$3·9 billion—the rest of the UK's General Account quota at the IMF. In order to obtain this loan Mr Healey had to introduce a supplementary budget on 15th December 1976. On the same day he set out in a *Letter of Intent* to the IMF the economic policies he intended to pursue (see Chapter 2, p. 50). The IMF approved the loan on 3rd January 1977.

The fact that the IMF had granted Britain a loan enabled the Government to fund the official sterling balances (sterling deposits and assets held by foreign governments). The funding was arranged with the Bank for International Settlements (BIS) in Basle,

and was announced by Mr Healey on 11th January 1977. The funding consisted of two separate arrangements:

(a) Official holders of sterling were given the option of converting any part of their holdings in sterling into negotiable medium-term foreign currency bonds to be issued by the British Government;

(b) A credit facility of \$3 billion was made available to the UK, through the BIS, with the support of central banks in the Group of Ten countries and Switzerland. The facility is intended to cover reductions in official sterling holdings (other than any arising from conversion to the foreign currency bonds).

At the end of December 1976 Labour had run the UK's overseas debts up to \$14,269 million (£8,395 million at an exchange rate of \$1.70) in foreign currencies. This was equivalent to £428 per household or about 9 per cent of GNP. The borrowing is broken down as follows:

Outstanding Foreign Currency Borrowing in December 1976		\$m.
Clearing banks' loan to Central Government		2,500
Drawing on IMF oil facility		1,155
Drawing on IMF standby facility (General Account)		806
Loans to nationalised industries	with exchange cover	7,821
Loans to local authorities		1,249
Loans to nationalised industries	without exchange cover	643
Loans to local authorities		95
Total		14,269

*(Source: H. M. Treasury)*

*A glossary of economic terms used in this and other Chapters will be found in Appendix III of this Guide.*

## **4. TAXATION**

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## **Speaking Note**

- At a time when the country is already wallowing in debt, the Labour Government continues to spend far too freely. The result is a level of taxation which puts Britain in a class apart from other developed countries. The tax system is being strained to breaking point; anomalies and injustice abound.
- The Labour Party sees high taxation as a positive virtue: a means of social engineering and redistribution of wealth and income, used without regard to its consequences.
- Penally high top rates of tax, especially on investment income and on capital, have been used as a bargaining counter for wage restraint under the Social Contract.
- Mr Healey promised to make the rich ‘howl with anguish’ at increases in taxation. It is the poor who have had even more cause to howl. Many people below the supplementary benefit level now pay tax. They are in effect paying for their own benefits.
- Mr Healey has expressed sympathy for the middle income groups: in fact they have suffered severely, both through pay restraint and tax increases.
- Taxation of industry and commerce has been particularly ill-judged, contradictory and disastrous. Mr Healey first imposed massive additional burdens on firms on the false assumption that profits and liquidity were high. The crisis that followed forced him to give (temporary) relief on stock appreciation.
- Value Added Tax was used in 1974 for electioneering purposes at the cost of vast disruption, confusion and expense to retailers, and to small firms in particular. The Conservative 10 per cent flat rate was cut to 8 per cent to enable Mr Healey to claim to have cut inflation before the October 1974 Election.
- Capital taxation is the most politically-motivated area of all in Labour's tax policy. The ill-prepared Capital Transfer Tax was introduced in 1975 almost certainly as part of the price of the Social Contract.
- Conservatives intend to reduce the overall burden of tax as soon as the economic situation permits—as they have done in the past. They aim to restore the incentive both to work and to save and invest.

## **(A) THE INCREASING TAX BURDEN**

Labour's record spending programme since 1974 has placed an impossible load on the country's taxation system. Borrowing has been high, both at home and abroad, but the brunt has fallen on the taxpayer. Over a three-year period the amount raised by central

government has risen by 85 per cent, from £17,250 million to £32,000 million. Within those totals, the yield of Income Tax has risen from £7,000 million to £17,000 million. Tax rates have been raised, while at the same time inflation has eroded the value of tax allowances. The result is that people have been paying Income Tax at ever lower levels of real income and at ever higher effective rates.

**The Right Approach.** No significant group of citizens has gained from Labour's high tax programme, despite the deliberate use of taxation as part of a doctrinaire pursuit of equality. *The Right Approach* states:

“Britain has become saddled with the most eccentric and most penal tax structure of any developed country. A way out of this impasse must be found.

“The last Conservative government had found one. In less than four years Lord Barber carried out the most radical programme of tax reform seen in this century. Tax rates were cut; a unified system of income tax, abolishing surtax, and bringing substantial benefit to people on small investment incomes, was introduced; there was a reform of company tax; Value Added Tax replaced Selective Employment Tax and Purchase Tax; work on the Tax Credit scheme was far advanced; and work on the reform of capital taxation had started.

“The benefits of these reforms had scarcely begun to be felt when Mr Healey arrived at the Treasury, pledged to make the better-off ‘howl with anguish’ at increased taxation.

“It has not been only the better-off who have ‘howled with anguish’. Almost everyone has been hit. Income tax is now virtually a universal tax, because the periodic adjustment of the income tax threshold has failed to keep pace with the increase in average earnings. Whereas in 1939 there were four million taxpayers, and in 1959 eighteen million, now there are twenty-four million. Income tax is no longer a ‘middle class tax’.

The Conservative Party is committed to a reduction of the tax burden on rewards for hard work and enterprise. *The Right Approach* stated:

“More and more people can see the sense in shifting part of this burden on to the pockets of those who spend and can afford to do so. For one thing, this widens choice.

“The conventional argument that indirect taxes always bear more harshly on the poor has been overtaken by what has happened in recent years. Many of the poor are now liable to high rates of income tax; and the most essential items of the household budget were zero-rated by the last Conservative Government for VAT”.

Sir Geoffrey Howe has emphasised the point:

“The whole balance of our tax system needs to be shifted. The British system depends more on direct and less on indirect taxes than other countries. Not only have direct taxes been rising, they are also more steeply progressive than elsewhere. This is why we have set ourselves the European objective of a top tax rate on earned income of 60

pence in the pound and on investment income of 75 pence in the pound” (Leicester, 5th January 1977).

## **(B) SALIENT FACTS**

The basic facts of the present UK tax problem may be summarised as follows:

**Income Tax per Family.** The average amount of Income Tax paid per family in the United Kingdom has risen from £389 in the last year for which a Conservative government was responsible, 1973–4, to an estimated £869 in 1976–7.

**Direct Taxes have risen most.** The steepest rise in taxation has been in the field of direct personal taxation, with all its sinister implications for incentives and differentials. Inflation has been so high already, that the Government has hesitated to load a full share of the burden onto indirect taxes (such as VAT and Excise Duties) because that would have pushed up the Price Index still further.

**Low Thresholds.** Because thresholds and tax bands have not been fully indexed, the level at which people start paying Income Tax has steadily dropped. In 1952 the average family only paid income tax if its income was 107 per cent of average earnings. The figure was 84 per cent in 1963–4; in 1975–6 it fell to 45 per cent. Meanwhile the starting points for the higher tax rates have barely changed since 1973, during which period prices have almost doubled.

**High Standard Rate.** The starting rate of Income Tax in Britain, raised by the Labour Government from 30p to 35p in the £, is the highest in the world. This is without including the employee's National Insurance contribution of 5¾ per cent, which combine to make the marginal rate of tax on most working people's extra earnings over 40 per cent.

**Top Tax Rates.** British top tax rates stand out as a beacon of fiscal absurdity. Britain charges top rates of 83 per cent on earned income and 98 per cent on investment income. In the rest of the European Community the corresponding rates seldom exceed 60 per cent and 75 per cent respectively.

**International Comparison.** At most levels of income the British taxpayer hands over more than twice as big a percentage of his income in direct taxation as does his counterpart in continental EEC countries.

**Overlap with Benefits.** For many people the starting point for Income Tax is actually below the level of income which for Social Security purposes would be described as the poverty line.

**Capital Taxes** operate powerfully to discourage saving and the building up of businesses. It is now difficult to contemplate passing on a family business or farm intact through more than two generations.

The points summarised above are set out in fuller detail in sections below on International Comparisons (p. 87) and Personal Taxation (p. 89).

The consequences of excessively high taxation—for incentives, differentials and social justice—are also discussed on p. 82.

## (C) PARTY RECORDS COMPARED

The story of the post-war years has been one of a rising tax burden under Labour governments and of a static or falling tax burden under Conservative governments. The following table illustrates vividly the experience of typical families under the last three administrations.

EFFECTIVE RATES OF INCOME TAX PLUS SOCIAL SECURITY CONTRIBUTIONS FOR A MARRIED MAN WITH TWO CHILDREN UNDER 11, WITH INCOME (ALL EARNED) EXPRESSED AS A MULTIPLE OF AVERAGE MALE EARNINGS.

Multiple of Average	1964/65	1970/71	1973/4	1976/77
	%	%	%	%
1	9.5	20.0	18.8	24.8
2	19.3	24.6	25.0	31.4
3	22.9	27.7	26.7	38.1
4	24.7	31.2	30.1	44.8
5	26.5	35.5	34.2	50.2
10	37.9	53.7	49.3	65.8

(Source: *The Budgetary Situation: An Appraisal*. Professor Robert Neild, Cambridge 1976.)

The table shows how, for all income levels, the first Wilson government was responsible for a huge increase in the proportion of income going in taxation at every level of family income. The family on average earnings saw its tax burden doubled as a proportion of its income. At the top end of the scale the tax take rose from 37.9 per cent to 53.7 per cent (the corollary of this is that the amount left over after taxation dropped from 62.1 per cent of income to 46.3 per cent).

A similar picture is shown when taxation is expressed as a percentage of gross domestic product.

TAXES AND INSURANCE CONTRIBUTIONS AS A PERCENTAGE OF GDP

	%
1960	31.0
1964	32.2
1965	34.2
1966	35.3
1967	37.2
1968	39.0
1969	41.4

## TAXES AND INSURANCE CONTRIBUTIONS AS A PERCENTAGE OF GDP

	%
1970	42·5
1971	39·5
1972	37·7
1973	36·5
1974	38·7
1975	39·8

*(Hansard, 8th December 1976, WA, Col. 265.)*

*During the Conservative administration of the early seventies, tax declined slightly as a proportion of incomes.*

*Since the return of another Labour government taxation has resumed its upward surge. During this latter period all sections of the population have been hit, but for the families on three or four times average earnings the impact of taxation has gone up by nearly fifty per cent.*

**Income Tax Rates.** The same story is told, over a longer period, by income tax rates. All the reductions in the following table were made by Conservative governments; all the increases by Labour. The right hand column shows the rate on a comparable continuous basis.

Income Tax: Rate Changes 1951–1976			%
1952–3	9/6 in £ Cons		36·9
1953–4	9/- in £ Cons		35·0
1955–6	8/6 in £ Cons		33·0
1959–60	7/9 in £ Cons		30·1
1965–6	8/3 in £ Lab		32·1
	(equiv 41·25p) in £		
1971–2	38·75p in £ Cons		30·1
1973–4	30p in £ Cons		30
1974–5	33p in £ Lab		33
1975–6	35p in £ Lab		35

*Note:* Figures in right-hand column are comparable. For years to 1971–2 the earned income adjustment of 2/9ths is made. From 1973–4 standard rate is taken.

**Thresholds.** Yet again, the tax threshold tells a similar tale. The level of income at which a typical family starts to pay income tax has fallen steadily since the war, and fastest under Labour Governments. In 1952–3 a family with two children under 11 paid Income Tax only if its income exceeded 107 per cent of the national average for manual earnings. The comparable figure in 1975–6 was 45 per cent.

The steepest drop occurred during the Labour Government of 1964 to 1970; at the outset the income tax threshold stood at 84·5 per cent of average earnings. By 1970 it had fallen to 57·6 per cent. The decline was then arrested for three years under the Conservatives but began to fall again from 1973–4 onwards.

**Total Revenue.** It was estimated that the last Conservative government cut taxation by £4,000 million—i.e., if tax rates had been left at the levels inherited from Labour in 1970, then tax revenue by 1974 would have been £4,000 million higher than it actually was. Over half the total reductions come from cuts in direct taxation. Since 1974 the process has been reversed on all fronts.

**Tax Allowances.** Income Tax allowances have been raised in money terms under both Labour and Conservative governments. However, Conservative governments have a far better record in keeping allowances abreast of prices.

The *real* value of allowances fell very sharply between 1963–4 and 1969–70. They were raised substantially by Lord Barber; they have fallen to even lower levels under Mr Healey.

Income Tax Allowances in Real Terms 1963–4 to 1976–7						
	Single Person		Married		Two Children not over 11	
	Allowance	Value at 1964 prices	Allowance	Value at 1964 prices	Allowance	Value at 1964 prices
	£	£	£	£	£	£
1963–4	286	286	440	440	296	296
1969–70	328	256	482	376	296	231
1970–1	418	304	598	435	296	215
1971–2	418	278	598	398	399	265
1972–3	592	368	772	479	399	248
1973–4	595	335	775	436	400	225
1974–5	625	298	865	412	480	229
1975–6	675	257	955	366	480	184
1976–7	735	244	1,085	360	600	199

(*Hansard*, 18th November 1976, Written Answers Cols. 681–2).

## (D) CONSERVATIVE TAX PHILOSOPHY

In *The Right Approach* it is recognised that, at a time when the Government borrowing requirement is well over half the total yield of Income Tax, it will not be easy to translate public expenditure reductions into early or across-the-board cuts in personal taxation. Nevertheless:



“The next Conservative government will aim to do in time what Conservative predecessors have done: reduce the tax burden as a whole, and the rates of direct tax for everyone.”

The central objectives of Conservative policy on taxation do not change. They have always been:

- i. To allow individuals to keep more of the money they earn and save so that they, rather than Whitehall, can decide how it is to be spent.
- ii. To encourage individual effort and enterprise.
- iii. To encourage savings and investment, without which the country's economy cannot grow.
- iv. To ensure that the taxes government has to impose fall fairly on industry and individuals, so that no sector or group is unfairly penalised.
- v. To reduce the tax burden on all people.

In an address to an International Tax Conference on ‘The Politics of Taxation’ (Nairobi, January 1976), Sir Geoffrey Howe enumerated ten golden rules of taxation policy:

1. A sensible tax system needs to be founded upon the basis of widespread agreement about the fundamental shape and nature of society, and about the legitimate purposes of taxation.
2. It should be the overriding purpose of economic managers to extirpate inflation from their economy.
3. There needs to be widespread agreement that there is a sensible, and absolutely impassable, limit on the total of taxes which will be imposed.
4. A sensible limit on taxes can only be maintained if it is also agreed that some services, which some would like to provide collectively and to pay for from the proceeds of taxation, are far better provided through a market mechanism.
5. The pursuit of increasing equality as an overriding aim of the tax system must be decisively rejected.
6. There must be sensible acceptance of the importance of saving, and so of the legitimacy of private property, including the right to transmit that property by gift or inheritance.
7. There must be recognition of the folly that is involved in loading or extending any single tax to the point where it is, or is felt to represent, an intolerable (or ‘unfair’) burden.
8. All temptation to introduce instant or fundamental change should be avoided like the plague.
9. If change is to be undertaken, then it should be focussed upon only a limited number of objectives at any one time, and put in hand only after prolonged and widespread consultation.
10. Simplicity is above all a reasonable requirement of the taxpayer.

Section (F) of this Chapter shows how the Conservative policy of tax reduction and tax simplification worked last time the Party was in office.

## **(E) THE LABOUR APPROACH**

The Labour Party's approach to taxation may be summed up in two statements:

- i. Labour believes in a high level of government spending; it therefore accepts the need for a high level of taxation.
- ii. Labour sees positive merit in using taxation to help bring about a more equal distribution of income and wealth.

Mr Healey graphically outlined his policy at the Labour Party Conference in 1973 when he said:

“We shall increase income tax on the better off so that we can help the hundreds of thousands of families now tangled helplessly in the poverty trap by raising the tax threshold and introducing reduced rates of tax for those at the bottom of the ladder. I warn you, there are going to be howls of anguish from the rich. But before you cheer too loudly let me warn you that a lot of you will pay extra taxes too” (Blackpool, 1st October 1973).

From time to time since becoming Chancellor and setting about the implementation of his threats, Mr Healey has shown some slight awareness of the hardship he has caused and the direction in which he is taking the country:

“I think there is one major problem of which I'm deeply conscious, and that is the incentive problem for middle management.

“I think the middle manager, the chap on something like between say, £4,000 and £8,000 a year, has taken quite a caning and I'd like to help him” (*Weekend World*, ITV, 4th January 1976).

The existence of a limit to acceptable tax levels was acknowledged by the Chancellor thus:

‘... 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 contributions taking 51p to 55p out of every extra pound he earned. I just do not believe that taxation at this rate would be compatible with the sort of moderation we must have in pay claims if we are to get inflation down. It would corrode the will to work and seriously weaken the incentive for people to acquire the skills which industry desperately needs’ (PLP Meeting at the House of Commons, reported in *The Times*, 26th February 1976).

For all his anxiety about middle management Mr Healey has done nothing practical to help.

**“Labour's Programme for Britain 1976”.** A reliable guide to Labour Party forward thinking appears in the Labour Party National Executive Committee's policy document *Labour's Programme for Britain, 1976*. This document calls for radical changes in Income Tax to deal with the “huge inequality of wealth” which is “a crucial defect in our society”. It starts out from a completely false statement of the present Income Tax position:

“In the past, income tax was regarded as highly progressive. It is no longer so ... indeed, big incomes bear only a slightly higher proportion in tax than average wages.”

The fact is (see p. 75) that the family on average earnings pays some 25 per cent of its income in Income Tax and Social Security contributions; the same family on twice average income pays 31 per cent; the deduction for a family on three times the average is approximately 38 per cent; and so on upwards.

Labour's National Executive is still clearly obsessed with the closing of loopholes and favours a totalitarian solution:

“We welcome the establishment recently of a Special Unit within the Inland Revenue, comprising a small number of officers, to keep abreast of the whole field of tax avoidance and identify appropriate measures. These should not wait for annual Finance Bills, but be carried out through an enabling Bill to provide for the plugging of tax loopholes by statutory instrument.” (*Labour's Programme 1976*).

Of the report of its own government's Select Committee on a Wealth Tax, the document says:

“We believe that many of the alleged administrative difficulties in operating such a tax have been greatly overstated. Labour seeks the immediate introduction of a progressive annual wealth tax to affect the most wealthy 1 per cent of the population, starting at ½ per cent or 1 per cent on the first slice of capital above the exemption limit, rising up to 5 per cent on the top portion of personal wealth. Those with net assets of less than £50,000 would not be affected”.

It then goes on to a completely false interpretation of the Corporation Tax stock relief arrangements, which were introduced by the Labour Government itself in 1974 to preserve the working capital of companies in a period of rapid inflation. This scheme creates, the document says, a fund of money available for transfer to a state managed fund which will release it only for state-approved projects. In fact there is no new fund of capital created by this stock relief scheme; the whole point of the scheme was that it was needed to prevent the diminution of companies' existing capital. Companies are not financially strengthened by virtue of the scheme; they are just prevented by it from being financially weaker. To take away the tax relief would automatically reduce the ability of companies to keep their existing plant in order and to maintain existing employment levels.

The Labour Party still regards taxation as a prime weapon against what it calls ‘undesirable’ elements in society and for imposing a ‘Utopia’ of Socialist equality. The 1976 document is a worthy successor in a long line of blueprints for social engineering, but its argument and its facts bear little relation to the real world of the late 1970s.

## **(F) CONSERVATIVE REFORM 1970–4**

The last Conservative Government carried out, in four years, the most radical programme of tax reform this century. It inherited an economy in which stagnation in

industry and lack of incentive for the individual were holding the United Kingdom back while other countries—notably those in the EEC—were achieving high growth rates and rapidly rising standards of living. The Conservative aim was not merely to reduce the overall burden of taxation but to move towards a system better designed to encourage enterprise and effort. The aim was, in particular, to encourage investment, saving and the building up of private capital by reducing the degree of discrimination against investment income and against the distribution of profits. The discrimination of Selective Employment Tax against service industries (including the vital ‘invisible exporters’) had to be dealt with, along with the accumulated anomalies of purchase tax.

Much preparatory work had been carried out by the Conservatives in opposition, under the late Iain Macleod as Shadow Chancellor of the Exchequer. It fell to Lord Barber (then Mr Anthony Barber) to carry out the reform when he became Chancellor on Mr Macleod's death in July 1970.

The programme began with a review of public expenditure in the first weeks of government, preparing the way for the first round of tax cutting and reform.

## 1. THE PROGRAMME

Lord Barber, in his first major statement of policy, defined the object of a fundamental reform of the role of government and public authorities:

“Our object is to concentrate their activities and their expenditure on those tasks that they alone can perform; and to enable the individual citizen to keep more of the money he earns, have greater incentive to increase his earnings, and to have greater freedom in how he spends or saves his income” (*Hansard*, 27th October 1970, Col. 37).

As a first step Lord Barber announced on 27th October 1970 that the standard rate of Income Tax would be cut by 6d in the £, as from April 1971; at the same time the rate of Corporation Tax was reduced from 45 to 42½ per cent.

These tax reductions had been made possible by a rapid review of public expenditure, resulting in cuts of £329 million for 1970–1 and a net reduction of £1,100 million by 1974–5 compared with existing planned expenditure. The new Family Income Supplement was announced for dealing with the problem of family poverty (see Chapter 17, p. 421).

In his first full Budget, on 30th March 1971, the Chancellor announced three major tax reforms to take effect over the following two years:

- i. The combination of Income Tax and Surtax into one unified system of personal taxation.
- ii. Introduction of a Value Added Tax in place of Purchase Tax and Selective Employment Tax.
- iii. A change in the structure of Corporation Tax.

**Unified System of Personal Tax.** Legislation for the ending of Surtax and earned income relief and the introduction of a unified system of Income Tax was embodied in the 1971 Finance Bill, but the change did not take effect until April 1973, when the necessary re-coding had been carried out. An investment income surcharge was introduced at the same time on investment incomes exceeding £2,000 a year. This package of reform brought substantial benefit to many people, particularly retired people living on modest investment incomes.

**Value Added Tax.** Before introducing Value Added Tax (VAT) and changing the structure of Corporation Tax the Government published Green Papers for discussion (Cmnd. 4621 on Value Added Tax and Cmnd. 4630 on Reform of Corporation Tax). This procedure allowed the proposals to be fully considered and discussed, and enabled the Government to take full account of expert advice before legislation was introduced in 1972.

**The Corporation Tax** proposals were also referred to an all-Party Select Committee of the House of Commons, which unanimously recommended the adoption of the imputation system of tax, thus ending the discrimination against distribution of profits that was inherent in the previous system.

The unprecedented degree of Parliamentary and public discussion that was allowed to precede the final decisions taken by the Government on these tax reforms was of great benefit in avoiding pitfalls and smoothing the transition. It was in sharp contrast to experience under previous and subsequent Labour governments, particularly when the ill-prepared Capital Transfer Tax was brought in in 1975 (see p. 97) and when the fringe benefit and 'snoopers' provisions were introduced in 1976 (see p. 92 and 105).

## 2. UNCOMPLETED BUSINESS

**Capital Taxation** was the next field for reform. Lord Barber eased Capital Gains Tax on death and changed the basis of exemption for small gains. The exemption limit for Estate Duty was raised from £10,000 to £12,500 in 1971 and to £15,000 in 1972, with a further £15,000 exemption for property bequeathed to a surviving husband or wife.

Lord Barber recognised that comprehensive reform of capital taxation was a matter on which full discussion would be needed, and that this would take some time. A Green Paper entitled *Taxation of Capital on Death; A possible Inheritance Tax in place of Estate Duty* (Cmnd. 4930) was published in 1972 to allow full consideration of possible alternatives. Final conclusions had not been reached before the February 1974 General Election (see also p. 96).

**Tax Credit System.** An even more far-reaching reform was proposed, involving the unification of the tax and social security systems, when in October 1972 a Green Paper was published on *Proposals for a Tax-Credit System* (Cmnd. 5116). This topic is fully discussed in Chapter 17, p. 431.

# (G) TAX LEGISLATION OUT OF HAND

Labour's legislative methods have been in stark contrast to those of Mr Heath's administration: no more consensus, no more measures of simplification. Instead, the House of Commons has been repeatedly presented with reams of complicated tax legislation which, on close inspection, have proved to be half-baked, incomplete and often barely comprehensible.

**Capital Transfer Tax.** The original Capital Transfer Tax (CTT) proposals, put forward in the first 1975 Finance Bill, virtually fell apart in debate. Well over 1,000 amendments were tabled in Committee and over 800 on Report. Ministers, ill-briefed and ill-prepared, fell back on promises to reconsider; they did this on no less than 102 changes proposed by Conservatives. Many improvements were made to the Bill as a consequence of Conservative scrutiny. However, the debate was eventually guillotined, whereas the Bill should have been withdrawn and reintroduced. Innumerable errors and loose ends remained to be cleared up in 1976.

The CTT clauses in the 1975 Finance Act numbered 34. The CTT amending legislation brought forward in the 1976 Finance Bill ran to 53 clauses, substantially more than the original proposals themselves.

**Development Gains and Development Land Taxes.** The Development Gains Tax, which was based on a Conservative outline prepared in 1973, occupied 38 pages of legislation. Labour's Development Land Tax Bill started out with 168 pages; after amendment in the House of Commons it ended up with 192 pages. The Schedules dealing with the interaction of Development Land Tax and Capital Gains Tax are regarded by professionals as some of the most difficult pieces of tax law yet seen.

Each new tax interacts with all those that have gone before; the more taxes there are, the more pages of legislation are needed simply to deal with their mutual interaction.

**Instant Legislation 1976.** The phenomenon of instant legislation reduced Parliamentary proceedings to the level of farce in the summer of 1976. Sweeping new proposals were set out in the Finance Bill for (i) extension of Inland Revenue investigatory powers; and (ii) the taxation of 'fringe benefits'. It was not only the Opposition which attacked these proposals; the Government's own supporters and its industrial advisers found them unacceptable (see pages 92 and 105). As a result, the Ministers concerned with implementing the Chancellor's proposals—Mr Joel Barnett, Chief Secretary to the Treasury and Mr Robert Sheldon, Financial Secretary—were faced with the humiliating task of bringing forward sheaves of new amendments which radically altered the original Bill. Substantial sections had to be removed for reconsideration of such a fundamental nature that they could not be ready until another year. Sir Geoffrey Howe summed up the Conservative criticism:

"Britain's tax system is far too complex. Businessmen are bewildered by our fiscal labyrinth. No ordinary citizen can understand the confusion. That confusion has been greatly compounded by continuous change. Ten new taxes in ten years have reduced

many taxpayers to gibbering resentment. The case for a period of reasonable stability is strong” (Croydon 14th November 1975).

## (H) EFFECTS OF HIGH TAXATION

### 1. BLUNTING OF INCENTIVES

From top to bottom of the income scale, excessively high rates of direct taxation serve to blunt incentives.

1. For most people the rate of tax on overtime, on increments, and on the inadequate pay increases allowed under the Incomes Policy, the standard tax rate, including National Insurance contribution, is a world record 40¾ per cent.
2. A pensioner will find that, as soon as he adds anything to the Retirement Pension, whether by working or by drawing interest from past savings, he runs into a tax rate of 35 per cent.
3. Businessmen and professionals find little reward for success if, in their years of higher earnings, they are faced with Income Tax rates running up to 83 per cent, and capital taxes which prevent them handing on their business in working order to their successors.
4. The motive to save and invest is blunted by the combined effect of Income Tax and Investment Income Surcharge starting at a relatively low level, and by Capital Gains Tax levied on hypothetical inflationary profits.

The natural response to such a situation is to choose a secure career in the government service where at least there is a good inflation proof pension at age 60. For those already well up the ladder, the temptation must be to take their skill abroad.

**Emigration of Talent.** Some of the most eloquent evidence appeared in 1976 in the Report on the Film Industry commissioned by Sir Harold Wilson and signed by Lord Ryder, Mr Alan Sapper (Secretary of the Association of Cinematograph, Television and Allied Technicians) and Lady Falkender:

“High levels of British taxation generally tend to encourage young people of ability and ambition to seek their professional advancement ... abroad.

“We wish to emphasise the seriousness of the situation.

“Lower rates of personal taxation at higher levels of income ... would enable the United Kingdom to enlist and retain talent essential to the success of the film and other industries.”

Sir Geoffrey Howe has emphasised how the loss of top professionals and ambitious executives tends not only to remove the payers of taxation, but also the providers of work:

“The middle management blues are fully reflected in the emigration statistics, which tell a horrific tale.

“The Department of Trade's international passenger survey indicates that three-quarters of the people leaving the UK are under 45 and an increasing proportion are people with professional and technological qualifications.

“In 1974, 40% of those who left the country to work overseas were managers, technologists, or professional people. The Government's own professional employment register has revealed that no less than a quarter of the 80,000 professional, technical and managerial staff on the register are seeking work overseas. The same picture emerges when seen from the other end: in 1970, 47% of emigrants to Australia were in the professional/highly skilled category, but by 1975 it had risen to 64%. The brain drain of the 1960s has been transformed into the middle-management drain of the 1970s, and it amounts to a haemorrhage of talent that we can ill afford.

“Another common experience is the growing number of expatriate executives in British companies abroad who show a reluctance to return to posts at home on ‘promotion’ that leaves them out of pocket. Is it surprising? One senior executive of ICI's European operations was promoted to the ICI Main Board and he returned to the UK after 20 years' service with that company. He found that his take-home pay was actually *halved*. The lunacy speaks for itself” (*Financial Times* conference, 16th September 1976).

## **2. DISCOURAGEMENT TO ENTERPRISE**

The dynastic instinct is often very powerful in successful businessmen. They build up a business for future generations, not with the idea that it should be allowed to fall apart as soon as they are retired from the scene. Present income and capital tax rates in the United Kingdom make ambition of this sort almost impossible to exercise, and the country is much impoverished in consequence.

In several European countries where capital taxes are in operation, there are limits to the total proportion of personal income that can be taken in personal Income and Wealth taxes. In Germany, for instance, the figure cannot be over seventy per cent.

In Britain there is no such limit and it is very possible for a combination of Income Tax, Investment Income Surcharge and capital taxes to carry a man's total tax in a year well above the level of his total income.

The Enterprise Package of tax reforms described in *The Right Approach* is designed to remove much of the blockage imposed by cumulative taxes on the building up and continuation of successful business. The revenue cost of these measures of tax reduction is small; the effect in releasing new springs of enterprise and initiative would be great.

## **3. NARROWING OF DIFFERENTIALS**

The gradual narrowing of differentials between top and bottom of the salary scale has been a feature of the last fifty years; the process has recently been speeded up and intensified by the operation of inflation on a highly progressive tax structure.



The effect was vividly illustrated by a table produced by the Deputy Chairman of the General Electric Company, reflecting changes that had taken place in his own company between 1972 and 1976. *The table shows how upward changes in gross incomes for different grades of employee in the company have been varied by the twin operation of inflation and tax.*

	1972			1976			Change in Net Pay in Real Terms %
	Gross Pay	Tax	Net Pay	Gross Pay	Tax	Net Pay	
	£	£	£	£	£	£	
Semi-skilled worker—F	1,000	123	877	2,275	560	1,715	+7.5
—M	1,325	221	1,104	2,750	726	2,024	+1.0
Skilled manual worker	1,750	349	1,401	3,150	866	2,284	-10.5
Functional manager	4,000	1,027	2,973	6,600	2,191	4,409	-18.5
Senior Group managing director	15,000	7,034	7,966	25,000	15,215	9,785	-32.5

Source: *The Times*, 25th June 1976.)

As this table shows, in a typical industrial company semi-skilled workers gained ground between 1972 and 1976, whereas a functional manager's real spending power dropped by 18½ per cent, and a senior managing director's by 32½ per cent.

**Doctors' Pay and Dockers' Pay.** The same phenomenon was illustrated by a study submitted by the British Medical Association to the Review Body on Doctors' and Dentists' Remuneration in 1975. At that time it was stated that the hourly after-tax earnings of a whole-time consultant in the National Health Service were only 1.2 times greater than a docker's. Furthermore it was shown that the cumulative lifetime earnings of a consultant were only likely to overtake the docker's over the age of 44; the years spent in costly training were not easily made up when the high salary which eventually accrued was subject to penal rates of tax.

**International Comparisons,** Mr John Nott, when a Conservative spokesman on Treasury matters, showed how differentials in the United Kingdom had narrowed compared with other industrial countries. The after-tax earnings of a managing director looking after a company with turnover of £80 million a year were about four times the after-tax earnings of an unskilled manual worker. In Germany and France the margin was over seven times. The ratio in the UK had fallen from 8:1 to 4:1 in a mere four years from 1972 to 1976 (*Is Britain a Fair Society? Daily Telegraph*, January 1976).

Sir Geoffrey Howe showed how the process worked in a period of inflation:

“The personal financial position of an individual can quickly become precarious. Even if he succeeds in side-stepping the control of incomes by changing his job or by taking on new responsibilities, he will still struggle in vain to maintain his real income

as he pushes himself into ever higher tax brackets. The more he is above average earnings, the more impossible it is to break through the tax ceilings. The man on £80 a week needs a 25% rise to maintain his real post-tax income against 20% inflation. On £10,000 a year he would need 35%–40%. If there is one thing certain in this life, it is that they won't get their increases.

“British managers, even at the beginning of this sorry saga, were not well remunerated by international standards. Compared with their European and American counterparts, British managers are poorly paid. The evidence of McKinsey and Co. to the Diamond Commission suggested that for every £100 a chief executive of a major public company in the U.S. received before tax, his counterpart in Germany would receive £64, in France £60, in Belgium £57 and in the U.K. £44. If he were a Finance Director, for every £100 he earned in the U.S., the figures for his equivalents were: in Germany £77, in France £74 and in the U.K. £49.

“The Diamond Report itself, a boomerang if ever there was one, supported these conclusions and gave the lie to the long-standing myth that Britain is afflicted by a greater and sharper inequality than other countries” (*London*, 16th September 1976).

**Typical Income Situations.** The following table illustrates how different combinations of family income have fared under the Labour Government since 1973–4. It shows, for each family size: (i) gross income expressed in terms of multiples of the national average; (ii) net incomes after deduction of income tax; (iii) the real value of such net incomes adjusted for movements in the Retail Price Index.

#### REAL PURCHASING POWER OF TYPICAL INCOMES

	<i>Year</i>	<i>Weekly Income</i> † £	<i>Tax payable</i> £	<i>Residual net income</i> £	<i>Real purchasing power</i> * £
(A) Married man, two children under 11, average earnings	1973–4	38·1	5·27	33·73	33·73
	1974–5	43·6	6·48	38·02	33·01
	1975–6	55·7	10·71	46·49	33·18
	1976–7	65·1	12·32	54·28	32·58
Married man, two .. children under 11, twice average earnings	1973–4	76·2	16·70	60·40	60·40
	1974–5	87·2	20·87	67·23	58·38
	1975–6	111·4	30·21	82·69	59·01
	1976–7	130·2	35·31	96·39	57·85

REAL PURCHASING POWER OF TYPICAL INCOMES

	<i>Year</i>	<i>Weekly Income†</i>	<i>Tax payable</i>	<i>Residual net income</i>	<i>Real purchasing power*</i>
		£	£	£	£
Married man, two .. children under 11, three times average earnings .. ..	1973– 4	114·3	28·13	87·07	87·07
	1974– 5	130·8	36·80	94·90	82·40
	1975– 6	167·1	56·47	112·13	80·02
	1976– 7	195·3	67·51	129·29	77·60
(B) Single man on average earnings	1973– 4	38·1	8·00	30·10	30·10
	1974– 5	43·6	10·42	33·18	28·81
	1975– 6	55·7	14·95	40·75	29·08
	1976– 7	65·1	17·84	47·26	28·37
Single man on twice average earnings ..	1973– 4	76·2	19·43	56·77	56·77
	1974– 5	87·2	24·81	62·39	54·17
	1975– 6	111·4	35·15	76·25	54·42
	1976– 7	130·2	42·13	88·07	52·86
Single man on three times average earnings	1973– 4	114·3	31·53	82·77	82·77
	1974– 5	130·8	42·11	88·69	77·01
	1975– 6	167·1	63·14	103·96	74·19
	1976– 7	195·3	76·97	118·33	71·02
(C) Retired couple—total income equal to half average earnings‡ .. ..	1973– 4	19·05	—	19·05	19·05
	1974– 5	21·8	—	21·80	18·93
	1975– 6	27·85	0·16	27·69	19·76

REAL PURCHASING POWER OF TYPICAL INCOMES

	<i>Year</i>	<i>Weekly Income†</i>	<i>Tax payable</i>	<i>Residual net income</i>	<i>Real purchasing power*</i>
		£	£	£	£
	1976– 7	32·55	0·93	31·62	18·98
Retired couple—total income equal to average earnings ..	1973– 4	38·1	6·96	31·14	31·14
	1974– 5	43·6	8·90	34·70	30·13
	1975– 6	55·7	10·64	45·06	32·16
	1976– 7	65·1	14·51	50·59	30·36
Retired couple—total income equal to twice average earnings ...	1973– 4	76·2	22·29	53·91	53·91
	1974– 5	87·2	29·31	57·89	50·27
	1975– 6	111·4	41·86	69·54	49·63
	1976– 7	130·2	50·46	79·74	47·86
Retired couple—total income equal to three times average earnings	1973– 4	114·3	39·76	74·54	74·54
	1974– 5	130·8	52·52	78·28	67·97
	1975– 6	167·1	77·50	89·60	63·94
	1976– 7	195·3	94·05	101·25	60·77

\*Based on annual increases in the general index of retail prices from April 1973.

†Average earnings have been taken as the New Earnings Survey estimates of the average weekly earnings of full-time adult male manual workers at April of each year.

‡The figures for the retired couple take account of the total amount of NIRP receivable during each income tax year, including, for the year 1976–7, the increases already announced to come into effect from 15th November. Apart from National Insurance pension all income is assumed to be investment income.

It should be noted that three times average earnings would, in 1976–7, have taken a man above the £8,500 limit of the Incomes Policy. His gross income is not likely, therefore, to have risen by the full amount shown in the table. His net position will thus have deteriorated even further over the four-year period.

The position of retired people on investment incomes is especially noteworthy.

## 4. TAX ON LOW INCOMES

The failure to raise tax thresholds and allowances fast enough to keep up with inflation has meant that wide bands of overlap have developed between Income Tax and Social Security benefits. Many poorer families are now taxed to pay for their own benefits—a system both illogical and costly to administer. The basic facts of the situation are set out in the following table, for a married man with three children (aged 7, 11 and 13). The table shows the tax threshold on a weekly earnings basis for each of the past four years, the Supplementary Benefit level and the Family Income Supplement qualifying level. It illustrates how the overlap between tax and benefits has opened up under the present administration.

	<i>Tax Threshold Supplementary benefit level FIS prescribed amount</i>		
	£	£	£
January 1974	25·48	24·05	26·50
January 1975	29·83	28·82	31·00
January 1976	31·56	37·52	38·50
January 1977	37·52	43·30	48·00

(*Hansard*, 28th October 1976, Written Answers, Col. 346)

Further details and discussion of the tax/benefit overlap and of the 'Poverty Trap' are found in Chapter 17, p. 428.

## (I) STATISTICS OF TAX REVENUE

The following table shows the estimated central government revenue in 1976–7, with comparative figures for earlier years.

	CENTRAL GOVERNMENT TAXATION					
	£ million					
	1964–5	1970–1	1973–4	1974–5	1975–6	1976–7
					(prov.)	(est.)
Income Tax	3,088	5,731	7,058	10,237	15,068	17,045
Surtax	184	248	305	186	109	30
Profits Tax	423	2	—	—	—	—
Corporation Tax	—	1,583	2,245	2,850	2,125	2,650
Capital Gains Tax	—	139	320	381	386	400
Estate Duties	297	356	405	339	211	70
Capital Transfer Tax	—	—	—	—	116	212
Stamp Duties	80	117	190	197	282	293
Other	—	3	2	1	—	—
<b>Inland Revenue</b>	<b>4,072</b>	<b>8,181</b>	<b>10,525</b>	<b>14,191</b>	<b>18,159</b>	<b>20,700</b>

CENTRAL GOVERNMENT TAXATION

£ million

	1964-5	1970-1	1973-4	1974-5	1975-6	1976-7
					(prov.)	(est.)
Value Added Tax	—	—	1,425	2,497	3,415	3,650
Purchase Tax	633	1,272	380	—	—	—
Oil	674	1,394	1,580	1,549	1,538	2,025
Tobacco	984	1,148	1,065	1,337	1,676	1,790
Alcohol	575	931	945	1,133	1,560	1,850
Betting etc.	32	130	186	238	265	295
Car Tax	—	—	100	122	163	190
Other	274	155	469	531	559	625
<b>Customs/Excise</b>	<b>3,172</b>	<b>4,715</b>	<b>6,150</b>	<b>7,407</b>	<b>9,176</b>	<b>10,425</b>
Vehicle Duties	187	421	535	532	781	835
SET net	—	325	112	1	—	—
<b>TOTAL</b>	<b>7,431</b>	<b>13,641</b>	<b>17,250</b>	<b>22,132</b>	<b>28,116</b>	<b>31,960</b>

(Source: Financial Statements)

## (J) INTERNATIONAL TAX COMPARISONS

Despite Lord Barber's tax reductions in the years 1970-3, British tax rates were already high by international standards at the beginning of Mr Healey's reign as Chancellor of the Exchequer. Subsequent changes have made the comparison a great deal more unfavourable to Britain.

Tax rates alone, however, are not the whole story. British levels of income in comparable jobs have now fallen far behind those in other West European countries. This means that, even if the proportions of incomes taken in tax were comparable as between the UK and other European countries, the burden would be felt to be heavier in this country. Since in fact the proportion of their (smaller) incomes taken in tax in the UK is for most people at least double what it would be in Europe, the British can well feel aggrieved when they make comparisons.

**Income Tax Comparisons.** The following table sets out, for three typical levels of earnings, the percentage of the income of a family man with two children absorbed by income tax in the UK and certain other countries.

PERCENTAGE OF INCOME ABSORBED BY INCOME TAX FOR A MARRIED  
COUPLE WITH TWO CHILDREN UNDER 11

	UK average earnings	£8,500 p.a.	£15,000 p.a.
United Kingdom	20.0	30.1	43.8
Belgium	7.8 (8.3)	18.2 (19.3)	28.6 (30.3)

PERCENTAGE OF INCOME ABSORBED BY INCOME TAX FOR A MARRIED  
COUPLE WITH TWO CHILDREN UNDER 11

	UK average earnings	£8,500 p.a.	£15,000 p.a.
Denmark	5·4 (14·4)	13·8 (30·7)	23·0 (42·8)
France	0·7	6·6	12·5
Germany	7·9	13·9	21·9
Ireland	18·5	33·4	50·1
Italy	8·4	15·8	21·5
Netherlands	2·9	14·0	27·2
USA	Nil (Nil)	9·6 (11·0)	15·4 (18·7)
Japan	0·4 (1·2)	4·8 (8·3)	9·6 (15·9)

*Note:* Figures in brackets are inclusive of local income taxes.

Incomes compared on basis of exchange rates ruling 5th Nov. 1976.

(*Hansard*, 10th November 1976, Written Answers, Col. 190)

It can be seen from this table that:

- (i) Apart from Ireland, the United Kingdom has the highest rates of tax at all levels, often more than twice as heavy as the other countries.
- (ii) The impact of income tax on incomes at the UK average level (approximately £70 per week) is more than twice that of any other country except Ireland; in France, USA and Japan the level of tax on such an income is negligible.

**Income Tax Starting Rate.** Asked about the level of the starting rate for income tax in other countries, comparable with the British standard rate of 35 per cent, **the Chancellor** replied:

“I am not aware of any country with a starting rate higher than 35 per cent” (*Hansard*, 14th June 1976, Written Answers, Col. 24).

Income tax starting rates and thresholds may be compared in the following table, which illustrates the fact that United Kingdom tax starts at a lower level and at a higher rate than anywhere else:

Income Tax Thresholds and Rates			
<i>(Married couple with two children under 11)</i>			
	<i>Income Year</i>	<i>Income Tax Threshold</i>	<i>Initial Rate per cent</i>
		£	
United Kingdom	1975–6	1,383	35
Belgium	1975	1,290	14 (14·8)
Denmark	1975	1,670	14·4 (35)
France	1975	3,120	5
Germany	1975	1,800	22
Ireland	1975–6	1,410	26

Income Tax Thresholds and Rates  
(*Married couple with two children under 11*)

	<i>Income Year</i>	<i>Income Tax Threshold</i>	<i>Initial Rate per cent</i>
		£	
Italy	1976	1,320	10
Netherlands	1976	2,300	20
Sweden	1975	1,150	7 (30)
USA	1975	3,430	14
Japan	1975	3,000	10 (14)

*Notes:* (i) Sterling equivalents are calculated at 8th March 1976.

(ii) The figures in brackets show rates of tax inclusive of representative local Income Tax.

*(Hansard, 25th March 1976, Written Answers, Col. 247).*

**Top Rates of Tax.** When asked to list the overseas countries having a top rate of tax on earned income above the 83 per cent UK rate, **the Chancellor** replied listing four countries:

Algeria	100·0 per cent
Egypt	96·6 per cent
Tanzania	95·0 per cent
Portugal	84·0 per cent

*(Hansard, 2nd July 1976, Written Answers, Col. 358).*

Top rates of tax on earned and investment income are compared in the next table, along with equivalent starting points for these maximum rates.

Top Income Tax Rates, with Starting Points

	<i>Year</i>	<i>Earned Income</i>		<i>Investment Income</i>	
		<b>Maximum Rate</b>	<b>Starting point</b>	<b>Maximum Rate</b>	<b>Starting point</b>
		%	£	%	£
United Kingdom	1975–6	83·0	21,435	98·0	21,435
Belgium	1975	72·0	52,410	72·0	51,040
France	1975	53·5	52,970	60·0	38,700
Germany	1975	56·0	53,290	56·0	52,150
Italy	1976	72·0	381,550	72·0	355,410
USA	1975	50·0	26,010	70·0	104,500

*(Hansard, 19th May 1976, Written Answers, Col. 575, and Inland Revenue).*

**Tax as Proportion of GNP.** Figures published by the Central Statistical Office have been used by the Labour Government to support the argument that the United



Kingdom is no more heavily taxed than many other countries. Salient figures from the study are:

TAXES, INCLUDING SOCIAL SECURITY CONTRIBUTIONS, AS PROPORTION OF GNP 1974		%
Belgium		41·4
Denmark		53·4
France		41·1
Germany		42·5
Norway		52·9
Sweden		49·1
UK		38·7

(Source: *Economic Trends*, November 1976)

This study does not support some of the claims made for it.

- (i) The figures relate to 1974, which was a time when Conservative tax cuts were effective and before subsequent Labour increases had taken full effect.
- (ii) Within the totals, direct (income) tax took a far higher share in the UK than most of the other countries, representing a heavier burden at all levels of income (see p. 87).
- (iii) Pensions in most of the European countries are paid for out of Social Security contributions, whereas in the UK most occupational pensions are derived from private schemes. For the UK, therefore, substantial additional figures for pension contributions would have to be included to make the comparison valid.

Thus, it may seem that the statistics appearing in *Economic Trends* are out of date and need to be used with great care. The tables opposite and on page 87 give a better guide to the practical impact of personal taxation in the UK and abroad.

## **(K) LABOUR GOVERNMENT'S TAX CHANGES**

### **1. PERSONAL TAXATION**

**The Conservative Legacy.** The Labour Government came into office to find Mr Barber's reform of personal taxation on the income side well advanced. The unified Income Tax had just come into operation, the Investment Income Surcharge had been pitched at a level which represented a great improvement to recipients of small investment incomes, and a sharp increase in single person's and married allowances had taken some 2¾ million people out of Income Tax altogether. The Tax Credit system was under preparation. The burden of taxation, as experienced by people of all income levels, had become perceptibly lighter.

The process by which the Labour Government has reversed this trend towards lightening the real burden of direct taxation on all sections of the population during its three years in office is set out below.

1. **Personal Allowances.** Mr Healey has raised the personal tax allowances each year since coming into office, but the increases have lagged well behind the amounts needed to offset inflation. This has meant an all-round drop in the effective level of incomes at which income tax starts to be payable.

Income Tax Allowances: 1973–4 to 1976–7

	1973– 4	1974– 5	% up	1975– 6	% up	1976– 7	% up	% up over full period
	£	£		£		£		
Single	595	625	+ 5	675	+ 8	735	+ 9	+24
Married	775	865	+12	955	+10	1,085	+14	+40
Child under 11	200	240	+20	240	+ 0	300	+25	+50
11–16	235	275	+17	275	+ 0	335	+22	+43
16+	265	305	+15	305	+ 0	365	+20	+38
Age (single)	700	810	+16	950	+17	1,010	+ 6	+44
(married)	1,000	1,170	+17	1,425	+22	1,555	+ 9	+55
Married Couple with 2 children under 11	1,175	1,345	+14	1,435	+ 7	1,685	+17	+43
Retail Price Index <sup>†</sup>			+15		+22		+19	+67

†Per cent increase on previous year, calculated April-April

The increases in allowances have followed no logical pattern. The single person's tax allowance has lagged the farthest behind the price index, with particularly hard consequences for widows and single women. For this allowance to have kept up with prices it would need to have been raised to nearly £1,000 by now.

2. **Standard Rate** of Income Tax was raised by the incoming Labour Chancellor from 30 per cent to 33 per cent in the 1974 Budget, and to 35 per cent in the 1975 Budget.

3. **Higher Rates.** There has been no attempt to change the rate bands for the higher rates of tax to allow for the near doubling of prices since April 1973. The incoming Labour government actually lowered the bands in 1974; it partially restored them in 1976 but only for incomes up to £8,500. The bands applicable to 1973–4 and 1976–7 are compared:

Bands of Taxable Income

1973–4		1976–7	
£	Per cent	£	Per cent
First £5,000	30	First £5,000	35
£5,000—£6,000	40	£5,000—£5,500	40
£6,000—£7,000	45	£5,500—£6,500	45

Bands of Taxable Income				
1973-4		1976-7		
£	<i>Per cent</i>	£	<i>Per cent</i>	
£7,000—£8,000	50	£6,500—£7,500	50	
£8,000—£10,000	55	£7,500—£8,500	55	
£10,000—£12,000	60	£8,500—£10,000	60	
£12,000—£15,000	65	£10,000—£12,000	65	
£15,000—£20,000	70	£12,000—£15,000	70	
£20,000 upwards	75	£15,000—£20,000	75	
		£20,000 upwards	83	

**4. Investment Income Surcharge.** The Surcharge was introduced in 1972 with a threshold of £2,000 of investment income, to replace the former system under which investment income was taxed at standard rate and earned income was given relief. The new arrangements were particularly helpful to retired people living on the income from past saving. The Labour Government took the first opportunity, in its March 1974 Budget, to reduce the starting point for the Surcharge from £2,000 to £1,000 (and from £2,000 to £1,500 for those over 65). Conservative and Liberal MPs combined to defeat the proposal, but Mr Healey reintroduced it in his November 1974 Budget.

Up to £2,000 the rate is 10 per cent; above that it is 15 per cent. Hence on top incomes it produces, with the 83 per cent income tax, a combined rate of 98 per cent.

If the original £2,000 threshold had been raised in line with prices from 1972 onwards, it would now be about £4,000. This Surcharge is felt as a keen injustice by all those who have made provision for their own retirement and who are not eligible for inflation-proofed pension schemes—the pensions from which are treated as earned income.

**5. Taxation of Children's Earnings.** In response to Conservative pressure the Government introduced, near the end of the passage of the Finance Bill 1976, an amendment to the provision that the child tax allowance enjoyed by a parent should abate by £1 for each £1 that the child's income exceeded £115. The new figure, raised in line with inflation after a very long interval, is to be £350; the limit in the case of children under 18 is to remain £115 on any income that is ranked as investment income. This change is useful in the case of small earnings such as might be derived from a newspaper round; it is also helpful in the case of university students in full time education, who rank as children for this purpose.

**6. Aggregation of Child's Income with Parents'.** The Labour Party threatened to reintroduce the provision whereby a child's income would be aggregated with that of his parents for tax purposes, and thus reverse an earlier Conservative reform. Mr Healey has not implemented this undertaking; it is believed that CTT is felt to be an adequate substitute.

**7. Widows.** There has been strong pressure on the Government to bring in a higher personal allowance for widows, who have been particularly hard hit by the failure to

raise the ordinary single person's tax allowance in line with inflation (see above). The case was recently put by Mr Anthony Newton, Conservative MP for Braintree, who proposed a personal allowance midway between those of the single person and the married couple.

“Although widows technically are single people, they are not for any realistic, practical social purposes in the same position as single people.

“They have been married and have acquired a pattern of married life with the housing which has probably gone with married life and with the social commitments and other aspects of their pattern of life related to their status of being married. When they become widowed, they are not back in the situation of a single person.

“That is not recognised by our tax system, and it should be because, especially in terms of housing, many widows will have larger financial commitments arising from their former married state than if they had always been single” (*Hansard*, 13th May 1976, Col. 723).

**8. War Widows.** In the course of the Finance Bill debates in 1976, Labour back bench Members combined with Conservatives to force on the Government a provision whereby fifty per cent of the War Widows' pension would be exempt from tax.

**9. Married Allowance.** In the 1976 Finance Act the Government changed the rules governing tax allowances in the first year of marriage. To prevent duplication (single person's allowance was formerly given for the wife before marriage, and married woman's earned income allowance after marriage, both for a full year), aggregation of the incomes of newly-married couples is now to be delayed until after the first full tax year.

**10. Withdrawal of Tax Relief on Interest Payments.** In the 1974 Budget Mr Healey fulfilled an election commitment to withdraw tax relief on interest payments. Tax relief on mortgages for second homes, and for mortgages over £25,000 was withdrawn. Tax relief on interest on personal loans and overdrafts was also withdrawn, with transitional provisions.

**11. Taxation of Fringe Benefits.** See p. 92.

**12. Share Option and Incentive Schemes.** Benefits from such schemes were made subject to tax in the 1974 Budget—both on employee own-as-you-earn schemes and on executive schemes.

**13. Self-employed Annuities.** In the 1976 Budget the limit for tax relief on contributions to self-employed annuity schemes was raised from £1,500 (where it had stood since 1971) to £2,250. The alternative 15 per cent of earnings limit remained. The Conservative Party pressed for a higher figure.

**14. Taxation of Foreign Income.** In 1974 Mr Healey introduced new rules governing the taxation of foreign income. Hitherto, earnings of UK residents working abroad had been treated for tax purposes on a “remittance” basis. From 1974–5 Mr Healey proposed to levy tax on 90 per cent of overseas earnings, whether remitted or not.

Under Conservative pressure this figure was reduced to 75 per cent. Other changes affected pensions received after overseas service by UK residents, and the earnings of foreigners working in the United Kingdom.

## **Other Items Affecting Personal Finance**

**15. Insurance Premiums.** From 1979–80 onwards it will be for insurance companies to deduct the due tax reliefs from premiums on life assurance policies in preparing the premium demand notices. By replacing the present system of making a claim through PAYE channels after the premium has been paid in full, some 1,000 to 1,500 revenue staff will be redeployed.

**16. Transfer Stamp Duty.** Mr Healey doubled the transfer stamp duty on securities to two per cent in his 1974 Budget. To assist with industrial financing the stamp duty was removed from transfers of debentures and loan stocks in 1976; but not from convertible loan stocks or equities.

**17. Employment Tax.** As part of his emergency package in July 1976, Mr Healey imposed a two per cent addition to the Employer's National Insurance contribution, raising it from 8¾ per cent to 10¾ per cent. This will act as a direct deterrent to creation of new jobs, and it will add to industrial costs (see p. 100).

**18. Crash Tax.** It is proposed to place a levy on drivers towards the cost incurred by the National Health Service in treatment of road accident victims. The Government proposes to put the responsibility for raising this levy on the insurance companies, who will probably impose a flat rate surcharge on all vehicle policies. The Conservative Party is prepared to support the Government's aim, but not the method chosen.

**19. The “Lump”.** See page 106.

**20. Earnings Rule for Pensioners.** See Chapter 17, p. 424.

## **2. TAXATION OF FRINGE BENEFITS**

A direct consequence of high rates of marginal taxation and a restrictive incomes policy has been the development of sophisticated schemes of “fringe” benefits, i.e., benefits supplied to employees in kind rather than in money. The practice has spread very widely throughout the private and public sectors and—as in the seamen's settlement of October 1976—trade unions have brought fringe benefits into the centre of the bargaining process. These benefits are not always welcome—most executives would rather receive the money to buy a car of their choice rather than the use of a company vehicle—but where there has been a clear tax advantage such considerations have been overruled.

Despite the fact that middle income people were already suffering disproportionately from the effects of increased direct taxation, rising prices and the incomes policy, Mr Healey chose 1976 to bring forward his elaborate proposals for taxing benefits. As Mr John Nott said:

“Those earning 50 per cent or less above the national average wage—I am talking of people on £80 and £90 a week—will suffer the highest marginal rates of increase in the tax they pay under this clause. Once again it will be the middle income groups who will suffer, those whom the Chancellor has said in his Budget speech, he wanted to help. It is they who will be hammered into the ground” (*Hansard*, 17th May 1976, Col. 1050).

The Chancellor soon realised that he had stepped into a minefield; he met almost as much opposition from his own side as from Conservatives. At an early stage he chose to abandon his proposals for taxing, for example, airline and railway employees for the benefit accruing to them in the form of cheap travel tickets. He was also forced to withdraw, in their entirety, his proposals for taxing company cars and bring them back in much amended form. He also found himself under heavy pressure on account of the apparent exemption of Ministers' residences and Ministers' cars from the new rules, and the continuing exemption of miners' free coal. He then withdrew the retrospective provisions affecting share purchase option schemes, which threatened to bankrupt a considerable number of businessmen who had entered into schemes before the 1976 Finance Bill was conceived.

As finally enacted, the main provisions of the new fringe benefit scheme are as follows:

**Motor cars.** Where a car is not used for business purposes, or its use for business is “insubstantial” compared with its private use, the car's annual value is assessed at 20 per cent of its cost (or 10 per cent if over four years old). For cars having both a business and private use the taxable benefit was set in accordance with one of three fixed scales, with a 50 per cent concession where an employee drives 25,000 or more miles per year on business. These scales will apply from 1977–8. The use of pooled cars is not taxed.

The original proposals had been condemned by the whole industry, including nationalised British Leyland, as a body blow because of the way in which they discriminated against the large car; the effect would have been disastrous for Rover, Jaguar and Rolls Royce.

The revised proposals will still bear heavily on commercial travellers, representatives and all those for whom a company car is an essential piece of equipment and in no way a luxury.

**Loans.** Tax is to be levied on loans enjoyed by an employee on the basis of the difference between the rate of interest actually paid, and the market rate of interest applicable. Exception is made for small loans where the annual market rate of interest would be less than £50—e.g. for season ticket purchase loans up to about £450. Share incentive schemes are heavily affected by the provisions; an exception is made for house purchase loans up to £25,000.

**General.** In general the fringe benefit taxes are now levied on all directors and all employees earning more than £5,000 per annum (inclusive of the value of the benefits in question). Thus they reach far down through the working force and involve a vast addition to the business of tax collection. As the *Financial Times* said:

“In attempting to go for overkill and by elaborating these tax rules in legislation it is likely in large measure to be counter-productive even for the tax men. Instead of generating more tax revenue it is likely to provoke an increasing number of consenting taxpayers into militant loophole-seekers” (17th May 1976).

### 3. VALUE ADDED TAX

The intention to introduce a Value Added Tax (VAT) was announced in the 1970 Conservative Party Manifesto. In his 1971 Budget statement Lord Barber announced the decision to replace both Selective Employment Tax and Purchase Tax by a Value Added Tax as from April 1973. Because the new VAT covered a very wide range of goods and services it was possible for the rate to be fixed at the relatively low level of 10 per cent. The old Purchase Tax had at one time been operated with four rates; 55 per cent, 36 per cent, 22 per cent, and 13¾ per cent. Because VAT had a single rate it was generally simpler to operate than Purchase Tax and it was attended by fewer anomalies.

VAT has gradually become accepted as a fair and efficient tax, except perhaps in the small business sector where record keeping can take up a disproportionate share of management time. Food, fuel, and other necessities are still either exempt from VAT or zero-rated. It is estimated that about fifty per cent of the average family's outlay is on goods free of the tax.

In the year 1976–7 it is estimated that Value Added Tax will yield approximately £3,650 million, which is equivalent to the yield of about 8p on Income Tax.

**Labour's Zig-zag Course.** Value Added Tax has not been safe from Mr Healey's meddling hand. One of the new Chancellor's first moves in April 1974 was to extend VAT to confectionery, soft drinks, ice cream and potato crisps (for a yield of some £125 million), and to petrol and other road fuels (to yield £150 million).

In July 1974, as his contribution to the coming Autumn election campaign he reduced the rate from 10 per cent to 8 per cent. This was expected to reduce the Retail Price Index by 1 per cent. By the winter of 1974 it was already clear that a severely unbalanced budget was leading the country into major trouble. Instead of acknowledging his mistake and restoring the 10 per cent VAT rate, Mr Healey succumbed to a typical show of Socialist prejudice and kept the standard rate at 8 per cent, introducing a second rate of 25 per cent on ‘things we can all do without if we have to’—principally boats, caravans, electrical appliances (including parts), together with jewellery, furs and photographic equipment. Unhappily for the people dependent for their livelihood on making such articles, the public proceeded to do without them on a massive scale. Demand for the 25 per cent rated goods collapsed and unemployment rose in many of the trades concerned. A number of Labour Members revolted and joined the Conservative Opposition in forcing the Government to exempt existing television rentals agreements from the higher rate of tax.

At one stroke Mr Healey had smashed the original simplicity of a single rate VAT, introduced a range of anomalies, and pushed up the cost of administering the tax, to government and taxpayers alike.

In due course, under universal pressure, Mr Healey reduced the penal 25 per cent rate in his 1976 Budget, but only to 12½ per cent so that dual rates persisted.

**Conservative Policy.** The Conservative Party is committed to ending multi-rate VAT and restoring a single positive rate; it is also in favour of a higher minimum turnover for VAT registration. The figure of £5,000 fixed in 1972 would have to be doubled just to cover inflation in the interim period. A solution to the problem of VAT in bad debt situations is also promised.

Although satisfied that the introduction of Value Added Tax in 1973 was a correct decision, the Conservative Party feels that there is a need to review the detailed operation of the tax, especially as it affects small businesses. A small group of experts has been carrying out a complete review of the workings of the tax; this has included a review of the powers used for enforcement and inspection.

**EEC Sixth Directive.** The EEC is hoping to reach agreement on VAT harmonisation measures in time for implementation on 1st January 1978. At that date the Community is scheduled to begin drawing its 'own resources' revenue from a levy equivalent to the yield of up to one per cent VAT drawn from all the members. The Sixth Directive concentrates on harmonising the factors affecting the base for calculation of the "own resources" VAT levy in the several countries. It does not attempt to harmonise rates themselves or to restrict the power of governments to use the tax as a means of economic regulation. Neither is it expected to involve the abandonment of zero rating of food in the United Kingdom.

## 4. CUSTOMS AND EXCISE DUTIES

**Drink and Tobacco.** Rates of duty on drink and tobacco held steady during the Conservative administration of 1970–4. (When VAT was introduced in 1973, the duties were reduced by a corresponding amount.)

Under the Labour Government rates of duty have been raised very sharply and consumption levels have flattened out in consequence. The following table shows that in the current year 1976–7 drink is expected to yield nearly twice as much in duty as it did in 1973–4. The increase for tobacco is of the order of 70 per cent.

Yield of Duties on Drink and Tobacco

*£ million*

**1973–4 1974–5 1975–6 1976–7\***

Drink	945	1,133	1,560	1,850
Tobacco	1,065	1,337	1,676	1,790

\*Forecast at time of the April Budget.

Duty increases on drink and tobacco featured in Mr Healey's December 1976 'mini-Budget' when rates were raised by an additional 10 per cent.



Rates of duty on individual items have moved as shown below. The steepest increase in duty during the present Government has been on table wine; the duty on spirits, already very high, has been raised substantially less.

Rates of Duty on Drink and Tobacco				
	<b>Cigarettes</b>	<b>Beer</b>	<b>Spirits</b>	<b>Standard Table Wine</b>
	<b>(Packet of 20)</b>	<b>(Pint)</b>	<b>(Bottle)</b>	<b>(Bottle)</b>
1973	19·0p	3·1p	£1·80	15p
1974	25·5p	4·0p	£1·98	23p
1975	34·5p	5·9p	£2·58	45p
1976 (Apr.)	38·0p	6·8p	£2·87	51p
1976 (Dec.)	42·0p	7·7p	£3·18	56p

Cider and Perry were brought into the tax net for the first time in the 1976 Budget, when duty of 3p per pint was imposed.

In the 1976 Budget the first step was taken towards harmonisation of the UK tax on tobacco with the system operated in the EEC. Hitherto the UK customs revenue duty has been charged on tobacco leaf by weight; the EEC system is in the form of an *ad valorem* duty. As a first step the original duty has been reduced, but an *ad valorem* duty at the rate of 20 per cent of the total retail price has been imposed. The net effect of this change was to add about 3p to the price of a normal sized packet of 20 cigarettes; the restructuring of the tax system leaves the average tax on pipe tobacco roughly unchanged. One of the effects of this change is to reduce the attractions of the small cigarette—a UK favourite—and to render King-sized cigarettes relatively more attractive.

**Petroleum Spirit.** Motor spirit is subject both to road fuel duty and to Value Added Tax; it is in fact included in the group of items subject to VAT at the higher rate, and has therefore been affected by Mr Healey's zig-zag policy on this tax. During the course of 1974 the VAT rate moved down from 10 per cent to 8 per cent and then up to 25 per cent; the duty was then expressed at 22½p per gallon. In April 1976 when the higher VAT rate was halved from 25 per cent to 12½ per cent the duty was increased from 22½p to 30p per gallon. The net effect for the private motorist was an increase of the order of 1p per gallon, but for commercial users the impact was expected to be substantial because the fuel duty could not be reclaimed in the same way as VAT from customers. It was estimated that the business world would be £170 million worse off by the change.

## 5. CAPITAL TAXATION

**A Complex Problem.** Largely as a result of piecemeal action and an absence of systematic consolidating legislation, the British system of capital taxation has become perhaps the most complex and certainly one of the most penal in the world. Among taxes which bear directly or indirectly upon capital can be numbered: estate ('death') duty and its successor capital transfer tax; capital gains tax; stamp duty; the investment income surcharge; development land tax; and the threatened wealth tax. As Sir Geoffrey Howe has said:

“It is the grim accumulation of taxes that does the damage” (*London*, 27th October 1976).

**Conservative Action 1970–4.** Time did not permit the Conservative Government to develop a comprehensive approach to reform of capital taxation as it had done with Income Tax, Corporation Tax, and indirect taxation. Nevertheless, the first steps had been taken. In March 1972 the Conservative Government published a Green Paper, *Taxation of Capital on Death: A possible Inheritance Tax in Place of Estate Duty* (Cmnd. 4930). This posed—without preconceived ideas—the basic question whether to continue with the broad system of taxing capital held at death at the same rate irrespective of the number or wealth of individual beneficiaries, or instead to calculate duty by reference to those who inherit the property. The latter would correspond more closely to practice within the other member countries of the EEC.

The Conservative Government also took a number of steps to ameliorate the existing tax structure and curtail the real impact of taxation, including:

- Abolition of capital gains tax at death and the associated recurrent charge on discretionary trusts.
- Abolition of the separate short-term gains tax, partial relief for unit trusts, and relief for gifts of shares to charities.
- A virtual doubling of the starting-point for payment of Stamp Duty on real property transfers.
- Increase in estate duty starting point from £10,000 to £15,000, with the new principle of a further £15,000 relief for the surviving spouse. (This was intended to prevent a widow from being forced to sell her house in order to pay death duty.)
- An overall cut in estate duty rates, extension of property qualifying for deferred payment by instalments, and relief of tax on bequests to charities.

**Labour Government.** In March 1974 the Labour Government inherited a structure of capital tax rates which was already severe in international terms; every action taken by Labour since then has made matters worse. First, rampant inflation has further increased the effective rate of all capital taxes. Next, Labour immediately announced two new capital taxes, Capital Transfer Tax and Wealth Tax. The former has significantly worsened the tax burden, particularly for many family businesses, while the latter has—mercifully—yet to be implemented.

**Capital Transfer Tax (CTT).** The overt intention of this tax was to increase the impact of estate duty by including lifetime gifts to “mesh in with existing estate duty so as effectively to replace it with a comprehensive tax on all transmissions of personal wealth” Mr Healey's Budget Statement (*Hansard*, 26th March 1974 Col. 313). (Hence the informal alternative name of “Gift Tax”.) The announcement of the tax was calculated to cause maximum confusion. The tax was broadly to apply immediately, but no rates were announced until the publication of a White Paper on Capital Transfer Tax in August 1974 (Cmnd. 5705). Substantially altered in debates on an Autumn Finance Bill, the tax eventually became law on 13th March 1975. In contrast with the Conservative Government's record of careful preparations and consultations by Green Paper, the story of CTT was an object lesson in mishandled tax reform.

The broad structure of the tax reproduces the old estate duty. The scales were set at slightly lower rates, and all transfers between spouses were exempted (this was welcomed by Conservatives who had introduced the principle of favourable treatment of bequests to spouses in the Budget of 1972, and were subsequently committed to exempt spouses from Estate Duty). However, the new tax was applied to all other substantial gifts, which in particular greatly increased the real burden of tax on family businesses. (The common practice in such businesses and farms of transferring a proportion of the business to the next generation during the owner's lifetime has been made extremely expensive by the fact that both capital gains tax and CTT have to be paid.) At the same time, the 45 per cent relief from estate duty available on agricultural land and plant and machinery in a family business was withdrawn. The only remaining exempt transfers were up to £1,000 a year, plus a further £100 to individuals, plus some relief for wedding gifts, plus undefined gifts made out of the donor's 'normal expenditure'. Otherwise, transfers in life and at death would be added together and the scale of tax would begin to apply once they reached the 'threshold' of £15,000 (still unchanged from estate duty). A particularly vicious twist affecting lifetime gifts was that gifts of specific sums were 'grossed up', i.e., the gift was deemed to be the aggregate of the amount intended to be received by the donee *plus* the tax payable. The result was that on large gifts the amount of the CTT payable could exceed the effective amount of the gift itself.

The subsequent history of CTT has been one of partial and inadequate Labour retreat from this intolerable position. Largely owing to the efforts of the Conservative Opposition during the passage of the Bill, the Government was forced to make very substantial concessions, including:

- a. A complete new scale at lower rates for transfers *inter vivos*, subject to the donor's remaining alive for a qualifying period of three years.
- b. A relief for "full time working farmers" (not landlords) enabling them to value their farm on a notional rental basis.
- c. A less harsh tax treatment of forestry.

In the Budget of 1976, Mr Healey announced three further concessions:

1. Increase in the annual gifts exemption limit to £2,000.
2. Reduction in the basis of valuation of private business assets of a flat rate 30 per cent.
3. Reduction in valuation of owner-occupied agricultural land of a flat-rate 50 per cent, instead of the original complex rental formula.

Yet, in spite of these concessions to reality, the tax remains essentially an assault on private capital and private business, with extremely damaging effects on productive capital invested in family businesses, agriculture and forestry. At the same time, rather than disseminating wealth, the tax simply concentrates it in the hands of the State.

Conservative policy on this tax was set out by Sir Geoffrey Howe:

"CTT is already crippling farms and firms upon which future jobs and future prosperity depend. This is why the next Conservative Government would act as swiftly as possible to draw the teeth of CTT.

“We stand by our pledge to repeal the tax, and to redesign a simpler and fairer pattern of capital taxes as a whole.

“This is *not* a job to be rushed. British business has had its bellyful of instant tax upheavals. But the next Conservative Government certainly would take emergency action to prevent any further damage being done by CTT.

“We should reduce the rate substantially. We should ensure that productive assets did not have to bear the double burden of CTT and Capital Gains Tax. And we shall do these things in a way that will bring early and effective relief to farming, to forestry, and to thousands of the most important firms and family businesses throughout the land” (*Norwich*, 20th March 1976).

**International Comparisons.** Many overseas countries levy death duties at lower rates on transfers within the family. The following table shows top rates of inheritance taxes levied in the UK and certain EEC countries. It should be remembered that the CTT rates apply to grossed up sums.

**Maximum Death Duty Rates 1975 (Per cent)**

	<i>To Son</i>	<i>To Nephew</i>	<i>To Others</i>
United Kingdom	75	75	75
Germany	35	50	70
Belgium	17	70	75
France	20	55	60
Holland	17	45	54
Italy	31	55	60

(*Hansard*, 26th March 1975, WA, Col. 172)

**Wealth Tax.** Foreshadowed in Labour's election manifesto in February 1974, a Wealth Tax was mentioned in the Budget of March 1974, and was the subject of a Green Paper in August 1974 (Cmnd. 5704). The Green Paper outlined two tentative tax scales: the first rising from 1 per cent per annum on capital of £100,000 to 2 per cent over £5 million; the second from 1 per cent at £100,000 to 5 per cent over £5 million. The main relief for business assets was evidently to defer payment (subject to interest) until sale, retirement or death, by which time tax liability could well exceed the total value of the assets. It is self-evident that proposals of this kind—unrelieved by an effective ceiling provision limiting the total amount of tax—would spell the end of the private enterprise system and create an administrative nightmare at the same time. The Green Paper indicated a first valuation day for the tax of either 31st December 1976 or 31st March 1977; it also recorded the Government's decision to establish a Parliamentary Select Committee to examine the Green Paper in detail.

The Committee did not report until November 1975 (HC696—I of 1974–5). In fact the members were unable to agree a report at all as there was no majority behind the report drafted by its Chairman, Mr Douglas Jay, MP. Among interesting points from his report were:

- Pension rights to be included subject to an agreed basis of valuation.

- The wealth tax to be so framed as not to prejudice productive industry.
- National heritage should qualify for substantial relief.
- Investment income surcharge to be set off against wealth tax.
- A progressive tax with a reasonably mild progression ... “for wealth under £500,000 the rate might well be only ½ per cent”.
- A ceiling on the amount payable.
- A ‘Quotient’ system for determining liability of spouses.
- Possible reduction in liability where taxpayer's wealth consists mainly of his business assets.
- Special relief for agricultural owner-occupiers.
- Forestry also to have special relief, or be exempt altogether.
- Special relief for expenses of valuation.

These proposals, although emanating from a senior Labour Member of Parliament, amount to a devastating commentary on Mr Healey's thinking. The Conservative members of the Committee rejected them on grounds of their failure:

- a. To ensure that the suggested wealth tax was substitutive rather than additive (broadly an ‘additive’ tax is additional tax on top of existing taxes, a ‘substitutive’ tax replaces all or part of other taxes).
- b. To ensure that productive assets, in particular, were protected by a ceiling equivalent to not more than the top marginal rate of income tax.
- c. To recognise the special dangers inherent in introducing such a tax at a time of high inflation and economic crisis.

The Select Committee's one clear message was that a tax on the lines of the Green Paper was unacceptable. There is now a stalemate. A Wealth Tax featured among the list of items demanded by the TUC as its price for taking part in the renewed Social Contract in July 1976. However in November 1976 it was announced that the Wealth Tax would not be introduced during the present Parliament. Mr Healey said:

“The Government have decided that they should not introduce a wealth tax in the life of this Parliament, but the tax will continue to be an important part of their programme. The work which has been done will be of considerable value when the time is right for introducing the tax” (*Hansard*, 29th November 1976, Written Answers, Col. 49).

But the threat remains. Within a few days of this statement a joint Labour Party—TUC working party was set up to review the feasibility of a prompt introduction of the tax. Meanwhile the Treasury stated that up to the end of 1976 the staff engaged on planning a Wealth Tax had cost about £1 million, and accommodation costs attributable to the tax were of the order of £2 million capital expenditure and £0·6 million annual rent (*Hansard*, 16th December 1976, Written Answers, Col. 848).

**Other Measures.** To date, in spite of a review, Mr Healey has announced little change in Capital Gains Tax—which is exacerbated by inflation. On the other hand, in 1974 he raised Stamp Duties on stock exchange securities from 1 to 2 per cent (later retreating on transactions involving foreigners and charities)—a move which greatly inhibited turnover in securities; and the starting point for the Investment Income

Surcharge was cut from £2,000 to £1,000. Labour have also introduced the Development Land Tax and the Community Land Act (see p. 104).

**No Way Out.** The picture of capital taxation under a Labour Government is uniformly depressing. There has been no real reform, and no attempt to introduce fairness, nor to encourage initiative, investment or profitable private enterprise. There has been no acknowledgement of the ravages of inflation operating alongside unrelieved capital taxes, with the result that ‘real’ rates of tax on investment income now well exceed 100 per cent at the top, and are 50 per cent at well below half the level of average earnings. As Sir Geoffrey Howe said:

“The British tax system is barmy. And the longer this Socialist Government remains in office, the barmier it is likely to become” (*Perth*, 13th May 1976).

**Conservative Approach.** Capital taxation is a very early priority for reform. Yet its very complexity is daunting. It is extremely important not to repeat Labour's mistake of rushing into ill-considered legislation. The first priority must be to take urgent action to ‘draw the teeth’ of the worst taxes, notably CTT. Later it will be possible to move on to a complete recasting of the whole system of capital taxation, which will involve the replacement of that unfortunate tax. This second stage will involve the maximum degree both of consultation and of simplification. Sir Geoffrey Howe summed up the Conservative attitude:

“A sensible policy for capital taxation should take account of three points:

1. There are probably too many capital taxes at present (including capital gains tax, development gains tax, capital transfer tax, stamp duty, investment income surcharge).
2. They *interact* in a destructive way, particularly gains and transfer taxes.
3. The rates are already too high.

“The whole mix discourages the creation of individual, and so of national, wealth” (27th October 1976).

## 6. EMPLOYMENT TAX

The Government's intention to add a surcharge of two per cent to the employer's National Insurance contribution was announced on 22nd July 1976 (see Chapter 2, p. 46). This surcharge, carrying the rate up from 8¾ per cent to 10¾ per cent, is equivalent to an increase of 23 per cent in the amount payable. The expected yield is about £910 million in 1977–8 and about £1,030 million in a full year.

The money is not required for the National Insurance Fund, and will not be received by it. Proceeds of the surcharge will go directly to the Exchequer. This is, in fact, a completely new tax, having nothing to do with National Insurance except in name. It is a straightforward tax on employment. It has been aptly named the ‘Job Destruction Scheme’, and it sits uneasily beside the Government's much vaunted Job Creation Scheme on which £500 million has been spent so far (see Chapter 8, p. 206).

**Effect on Prices and on Industry.** Employers will react to the 23 per cent increase in the National Insurance contribution in one of three ways, or a combination of them: (i) they will raise prices to make good the addition to their costs; (ii) they will absorb the additional cost, at the expense of profits; (iii) they will reduce the size of their labour force.

The Government has suggested that price increases will be the main consequence of the new tax. It is very questionable whether this is correct; few small businesses are currently enjoying such good trading that they can raise their prices with any ease. Many larger businesses are in the same position. Much more likely is a further cut in profitability, with its direct effect on capital investment in new plant, new products and new jobs.

**Impact on Employment.** The Government has been unable or unwilling to quantify the impact of the new tax on employment. At one time the Chancellor was implying that the full £2 billion package of last July would destroy 60,000 jobs, of which some 10,000 would be accounted for by the National Insurance Surcharge. Later on, in evidence to the House of Commons Expenditure Committee, the Deputy Chief Economic Adviser to the Government spoke of the loss of between 120,000 and 150,000 jobs. The unemployed will doubtless discover the right answer in due course.

Labour Members as well as Conservatives were highly critical of this aspect of the Chancellor's package during the House of Commons debates.

**Charities and Churches.** As a result of heavy pressure by Conservatives, charities were exempt from the previous Labour Government's Selective Employment Tax of 1965. The Government has taken a more ruthless line this time. Having imposed the Development Land Tax on charities and Churches earlier in the year, in defiance of the tradition that such bodies are not subject to direct taxation, it now insists that charities should pay the National Insurance Surcharge.

The estimated cost of the Surcharge to the Church of England is £350,000 per annum. Other organisations will have to find additional money as follows: Spastics Society, £93,000; Dr Barnardo's, £120,000; National Children's Home £90,000. Since these organisations are unlikely to be able to recoup the cost of the surcharge by raising the price of their products, or from additional revenue, they will have either to reduce their activities or take the cost out of staff salaries.

## 7. COMPANY TAXATION

The present Corporation Tax came into force in April 1973 on the basis of proposals set out in a Green Paper (*Reform of Corporation Tax*, Cmnd. 4630) and then accepted unanimously by an all-Party Select Committee of the House of Commons. It is based on the 'imputation' system, which has the advantage that it is neutral in its impact as between a company which finances itself by ploughing back profits internally and another which pays out its profits and relies on the capital market for its new capital requirements.

**How the System Works.** The essential elements in the revised system are as follows:

- i. The company pays corporation tax at a single rate (at present 52 per cent) on all its profits, whether distributed or undistributed.
- ii. Whenever profits are distributed to shareholders in the form of dividends, the company is required to make to the Inland Revenue an advance payment of corporation tax (ACT) at a rate of 35/65ths of the dividend.
- iii. This tax payment is then imputed to the net dividend as received by the shareholder. Advance payments of corporation tax are set off against the company's total corporation tax bill on its profits for that accounting period.
- iv. The dividend received by the shareholder carries with it a tax credit, representing in effect the company's advance payment in corporation tax. This credit serves to satisfy the basic rate of income tax charged at 35 per cent on dividend plus credit. The basic rate taxpayer is not, therefore, asked to pay any additional tax on the dividend. Taxpayers exempt from income tax are able to reclaim their tax credit. Taxpayers liable to higher rates of tax have an additional tax liability to meet on top of the amount represented by the tax credit.

The EEC proposals for harmonisation of company taxation are based on the imputation system.

**Small Firms.** From the outset, the rate of corporation tax for small firms was fixed ten points below the standard rate, i.e., 42 per cent against 52 per cent. A small company was originally defined for this purpose as one with taxable profits in the year of up to £15,000. For companies in the range £15,000 to £25,000 there were tapering provisions. These figures were adjusted in the 1976 Budget to allow for inflation, the £15,000 figure being raised to £25,000 and the tapering range to £25,000—£40,000

Mr Healey's **Blunderbuss.** It was originally envisaged by the Conservative Government which introduced the new Corporation Tax, that the rates would be 50 per cent and 40 per cent for ordinary and small firms respectively. When Mr Healey came to fix the rates in his 1974 budget (the corporation rate is fixed in arrears), he chose 52 per cent and 42 per cent. At the same time he introduced the disastrous ACT surcharge, by which half as much again was added to the rate of ACT payable in 1974–5, amounting to some £315 million. This was done in order to discourage distributions and to mop up a supposed excess of liquidity in the company sector. The ACT surcharge misfired catastrophically because the company sector was on the point of running into a major liquidity crisis as it tried to finance stocks and work in progress at post-oil-crisis price levels. It contributed directly to the collapse of the equity market, where the *Financial Times* index dropped to a low point of 146.0 in early 1975 and Mr Healey was forced to provide relief (see below).

**The Inflationary Squeeze.** Inflation has the double effect of straining companies' liquidity and (under conventional accounting methods) overstating their profits. The overstatement of profits then leads on directly to excessive tax payments. The failure of the conventional accounting system to allow for the rising cost of replacing assets served initially to conceal the damage being done to companies in the immediate period after the oil crisis. However, the seriousness of the problem was foreseen by the Conservative Government which, in early 1974, set up an expert committee under the chairmanship of Mr F.E.P. (now Sir Francis) Sandilands (see below). Before this



Committee could complete its work the raging inflation which built up in Labour's first year of office brought the crisis in the corporate sector to a head, and in November 1974 Mr Healey introduced a temporary emergency scheme aimed at relieving companies from tax on their inflationary profits. The scheme, known as Stock Appreciation Relief, enabled companies to reduce the valuation of their stocks, on which their current tax bills were based, by an amount by which the increase in stock value exceeded 10 per cent of the trading profits of the business. This approach was inevitably crude—minor refinements were made in 1976—but it has been reasonably effective in getting companies back on their feet. However, a side product of the scheme has been a further drop in the effective tax yield from companies; this has had to be made up from other sources.

**Low Profits—Low Tax Yield.** It is now generally recognised that the failure of British industry to invest and to keep abreast of foreign competition has been caused primarily by the drastic fall in profitability over many years. It is not so generally appreciated that the collapse of profitability has meant a collapse in the yield of Corporation Tax. The following table shows (a) the level of real earnings in British business in relation to capital employed; (b) the yield of Corporation Tax; and (c) the contribution of Corporation Tax to total revenue expressed as a percentage.

Company Earnings and Corporation Tax				
	1973-4	1974-5	1975-6	1976-7
*Return on capital %	6.7	3.2	2.0	n.a.
Yield of Corporation Tax £m	2,245	2,850	2,125	2,650 <sup>†</sup>
Total Tax yield £m	17,250	22,132	28,116	31,960 <sup>†</sup>
Corporation Tax as % of total tax	13.0	12.9	7.6	8.3

\*Calendar year figures.

<sup>†</sup>Forecast.

(Source: *Trade and Industry*, 8th October 1976, and Financial Statements.)

It may be seen that in a period when total tax rose by 85 per cent from roughly £17 billion to £32 billion, the yield of Corporation Tax rose only 18 per cent. An appropriate calculation would suggest that if in 1976-7 the corporate sector were making enough real profits to sustain the share of Corporation Tax in the total tax yield at its 1973-4 level, the corporate sector would be contributing not £2,650 million but £4,150 million—an extra £1,500 million. This figure is equivalent to the yield of about 3p on Income Tax.

**Sandilands Report.** The Sandilands Committee was set up to consider whether company accounts should in future allow for changes in costs and prices (inflation) and, if so, to recommend the necessary changes in accounting practice. The Committee reached the conclusion that it was essential for accounts in future to allow for inflation, and it recommended the system known as Current Cost Accounting (CCA). The Committee's Report, *Inflation Accounting* (Cmnd. 6225), was published in September 1975.

**Morpeth Committee.** Technical problems associated with implementation of the Sandilands recommendations were referred to another committee under the

chairmanship of a leading accountant, Mr Douglas Morpeth. This committee made a range of proposals which are now being considered by the Government, companies, and the professions. It was not able to decide the vexed question of how to treat monetary items (cash, which effectively loses its value, and debt which becomes less onerous in the course of inflation). Pending agreement on certain outstanding problems, companies will be going ahead with adapting their accounting procedures to the new rules, with the object of bringing in CCA-based accounts for 1979.

**Conservative Policy.** Conservative policy is to encourage the business world to adopt that form of accounting procedure which is most likely to ensure the health and growth of companies. Implementation is a matter for the accountancy profession, not the Government—but there are, of course, tax policy implications to be considered by government at a later stage.

## 8. DEVELOPMENT LAND TAX

In December 1973 Lord Barber announced that a Development Gains Tax would be introduced in the 1974 Finance Bill. In the event the tax became part of Mr Healey's first 1974 budget.

However, the Development Gains Tax was soon to be replaced by a more ambitious new tax which was enacted as the Development Land Tax Act (DLT) 1976. This Act is far more complex than the earlier one, and has a number of objectionable features not included in the earlier tax, including—in most cases—much higher rates. For example, companies were charged to Development Gains Tax at the Corporation Tax rate (52 per cent), whereas the Development Land Tax is levied at 80 per cent on all but small projects of development. Furthermore DLT has to be paid by Charities and Churches—a radical and obnoxious departure from tradition.

The Development Land Tax is in fact thought of by the Labour Party as a transitional step towards a full Community Land Act régime, in which virtually all development gains would be confiscated by means of an effective 100 per cent tax rate. The Conservative Party is committed to repealing the Community Land Act (see p. 338), but it accepts the need for a tax at a fair rate on development gains arising out of the granting of planning permission.

Mr Graham Page, Conservative MP for Crosby, summed up the Conservative view on the Development Land Tax Bill at Third Reading:

“Although a tax upon gains realised from the enhanced value of property resulting solely from the granting of planning permission may be justifiable the Bill puts the tax at far too high a rate.

“This is a transitional measure leading to the 100 per cent Community Land Tax which we intend to repeal. The Bill taxes Churches. We shall relieve them of the tax. It taxes value before realisation. We would collect it out of realised gains. It restricts roll-overs to industrial premises. We would extend them to business premises. It allows the tax to be assessed and taken direct by statutory bodies and local authorities.

We would require the Treasury to assess, collect and properly allot the proceeds”  
(*Hansard*, 12th July 1976, Col. 192).

The Conservative Party is now seeking the basis for a bi-partisan approach to the land question. As Mr Hugh Rossi said:

“We do believe in a fair rate of tax on development gains arising out of the granting of planning permission.

“The present rate of 80 per cent on most gains which will eventually rise to 100 per cent has destroyed the operation of the private land market. Yet the Government has nothing to put in its place since the country cannot afford to allow local authorities to buy up even a fraction of the land needed for private development. And even if they had, local authorities have neither the staff nor the expertise to do the job. Can we not agree on the rate of tax which will encourage landowners to bring forward land for development rather than discourage them? This would also prevent the coming land famine which is the likely result of present policies. It is right that the local authorities should share in the proceeds of such a tax to help pay for the cost of infrastructure for development.

“I believe these proposals can form the basis for a bi-partisan approach to the land question. We on our side are willing to discuss the details of such a policy with all interested parties. I call on the Government to do the same” (Northampton, 15th October 1976).

## **9. INVESTIGATORY POWERS**

In his 1976 Budget speech Mr Healey announced sweeping new measures to strengthen the investigation and enforcement powers of the Inland Revenue. These proposals were greeted with widespread dismay; they provided for:

- i. New powers enabling an Inspector of Taxes to obtain documents relating to an individual's tax liability from his spouse and children, and, where he is carrying on a business, from any other business including a bank.
- ii. Powers to call in certain circumstances for an accountant's working papers in relation to his clients.
- iii. Power for an Inspector of Taxes, where he suspects fraud, to obtain from a Justice of the Peace a warrant to enter into premises, if necessary by force, to search for and to seize documents.

It was widely understood that these proposals had been demanded by Mr Cyril Plant, Chairman of the Inland Revenue Staff Federation and 1976 Chairman of the TUC. Mr Plant is reported as having said:

“The Finance Bill will give our boys the chance to do something they have wanted for a long time ... they see tens of millions of pounds slipping away from them—and they haven't been able to do anything about it” (*Daily Mail*, 10th May 1976).

Sir Geoffrey Howe set out the basis of Conservative opposition to the proposals:

“We are not seeking to defend or advance tax evasion. We do not challenge the principle that it is necessary for tax collectors to have reasonable powers as far as can be justified to prevent evasion. But that interest must always be balanced against the need to avoid any undue interference with the taxpayers and citizens of this country. The proposals in this clause do violate the rights of citizens to personal freedom and privacy—the right to privacy in their own homes, the right to call their homes their own. These provisions propose to invade these rights to an intolerable extent, and cannot be justified” (*Hansard*, 17th May 1976, Col. 982).

In response to widespread criticism the Government brought in major amending proposals and in Standing Committee the Opposition secured additional safeguards. The main changes were:

- i. A warrant to search and enter and to seize documents was to be obtained not from a Justice of the Peace but from a Circuit Judge;
- ii. An Inspector was not to ask for a search warrant in the first place without clearing the application with the Board of Inland Revenue itself;
- iii. If papers were removed a list was to be provided, and reasonable access given to the papers as needed.

Conservatives remain highly critical of these so-called ‘snoopers’ provisions. Sir Geoffrey Howe summed up in the Report Stage debate:

“I should make it plain at once that the proposals put forward by the Government, and still persisted in, to give the Inland Revenue powers of entry into private households by day or by night are absolutely opposed by the Conservative Party.

“We have been given the assurance ‘Do not worry boys, we will not use these powers much. They may look pretty grim but we will not use them except in a few serious cases.’ But that sort of assurance can all too easily justify powers which are likely to turn out to be quite intolerable. Our position is that if this provision reaches the statute book it should be struck out therefrom” (*Hansard*, 15th July 1976, Cols. 922, 928).

Challenged to reconcile Conservative opposition to these measures with the Party's responsibility for investigation powers in the 1972 VAT legislation, Sir Geoffrey Howe stated:

“We made plain in 1972 that we would be ready to review the form of operation of the VAT powers if there were any sign of abuse of them. The time for review has come. Certainly, the VAT powers should be re-examined. Many people feel that they should be withdrawn altogether. I do not go that far, but I have no doubt they do need to be closely examined and accompanied by stronger safeguards” (*Hansard*, 17th May 1976, Col. 984).

## **10. ‘THE LUMP’**

Tax evasion by labour-only sub-contractors in the construction industry (the ‘Lump’) has been a problem tackled by governments of both parties. The estimated annual loss in revenue has been put at £10 million—possibly a good deal more. The Conservative

Government took steps to deal with the problem in 1971; these regulations were openly flouted and stricter measures were introduced by Labour in the second 1975 Finance Bill.

The tax evasion concerned arises mainly from the mobility of the self-employed craftsmen and specialists who undertake work as sub-contractors to larger firms in the building industry, and as sub-contractors to local authorities. Many of these are Irish and move freely between the two countries. Sub-contractors on the 'Lump' are not employed in the sense that would bring them into the PAYE system; they function as small independent businesses and are paid accordingly for jobs carried out. In theory they should prepare accounts and submit tax returns. In practice they have been accustomed to accepting cash in payment, and in many cases both they and their businesses have slipped through the Inland Revenue's tax net.

Both parties agree that tax evasion of this type is grossly unfair to the rest of the tax-paying community, who have to make up directly for the shortfall of revenue. The only disagreement is on the proper way to stop it.

The Conservative proposals in 1971 involved the issue of certificates which sub-contractors had to show to the firms which engaged them. These certificates were intended to establish that the Inland Revenue had contact with all the many sub-contractors, and could issue tax return forms to them. However, the certificates were too easily obtained by applicants who proved impossible to keep track of: indeed the certificates came to be forged on a big scale and were often sold on a 'black' market. The system proved to be ineffective where determined tax-evasion was concerned.

Labour proposals set out in the second Finance Act of 1975 and in subsequent regulations again involved a certificate, but this time the certificate was to carry a photograph of the bearer. The main contractor was supposed to check this against the applicant himself and the main contractor was made ultimately responsible for the payment of tax due. Issue of this '714' certificate was also to be conditional on the Inland Revenue being satisfied that the applicant:

- i. Had been employed or had carried on a trade in the UK for the preceding three years, and met all his obligations in respect of tax and National Insurance;
- ii. Ran a bank account and operated from properly equipped premises;
- iii. Maintained third party insurance to the amount of £250,000.

Conservatives suggested that the Government was taking a sledgehammer to crack a nut and criticised the use of the tax system to impose rules about third party insurance cover, which is in no way a tax matter. They suspected that the severity of the 1975 measures was due to motives going beyond the need to stop tax evasion; the very concept of self-employment is known to be offensive to many Labour Members, who see it as weakening the grip of the trade unions on the construction industry. Conservatives, on the other hand, champion it as providing an outlet for independent-minded working people in an increasingly regimented and unionised world.

**Conservative Policy.** The Conservative Party shows no readiness to compromise on the point of tax evasion by self-employed sub-contractors. But on returning to office it will review the provisions of the 1975 Act to ensure that they are no more stringent

than they need be to ensure the collection of revenue. In particular it will look very critically at the need for a photographic identity certificate.

## (L) SAVINGS

### 1. EFFECT OF LABOUR'S POLICIES

Nearly three years of rampant inflation have hit the value of past savings with catastrophic force. Not only has the value of money dropped by about 40 per cent; actual market prices of securities have fallen as a consequence of the steep rise in interest rates that has occurred since the last quarter of 1973.

The following table shows, by quarters, the movement of the *Financial Times* Index of Ordinary Shares, and the FT—Actuaries Index of Debenture and Loan Stocks. The fact that the FT ordinary share index is still well below its 1972 level is a measure of the drop in corporate profitability and general economic confidence under a Socialist administration. The collapse of the Debenture/Loan Stock index is a direct reflection of the rise in interest rates, which has carried the yield on long dated stocks up from 11 per cent in 1973 to over 16 per cent in late 1976.

ft index of ordinary shares ft—actuaries index of debenture and loan stocks (average by quarters)

		<b>Ordinary Shares</b>	<b>Debentures/Loans</b>
1972	High	544	83·8
1973	4th Quarter	389	58·6
1974	1st	313	51·6
	2nd	285	47·0
	3rd	227	43·6
	4th	180	39·0
1975	1st	246	44·3
	2nd	329	46·8
	3rd	310	47·7
	4th	359	45·3
1976	1st	402	50·1
	2nd	397	50·7
	3rd	365	49·4
	4th	308	44·5

The poor performance of both equity and fixed interest prices since 1973 has been mirrored in the market prices of unit trust and investment trust shares, and it has had a serious impact on pension funds, many of which have in any case had to be 'topped up' to enable them to meet their obligations in terms of indexed pensions.

Those who have saved in the past, and invested their savings towards ultimate retirement pensions, are hardest hit. For them there is no Treasury or company

guarantee of a protected pension; to add insult to injury their investment income has been treated as unearned, and subjected to the Investment Income Surcharge from a starting point lowered by Mr Healey from £2,000 to £1,500 (for over 65s)—a gross injustice.

## 2. VOLUME OF SAVINGS

The public reaction to this ruthless destruction of past savings has been, at first sight, distinctly perverse. The savings ratio, i.e., the proportion of personal disposable income put by in savings, has risen from an average 9·9 per cent in the three years 1971–3 to 13·9 per cent in 1975, continuing at a similar level in 1976.

Personal Savings Ratio	
	%
1971	8·8
1972	10·0
1973	10·9
1974	13·6
1975	13·9

(*Hansard*, 7th July 1976, Col. 595.)

Such a high rate of savings is distinctly inconvenient to a government faced with an unemployment level of well over a million and still rising. The fact is that this record savings ratio figure is a straightforward reflection of fear and uncertainty. Although—or because—people have seen their past savings decimated in value, they are determined to make up the shortfall by saving even harder now. It is clear that despite the advance of state Socialism, the British people are still firmly wedded to notions of thrift and self-help. The danger remains, however, that the upward trend of the savings ratio will be reversed as the economy starts to recover—leading to still greater shortage of funds for investment.

## 3. NATIONAL SAVINGS

The Labour Government does not have a happy record in its handling of the National Savings movement. By first announcing abolition of the savings stamp, and then by withdrawing the Civil Service back-up for the Voluntary Savings Movement, the Government has struck at the roots of the savings organisation.

These changes stem partly from recommendations made by the Page Committee which reported in 1973. The Conservative Government did not have time to consider the Page Report in full before the 1974 election, but its attitude on the voluntary movement was clearly expressed by Lord Barber:

“There is one point on which I should like to state the Government's general position from the outset. The Government do not accept the recommendation that the Voluntary National Savings movement should be wound up. Not only has the Voluntary National Savings movement a long and distinguished record of service to

the community, but we believe that there is a valuable and constructive role for it to play in the future. Changes will be needed to bring this role into line with the conditions of the 1970s. We shall discuss these changes with the National Savings Committees” (*Hansard*, Written Answers, 22nd June 1973 Cols. 218–9).

The Labour Government made its first move in the direction of the Page Committee recommendations with the announcement of the abolition of the National Savings Stamp in autumn 1974, to take effect in December 1976.

It has also followed the Page Committee in its restructuring of the Trustee Savings Banks, implemented through the Trustee Savings Banks Act 1976. This had the effect of merging the 70 original Trustee Savings Banks into twenty, under the leadership of the Central Trustee Savings Bank Limited. The Central TSB has been admitted to membership of the Clearing Bank system and the Trustee Savings Banks are now intended to develop as a competitive ‘Third Force’ in banking, midway between the clearing banks and the National Savings Bank.

The announcement of withdrawal of Civil Service support for the Voluntary National Savings Movement was made as part of the £140 million package of administrative savings announced on 29th July 1976. The amount of money expected to be saved was approximately £2.7 million (at 1975 prices).

The Savings Movement felt keen resentment at the manner in which this cut was made. The Movement had just celebrated its Diamond Jubilee and the National Savings Committee had in good faith produced a commemorative book which stated:

“The voluntary Savings Movement is here to stay and its services will continue to be needed by the nation and the host of individuals who come within its influence. This far-reaching conclusion was announced by Government after careful deliberation following the publication of the Page Report.

“The future role of the Voluntary Movement has been agreed and the tasks which await Voluntary Workers are known. Perhaps never before has the Movement been better poised to face the future with confidence and expectancy.”

Within seven weeks of publication of this book the removal of Civil Service support was announced.

The Conservative Party, while recognising the vital need for reduced public expenditure, questioned whether this was the best way of making a £2.7 million economy in the National Savings Department's total budget of some £58 million.

**Save As You Earn.** A new (Third) Issue of Save As You Earn contracts was put on sale in July 1975.

**National Savings Bank** withdrawal limits were raised in January 1976.

**Jubilee Issue of British Savings Bonds.** A new issue of Savings Bonds with an 8½% coupon was announced at Budget-time 1976. As interest rates rose sharply through the summer this new Bond quickly became unattractive and sales have been small.



**Index-Linked Savings Media.** In August 1974 the Government announced two schemes for introduction during 1975 and which would be index-linked to the cost of living. The first was a National Savings Certificate, limited to persons of national retirement pension age. The other was a new (Third) issue of Save As You Earn contract, under which monthly contributions would be revalued on repayment, in line with the Retail Price Index.

## **4. WAR LOAN AND OTHER UNDATED GOVERNMENT SECURITIES**

Those who have held undated government stock for a number of years find, if they now wish to sell, that they have suffered a double loss—from the fall in the nominal value of the stock and the decline in the purchasing power of money. It is often suggested that there should be some special government action to assist those hit by this situation, particularly holders of 3½ per cent War Loan.

This stock (the largest single gilt-edged security) was originally issued during and after the First World War as a 5 per cent stock to be repaid between 1929 and 1947. In 1932 repayment was made at par but holders were offered conversion into a new War Loan stock, with regular payment of 3½ per cent interest but no fixed date of repayment. While this was at the time a good investment, in recent years as interest rates have risen its value has fallen sharply.

One reason why successive governments have felt unable to intervene is that this would breach the principle of certainty that the strict terms of issue of government securities will be honoured. If any government were to alter the terms on which one or more stocks were issued, there would always be a fear that a different set of circumstances might justify a government in altering the terms of issue at the holders' expense. Another important consideration is that if the Government acted on War Loan, it would be difficult to refuse similar action on all other undated stock. Moreover, with nearly £2,000 m. of War Loan outstanding and a further £1,600 m. of other undated securities, the cost of refinancing would be very substantial and would fall on the general body of taxpayers, some of whom might be worse off than the holders of War Loan. Finally, as the turnover of these stocks is high, a large number of people and financial institutions has in recent years purchased the stock considerably below par. They would get a windfall benefit, while those, including for example elderly people who have held the stock for a large part of their life, but had recently sold out, would get nothing. It is therefore hard to see how any action could be taken which would relieve one hard case without creating other difficulties.

## **(M) DISTRIBUTION OF INCOME AND WEALTH**

Second only to the impoverishment it has brought on the country, the present Labour Government will be remembered for its obsession with wealth. They are doubtless the two sides of a single coin.

The obsession with wealth has resulted in some of the most ably researched and scholarly reports ever produced by government—the four (so far) reports of the Royal Commission on the Distribution of Income and Wealth, and the four volumes from the Select Committee on a Wealth Tax.

The Select Committee laid bare both the practical and conceptual difficulties of setting up a Wealth Tax. Not only was wealth difficult to define and still more difficult to measure; it was shown conclusively in the evidence that any Wealth Tax that was worth collecting would cause immediate and serious damage to the businesses and farms out of whose assets it would mainly have to be paid.

**The Royal Commission** was set up in 1974 under the Chairmanship of the former Labour Chief Secretary of the Treasury, Lord Diamond. Its terms of reference were clearly loaded:

“To help to secure a fairer distribution of income and wealth in the community there is a need for a thorough and comprehensive enquiry into the existing distribution of income and wealth. There is also a need for a study of past trends in that distribution and for regular assessments of the subsequent changes” (Cmnd. 6171, July 1975).

However, the Reports of the Royal Commission have been in the main objective; their findings undermine much past prejudice on the subject of inequality. Spread over eighteen months, the Commission has published two reports on the broad question of income and wealth distribution, one on “Higher Incomes from Employment” and one on “Income from Companies and its Distribution”. There is bound to be a time lag in such work; the most recent figures appearing in the reports relate to 1974–5, so that a period of very rapid change is not yet charted.

**Findings on Income.** The change in the distribution of after-tax income between 1938–9 and 1972–3 is shown in the following table. It is apparent that the share of the top ten per cent of incomes fell from 34·6 per cent in 1938–9 to 21·4 per cent in 1972–3. The trend is still continuing.

Distribution of Personal Income 1938–9 and 1972–3

**Percentage share of income after income tax received by groups**

	<b>1938–9</b>	<b>1949–50</b>	<b>1959–60</b>	<b>1964–5</b>	<b>1972–3</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Top 1 per cent	11·7	5·8	4·8	5·0	4·0
2–5	13·6	10·9	9·7	9·5	8·9
6–10	9·3	9·0	8·6	8·5	8·5
Top 10 per cent	34·6	25·7	23·1	23·0	21·4
Lowest 30 per cent	15·4	15·9	14·5	14·8	15·9

(Royal Commission on the Distribution of Income and Wealth, Report No. 1, July 1975, Cmnd. 6171).

**Findings on Differentials.** The rapid changes in the relationship of earnings at different levels in industry is reflected in the finding that, between 1970 and 1975,

average earnings of male manual workers rose in real terms by 17 per cent, while top level director remuneration dropped by 17 per cent (3rd Report, Page 55–56).

**Findings on Share Ownership and Dividends.** Three main groups of individuals benefit directly or indirectly from dividends:

- a. 2.1 million taxpayers who receive dividends directly on personal holdings of stocks and shares.
- b. Up to 11 million members of occupational pension schemes and 2¼ million taxpayers receiving occupational pensions.
- c. 14 million taxpayers who save through life assurance.

It is stated that in the fiscal year 1972–3 almost one-half of all recipients of dividends and interest had total incomes of less than £2,000. It is also shown that 57½ per cent of all dividends and taxed interest in 1972–3 went to pensioners and aged persons.

**Findings on Wealth.** Measurement of the distribution of wealth is far more difficult than that of income, and the factual data are far less comprehensive. A crude analysis of the best available figures, derived from Inland Revenue estate duty statistics, shows how the distribution pattern changed between 1960 and 1973:

Distribution of Personal Wealth			
(Population covered by estate duty figures)			
	1960	1968	1973
	%	%	%
Top 1 per cent	28.4	24.2	21.8
Top 5 per cent	50.9	45.2	38.8
Bottom 80 per cent	23.8	28.8	33.4

(1st Report, p. 102)

These figures illustrate the trend for the share of the biggest fortunes to decline as a percentage of total wealth.

The Royal Commission has gone on to refine these figures, and to point out a number of crucial reservations about the estate duty statistics:

1. They show more than half the population as having no wealth, an obvious over-simplification at a time when household chattels can have substantial value.
2. They do not take account of (a) the value to individuals of their occupational pension rights; (b) their state pension rights; and (c) the value to the individual of subsidised housing occupied as of right.

The Royal Commission continues with a series of figures adjusted for inclusion of pension rights.

Distribution of Personal Wealth 1972  
*Adjusted for Pension Rights*

	%
Top 1 per cent	17·4
Top 5 per cent	34·9
Bottom 80 per cent	40·7

**Life-cycle Adjustment.** The Royal Commission ends up by pointing out how the normal life cycle—gradual accumulation of wealth during working life, gradual running down in retirement—would in any case produce an uneven pattern of wealth distribution. It concludes:

“While age differences combined with inequalities in earnings may account for much of the observed inequality in the distribution of wealth, they cannot account for the share of wealth owned by the top 1 per cent of the population, where the impact of inheritance remains considerable”.

**The Dilemma.** Every study of wealth distribution ends up with a dilemma. Big accumulations of wealth normally take the form of private business, farming enterprises and “heritage objects” such as historic houses and art collections. If these accumulations of wealth are to be dispersed for political reasons, the businesses, farms and collections in which they are invested will have to be broken up. That implies a further decline in the private sector of the economy and the destruction of a large part of the nation's heritage.

**An Independent Summary.** For all the industrious work of the Royal Commission, an article in *The Times* on “Wealth and Incomes” by Mr Neville Hodgkinson has provided perhaps the most telling summary of recent changes in wealth and income distribution:

“The overall distribution of wealth has been transformed during the past 15 years by the big rise in the price of houses, the extension of home ownership, and the arrival into widespread ownership of “consumer durables” such as cars. The proportion of wealth held by the richest twentieth of the population fell from nearly two thirds in 1960 to just over half in 1973, according to Inland Revenue estimates.

“The decline has continued since, because of a fall in the capital value of land, commercial property and company securities, all concentrated in the hands of the rich, to well below their 1972–73 peaks.

“Stock exchange prices have fallen by more than 40 per cent, from the FT index peak of about 540 to about 300 now. Average earnings have risen meanwhile by about 80 per cent since 1972. Taking the original ratio between share values and average earnings as 100:100, the relationship now is about 60:180, a huge shift in favour of the wage-earner” (*The Times*, 21st October 1976).

## APPENDIX

# LABOUR BUDGETS AND “MINI-BUDGETS” SINCE FEBRUARY 1974

## Budget—26th March 1974

£1,387 million extra taxation—largest increase of any Budget on record. Demand effect estimated to be broadly neutral or minus £200 million. Borrowing requirement estimate—£2,700 million.

*Income Tax:* 3p on basic rate, to 33p; and on higher rates; 8p on top rate (making top marginal rate on investment income 98 per cent). Yield £778 million, £954 million in a full year.

*Threshold to first higher rate band* (paying 38 per cent) lowered from £5,000 a year to £4,500; 43 per cent between £5,000—£6,000 etc.

*Investment income surcharge:* attempt to lower the threshold to £1,000, and £1,500 for people over 65, defeated in debate.

*Personal allowances:* single person's and wife's earned income relief increased from £595 to £625; married allowance from £775 to £865. Child allowances increased by £40 from £200 to £240 for children not over 11; £235 to £275 for children over 11 but not over 16; and £265 to £305 over 16.

*Age Exemption* limits for those over 65 increased from £700 to £810 for a single person, and from £1,000 to £1,170 for married couples. Exemption for people over 65 from the 10 per cent surcharge on surtax applying in 1972–3 withdrawn.

*Corporation Tax:* set at 52 per cent instead of the 50 per cent expected for 1973–4, the first year of the imputation system. 42 per cent for small companies.

*Advance Corporation Tax (ACT):* additional payments to be required equal to one half of the advance corporation tax payable in 1973–4; rate of ACT increased from three-sevenths to thirty-three sixty-sevenths to take account of 3 per cent rise in basic rate of income tax. Yield estimated £40 million from higher rate of ACT; £315 million from 1973–4 additional advance payments (to be set off against liability in following year).

*Indirect Taxes:* VAT extended to confectionery, soft drinks, ice cream and potato crisps—yield £125 million full year. Certain equipment for disabled zero-rated. VAT applied to hydrocarbon oils, equal to 5p a gallon on petrol; £150 million in a full year.

*Customs and Excise duties* increased: 20p on bottle of whisky; 10p on bottle of wine; 1p on beer. Yield £20 million on spirits; £100 million on beer; £40 million on wine; plus £5 million VAT.

*Tobacco:* 5p on packet of 20 cigarettes, £200 million in full year, plus £10 million VAT.

*Betting:* rate of off-course betting duty up from 6 to 7½ per cent. Pool betting duty up from 33⅓ to 40 per cent, yield £30 million in a full year.

Total yield of changes in indirect taxation £585 million in 1974–5; £680 million in a full year.

*Mortgage interest relief* on mortgages over £25,000 or for second homes, withdrawn.

*Loans and overdrafts:* tax relief ended on loans taken out after 26th March and on overdrafts; existing loans to qualify for relief for 6 years; business overdrafts not affected. Yield £20 million 1974–5; £100 million in full year.

*Share option, share incentive schemes:* benefits to be liable to full income tax.

'*The Lump*' (tax avoidance by self-employed workers, mainly in building industry): existing tax deduction scheme to be tightened.

*Stamp Duty:* 1 per cent duty on conveyances and transfers to be doubled; exemption limit for conveyances on private houses raised from £10,000 to £15,000, rising by ½ per cent steps for each £5,000 to full 2 per cent rate over £30,000. Yield £75 million 1974–5.

*Tax Avoidance:* changes to be made in tax provisions for guaranteed income bonds; on relief on surrender of qualifying life assurance policies; and on abuse of friendly societies' tax exemption.

*Taxation of Development Gains:* new tax introduced but with many objectionable features partly modified during passage of the Finance Bill; certain capital gains from disposal of land to be charged as income, and first letting following material development of a building for other than residential purposes to be the occasion for a charge.

*Taxation of foreign income:* earnings of UK residents working abroad to be subject to tax on a proportion of the income arising, instead of—as formerly—only the amount remitted. Foreigners working in UK for an overseas company to be taxed on one half of their UK earnings.

*New tax proposals:* Wealth Tax and Capital Transfer Tax: Mr Healey announced that these were to be introduced, and that proposals would be published in the summer.

*Aggregation of children's investment income* with their parents' incomes for tax purposes, terminated by the Conservative Government, was to be reintroduced from April 1975, and provision for it to be made in the Autumn Finance Bill 1974. In the event, it was not reintroduced (the reason given was that the introduction of CTT had largely fulfilled the same purpose).

*Taxation of oil profits:* legislation to be introduced, the position was being reviewed.

*Tighter Exchange Control:* rules governing investment in non-Sterling Area to be extended to cover investment in the EEC and the overseas Sterling Area. Investment

to be financed without official exchange instead of the former ration of £1 million of official exchange for any project in any one year.

*Food Subsidies:* £500 m. extra to be spent in 1974–5, 1p a pint on milk, 1p a loaf on bread, subsidy on butter increased from 2p to 5½p per pound.

*Social Security Benefits:* retirement, widows' and invalidity pensions to go up from £7·75 to £10 a week (single) and £12·50 to £16·00 a week (couple). Increases also in unemployment and short-term sickness benefits. Disablement benefits and war widows pension raised. For retirement pensions, supplementary benefits etc.

## **Mini-Budget—22nd July 1974**

Demand effect estimated to be increase of £200 million by end of 1974; £700–800 million in full year to add £340 million to Public Sector Borrowing Requirement and eventually cut RPI by 2½ per cent (not fully offsetting March Budget increases).

VAT reduced from 10 per cent to 8 per cent; cost £140 million in 1974–5; £510 million in a full year. Estimated to cut Retail Price Index by one per cent (yield of VAT remained £60 million above level set before the March Budget changes).

*Relief for ratepayers* equivalent to 60 per cent of any increase above 20 per cent in 1974–5; cost £150 million.

*Increase in needs allowance* used for calculating rent and rate rebates and rent allowances; cost £15 million 1974–5; £60 million in full year. Estimated to reduce RPI by a little under 0·5 per cent.

*Food subsidies:* further £50 million to be spent out of £500 million provided in March Budget to include subsidy for household flour.

*Regional Employment Premium* doubled, from £1·50 to £3·00 per week per man in manufacturing industry in Development Areas, proportionately less for women and juveniles. Cost £60 million in 1974–5; £118 million in full year.

*Dividend control relaxed:* 5 per cent limit on increases, raised to 12½ per cent; rule permitting higher distributions to be applied flexibly.

## **Budget—12th November 1974**

The total borrowing requirement for the year 1974–5 having been set at £2,700 million in March, was now estimated at £6,300 million. Overall affect a 4 per cent increase in Retail Price Index (Economist estimate 16th November 1974).

*Income Tax:* Investment income surcharge starting point reduced to £1,000 (£1,500 for people over 65); surcharge of 10 per cent payable up to £2,000 (proposal defeated in summer Finance Bill re-introduced).

*Age allowance:* new age allowance for people over 65 to be introduced in 1975 Finance Bill, raising tax exemption limit for over-65s from £810 to £950 for a single person and from £1,170 to £1,425 for a married couple, tapering by £2 for every £3 of income above this level, to ordinary personal allowance level. Cost £220 million in 1975–6 and £285 million in a full year. (A Conservative attempt to introduce a similar age allowance had been defeated by the Government in the summer Finance Bill).

*Blind allowance* raised from £130 to £180 a year.

VAT on petrol raised from 8 to 25 per cent, equal to increase of 8½p a gallon of 4 star petrol. Yield £200 million in full year; adding 0.55 per cent to Retail Price Index.

VAT on materials to be refunded to people building their own houses.

*Stock appreciation:* as an interim measure until Sandilands Committee on Inflation Accounting reported, companies to be able to reduce the valuation of their stocks on which current tax liability is based by an amount by which the increase in value of stock exceeds 10 per cent of the trading profits of the business. The relief was a deferment only, not abolition of tax liability, thus doing little to improve firms' credit rating. Cost estimated at £800 million.

*Initial allowances* for industrial buildings raised from 40 to 50 per cent: allowances for insulation of industrial buildings raised from 40 to 100 per cent.

*Price code revision:* changes in productivity deduction, provision for investment and safeguards for profit margins. Likely to raise RPI by 1½ per cent.

*Finance for Industry.* £1,000 million to be made available for medium-term loans for investment in industry at commercial rates by expansion of resources of Finance for Industry.

*Development Land Tax* to be introduced in separate Bill; tax to be paid at flat rate of 80 per cent when development value is realised.

*Petroleum Revenue Tax* on profits of oil companies from the Continental Shelf to be introduced in Oil Taxation Bill—rate to be set in 1975 Finance Bill. To be charged in addition to Corporation Tax and royalties.

*Capital Transfer Tax* introduced in winter Finance Bill. To apply cumulatively to transfers made since 26th March 1974, levied at rates ranging from 10 per cent on gifts amounting in total to £15,000 or over; 15 per cent from £20–25,000 etc. up to 70 per cent between £1 million and £2 million, 75 per cent over £2 million. Transfers between husbands and wives exempt; also first £1,000 of transfers made by one donor in one year; gifts made out of income as part of normal expenditure; wedding gifts—£5,000 from each parent, £2,500 from grandparents, £1,000 from others; special reliefs for agricultural land, woodland and business assets under estate duty withdrawn (substantial amendments passed during passage of Finance Bills in 1975 and 1976).



*Wealth Tax:* Select Committee to consider proposals set out in Green Paper (Cmnd. 5704).

*Hire Purchase for spaceheating:* controls to be relaxed. Minimum down payments to be 10 per cent; maximum repayment period 5 years.

*Special deposits:* banks to be released from undertaking to forgo interest on part of their special deposits.

*Nationalised Industry prices:* revenue support running at £1,000 million a year to be phased out as fast as possible.

*Pensions:* next increase to be brought forward from July to April 1975; £1·60 more for single person; £2·50 for a couple, with further uprating in December 1975.

*Family allowances* to be increased in April 1975.

*Trade Union tax refund:* Trades Unions to be retrospectively exempted from liability to tax incurred by refusal to register or take steps available to safeguard their funds under the Industrial Relations Act 1971. Exemption back to 6th April 1972. Cost £10 million (Re-introduction of proposal defeated in summer Finance Bill).

## **Budget—15th April 1975**

£1,251 million extra taxation. Public sector borrowing requirement estimate—£9,055 million.

*Income Tax:* basic and higher rates of tax increased by 2p in the £: basic rate up from 33 to 35 per cent; top rate with investment income surcharge to remain at 98 per cent.

*Personal allowances* increased by £50 to £675 for a single person and £90 to £955 for a married couple. Additional personal allowance for a single parent family increased from £180 to £280.

*Age allowance:* as announced in November 1974, personal allowance for single person over 65 raised to £950, and for a married couple to £1,425 where incomes not exceeding £3,000; tapering by £2 for every £3 of income above £3,000.

*Blind person's allowance* increased from £130 to £180 (also announced in November).

*Earnings ceiling* for NHS contributions increased by up to £8 a week to pay for relaxation of the earnings rule for pensioners carried by the Opposition against the Government.

*Stock appreciation relief* introduced in November 1974 to be continued for a further year, with some major changes—exclusion of land held for investment purposes and inclusion of professional work in progress.

*Small companies* with stock not exceeding £25,000 and unincorporated businesses to get relief on appreciation over 2 years with an additional 5 per cent deduction from taxable profits to compensate for delay.

*Oil Taxation:* new provision to prevent companies offsetting, against profits, losses from transactions at artificial prices in overseas oil.

*Capital Gains Tax:* legislation to end (a) ‘bed and breakfast’ arrangements whereby companies could obtain relief for losses on shares they did not intend to part with; and (b) ‘double banking’ whereby high-rate taxpayers obtained relief for losses on gilts held for more than 12 months. Some relief for working farmers, small businesses and historic houses—similar to that given for CTT.

*VAT:* 25 per cent applied to petrol in November extended to so-called semi-luxury goods including electrical appliances, other than cookers, space heaters and fitted water heaters; radios, TV and hi-fi, boats, aircraft and caravans, other than those previously zero-rated; cameras, binoculars, furs and jewellery. 50,000 retailers involved, and 1,000 extra customs staff. Yield £325 million in a full year.

*VAT Regulator:* minor change to enable VAT rate to be raised or lowered by 25 per cent (instead of 20 per cent) between Budgets without legislation—e.g. from 8 per cent to 10 or 6 per cent.

#### *Customs and Excise duties*

*Beer* up by 2p a pint—yield £185 million, full year.

*Spirits* up 64p on standard bottle—£60 million, full year.

*Wines* up 24p on standard bottle—£80 million, full year.

*Tobacco* up 5p to 10p (average 7p) on packet of 20 cigarettes—yield £275 million a year.

Additional VAT as consequence of all these duty increases—£25 million full year.

*Vehicle Excise Duty* on cars up from £25 to £40 a year; similar 60 per cent increase on motor cycles and three-wheelers; commercial vehicles rate increased by a third—minimum rate £40. Yield of vehicle duty changes £270 million full year.

*Bingo duty* doubled from 29th September 1975; betting and pools duty unchanged.

*Gaming licence duty* restructured, and rate increased.

*Gaming machines:* duty on second and subsequent machines reduced, VAT to be charged on the ‘take’. Gaming and bingo duty changes yield £12 million full year. Total yield of customs and excise tax changes £965 million, raising Retail Price Index by 2¾ per cent.

*Family allowances* increased by 60p from April 1975 for second and subsequent children (announced in November). Child benefit scheme already announced not to take effect until 1977; in the interim family allowances of £1.50 to be paid for first children of single-parent families, from April 1976

*Training*: additional £20 million allocated to the Manpower Services Commission in 1975–6 and £30 million in 1976–7 to strengthen training programmes.

*Temporary Employment Subsidy*: provision to be made in Employment Protection Bill for special payments to be made to firms prepared to defer large-scale redundancies in areas of high unemployment if situation required it. Further schemes to be introduced to assist certain industries to modernise and rationalise; full use to be made of powers of selective assistance under 1972 Industry Act. £100 million allocated.

*Price Code* investment relief extended to cover investment for exporting, and commercial vehicles; rate of relief increased from 17½ to 20 per cent.

*Gold coins* import to be stopped—imports had cost £25 million a month in first quarter of the year.

*Public expenditure* cuts of £1,100 million (£900 million at 1974 Survey prices) to take effect in 1976–7.

*Nationalised industry* subsidies to be reduced from £550 million 1974–5 to £70 million in 1975–6, and to be phased out completely by 1976. Their investment programmes to be cut by £100 million.

## **Attack on Inflation measures—11th July 1975**

White Paper *The Attack on Inflation* (Cmnd. 6151) published (see p. 00) setting out £6 pay limit; possible reserve powers; and extending the Price Code. Remuneration Charges and Grants Bill introduced (2nd reading 23rd July).

*Food and rent subsidies*: £80 million more to be spent on food subsidies, and £30 million more on rent subsidies than envisaged in April Budget.

*Consumer information*: £2 million to finance more consumer advice centres.

*Goods of special importance* to the family budget. Government to seek voluntary agreement with CBI and Retail Consortium to hold price increases on list of goods to 10 per cent.

*Temporary Employment Subsidy* announced in March Budget to be brought forward as soon as possible.

*Public Expenditure* medium term to be reviewed; little growth in spending in 1977–8 and 1978–9 above levels planned for 1976–7.

*Cash limits* to be applied to all Government programmes in 1976–7 except where there is a clear case for exclusion, e.g. social security benefits.

*Monetary policy*: full range of instruments available to be used to keep the money supply under control. Priority in lending to be given to essential sectors through Bank of England guidance to the banking system.

## **IMF Loan—7th November 1975**

Treasury applied to International Monetary Fund to borrow £975 million (see page 00). Chancellor in his letter to the IMF on 18th December anticipated a PSBR of £12 billion in 1975–6.

White Paper on Public Expenditure to 1979–80 (Cmnd. 6393) published showing substantial increases over levels anticipated in previous year's White Paper (Cmnd. 5879).

## **Budget—6th April 1976**

Direct taxes cut by £1,340 million; indirect taxes increased by £370 million. PSBR estimate £12,000m. Overall effect estimated to be almost neutral; unconditional proposals neutral in financial and demand terms; with conditional tax reliefs likely to increase output by £400 million,  $\frac{1}{3}$  of 1 per cent in first half of 1977.

*Direct taxes*: some of the Chancellor's proposals were conditional upon the agreement with the TUC on a pay limit for 1976–7. These changes were to be made if an agreement was reached on a pay limit of 3 per cent; the tax cuts were made as proposed in the Budget when agreement was reached on a 5 per cent pay limit.

### *Unconditional changes*

*Child allowance* increased by £60 to £300 for children under 11; £335 between 11 and 16; and £365 over 16.

*Widows* and single women pensioners under 65 not to be assessed for tax if they have no other income besides the standard pension.

### *Conditional changes*

*Single persons'* and wives' earnings allowances raised by £60 to £735.

*Married persons'* allowance up by £130 to £1,085.

*Higher income tax bands*: thresholds to first 5 bands to be raised by £500 (e.g. £5,000 instead of £4,500 etc.). No change above 60 per cent band, on incomes of £10,000 or over.

*Capital Transfer Tax*: (a) new relief for businesses and farmers—when sole proprietorship, partnership or controlling shareholding in unquoted company is

transferred either *inter vivos* or on death its value for CTT to be reduced to 70 per cent of open market value: (b) *full time working farmers*—but not agricultural landlords—to be eligible for 30 per cent relief on assets, including land, used in farming; an alternative basis using multiplier approach remains; (c) *Tax free annual transfer* limit raised from £1,000 to £2,000; (d) *Heritage*: reliefs for transfers on death extended to *inter vivos* transfers of works of art, historic houses etc; (e) *Transfer to employees' trust* of shares in a business to be exempt, if all the shares transferred at once.

#### *Other personal tax changes*

*Marriage allowance*: aggregation of incomes of newly-married couples to be delayed until first full tax year to prevent duplication of allowances (single person's allowance for wife before marriage and married woman's earned income allowance after it).

*Capital Gains Tax*: exemption limit for disposals doubled from £500 to £1,000 in a year.

*Self-employed retirement annuities*: limit for tax relief on contributions raised from £1,500 (set in 1971) to £2,250.

*Insurance*: from 1979–80 insurance companies to deduct the due tax reliefs from premiums on life assurance policies in preparing premium demand notices—instead of PAYE deduction after payment of premium in full. Saving 1,000 to 1,500 revenue staff.

*Fringe benefits*: new system of assessing personal benefit of business cars to be introduced from 1977–8; benefit from low-interest loans not eligible for tax relief on interest to be taxable; certain other fringe benefits to be taxed.

#### *Company taxation*

*Corporation Tax*—no change in basic structure or rates.

*Small company relief*: £25,000 profit limit below which lower, 42 per cent, rate of Corporation Tax is payable raised to £30,000; and £40,000 transitional relief level to £50,000.

*Stock appreciation relief*: existing system to continue for two years pending agreement on a permanent system of allowance for inflation; profits after deducting depreciation allowance to be substituted for profits before depreciation as basis for computing deduction to be set against stock relief. Partly offset by raising profit deduction from 10 to 15 per cent.

*Transfer stamp duty on Debentures*: stamp duty at 2 per cent removed from transfers of debentures and loan (but not convertible) stocks.

*Value Added Tax*: 25 per cent rate reduced to 12½ per cent.

#### *Customs and Excise Duties*

*Spirits*: up by 32p on standard bottle of whisky.

*Beer*: up 1p a pint on average.

*Wine*: up by 6p a bottle on light wines; 12p a bottle on heavy wines (e.g. sherry).

*Cider and perry* brought into tax for the first time, duty 3p a pint.

*Tobacco*: first steps towards tax harmonisation with EEC; duty on tobacco leaf reduced; *ad valorem* excise duty at 20 per cent of total retail price, adding 3 to 3½p to price of packet of 20 cigarettes; yield £115 million full year. Average tax burden on pipe tobacco roughly unchanged.

*Petroleum and other road fuels*: VAT halved, to 12½ per cent; road fuel duty raised by one-third from 22½p to 30p per gallon, net effect 1p increase per gallon for private motorists, but substantial increase for commercial firms because fuel duty, unlike, VAT, is not reclaimable. Estimated to cost industry £170 million. Net yield £250 million.

*Pensions*: single rate to go up by £2 to £15·30 and married rate by £3·30 to £24·50 a week in November 1976 (only partially compensating for rise in prices since last increase).

*Short-term benefits and Family Income Supplement* to be increased in July 1976.

*Hire purchase* restrictions on caravans removed.

*Cash limits*: White Paper *Cash Limits for Public Expenditure* (Cmnd. 6460) published on Budget day. Limits to be imposed on three quarters of Central Government expenditure other than social security benefits, rate support grants to local authorities and capital requirements of nationalised industries (see page 00).

*Relief on exchange losses* by companies to be considered before the 1977 Budget.

*Temporary Employment Subsidy* to be doubled to £20 a week, and to continue until end of 1977. Community Industry scheme extended beyond expiry date of March 1977 and enabled to give grants towards cost of materials of up to 10 per cent of labour cost of projects. Estimated cost £2·3 million in full year.

## **Standby Credit—7th June 1976**

Chancellor announced that 6-month standby credit of over \$5 billion had been arranged with central bankers.

## **Public Expenditure Statement—22nd July 1976**

Public expenditure to be cut by £1,012 million in 1977–8; and employers' National Insurance contributions raised by £910 million. Total cash saving £1,862 million. PSBR to be cut to £9,000 m. in 1977–8.

## **Mini-Budget—15th December 1976**

Announcement of grant by the IMF of further drawing rights of approximately \$4 billion, accompanied by revenue and expenditure measures. Expenditure cuts of £1 billion in 1977–8 and £1½ billion in 1978–9. Run down of food subsidies to be accelerated. Regional Employment Premium to be withdrawn in favour of more selective measures. British Petroleum shares to value of about £500 million to be sold from Government holding.

### *Indirect Taxation*

Regulator powers used to raise by ten per cent the principal Customs and Excise duties.

*Spirits*: up by 31p on standard bottle of whisky.

*Beer*: up by a little under 1p per pint on average.

*Wine*: up by 5p a bottle on light wines; 7p a bottle on heavy wines.

*Tobacco*: up by 4p packet of 20 average sized cigarettes.

### *Taxation of Overseas Earnings*

Inland Revenue to produce a consultative paper prior to legislation in 1977 Finance Bill to improve tax treatment of employees who have to work abroad for periods of time.

# 5. STANDARD OF LIVING AND PRICES

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## Speaking Note

- The standard of living in Britain, after rising under the Conservative Government by over 16 per cent, fell in both 1975 and 1976. It is likely, as the Government admits, to continue to fall further in 1977. We have never had so long a period of decline since the war.
- The recent prolonged decline is a direct result of Labour mismanagement; in particular of their irresponsible abandonment of restraint on public spending and wages in 1974–75.
- This irresponsibility led to the price explosion of 1975–6. Even massive wage increases have been swamped by price increases and by increases in taxes.
- For these reasons, certain groups have been particularly hard-hit. The poor have become poorer (see Chapter 17); and skilled workers, young executives and middle management—people whose skill, enterprise and ability we particularly need to encourage—have seen their differentials, and their real incomes, shrink faster than ever before.
- The attempt to disguise inflation by subsidies and by maintaining rigid price control has not only failed to hold down the cost of living; it has seriously handicapped industry and contributed to the substantial increase in unemployment. Gimmicky interference by Ministers has made the situation worse.
- Prices went up by 70 per cent in the Labour Government's first three years in office; the value of the 'pound in your pocket' fell below 60p. The exchange rate of sterling fell by a quarter.
- A great deal of this unprecedented increase in the cost of living could have been avoided. Labour's mismanagement of the economy meant that Britain missed the opportunity to benefit from lower world prices even when, for a while, they stabilised or actually fell.

## (A) STANDARD OF LIVING



The average standard of living in Britain fell in both 1975 and 1976. It was the first time since the war that a decline had continued so long; and, as Mr Healey has admitted, the decline will, and must, continue for some time longer if inflation is to be restrained and the rise in unemployment reduced.

The reason is to be found largely in the Labour Government's mismanagement of the economy, and its ill-chosen priorities. There could be no more telling condemnation of a government than the fact that, after it has been in office for three years, almost every family in the land is worse off despite wage increases on a scale never previously experienced.

## **1. 1951–1974**

**The Conservative Record.** Between 1951 and 1964 under Conservative Governments the standard of living rose faster in Britain than at any previous time in our history. While prices rose by 50 per cent over 13 years, incomes went up twice as much. People grew to expect standards to rise steadily year by year—as they were doing in other countries. Under the Labour Government from 1964–1970 price inflation coupled with tax increases meant that standards of living rose by little more than one per cent a year. During the wage freeze in 1966–7 many people's real incomes actually fell. This was in spite of the relative stability of world commodity prices at the time.

The position was reversed after the Conservative Government returned to office in 1970. Standards of living started to rise again; but in 1972 world prices began to rise faster than at any time since the Korean war in 1950. Nevertheless, personal disposable income per head in real terms went up by nearly 16 per cent in less than four years under the Conservative Government, and by 9·2 per cent between the last quarter of 1972 and the last quarter of 1973 (see p. 124).

The increase in real disposable income over this period was to a great extent due to the cuts in taxation made by Lord Barber—in particular the raising of the tax threshold by the £135 increase in personal allowances in 1972, which not only removed 2¾ million people from tax in that year, but meant a tax saving of £1 a week for all those paying income tax.

The rate of income tax plus social security contributions for a married man on average earnings with two children under eleven was 20·0 per cent in 1970–1 when the Conservative Government took office. By 1973–4 it was down to 18·8 per cent. By 1976–7 under the Labour Government it had risen again to 24·8 per cent (see Chapter 4, p. 75).

## **2. LABOUR'S RECORD SINCE 1974**

The change from rising to falling living standards that has taken place from 1974 onwards was largely a result of the Labour Government's gross irresponsibility during its first year in office. The rise in oil prices in the autumn of 1973 meant a fall of some 5 per cent in the value of our national income. It required a major transfer of resources into exports to pay for the £2 billion addition to our fuel import costs. Restraint in

home consumption was essential—and for this reason Lord Barber had announced substantial expenditure cuts and other measures on 17th December 1973 (see Chapter 2, p. 25).

The Labour Government, however, threw restraint to the winds. Public spending was increased, and wage inflation unleashed, on an unprecedented scale. The result was that what should have been a temporary reduction in standards of living and consumption, both public and private, while the economy adjusted to the new situation, became a prolonged crisis in which living standards and employment have borne the brunt of the Government's failure.

**False Optimism.** After six months in office, and in full knowledge of the implications of both the oil price rise and of soaring wage inflation, Mr Healey said confidently, before the October 1974 election:

“I don't believe myself it's necessary for the people as a whole to have their living standards lowered in order to conquer inflation” (*Election Call*, Radio 4, 26th September 1974).

Three days earlier he had claimed, “Inflation ... is currently running at 8·4 per cent” (Press Conference, 23rd September 1974). In the following two years living standards fell by nearly 4 per cent. Mr Callaghan acknowledged the truth when he said:

“... of course there has been a fall in people's standard of life. And it has fallen this year and will fall again next year” (*Panorama*, BBC TV, 25th October 1976).

Mr Healey later recognised not only the truth but the implications for the economy when he said:

“People at work are already highly taxed on their incomes and face a further drop in their living standards in the coming year.... Inadequate financial incentives to work and invest could put our economic recovery at risk” (*Hansard*, 15th December 1976, Col. 1526).

**Irresponsibility and Lost Opportunities.** The reckless removal of restraint in the run up to the October 1974 election, and for many months after it, led to a wage explosion. The rate of increase in both earnings and weekly wage rates accelerated to a peak of over 30 per cent in the twelve months up to April 1975. World prices meanwhile had stabilised, and in many cases actually fell between late 1974 and late 1975 (see p. 126). But the opportunity to stabilise home prices was lost, largely as a result of wage inflation, while the Government continued to rely on the totally ineffective restraint of the first version of the Social Contract. Prices rose faster in Britain than in any of the other major industrial countries, reaching a peak rise of 26·9 per cent in the year ended August 1975.

Earnings rose even faster than prices, until the summer of 1975. Real incomes nevertheless fell in 1975 largely as a result of the tax increases that Mr Healey imposed. Income tax per family amounted to £389 in 1973–4; in 1976–7 it had risen to £869. A man on average earnings with two children under 11 paid 15·9 per cent in

income in tax in 1973–4; by 1976 it was over 21 per cent (Source: *Financial Statements* and Dept. of Employment October earnings surveys).

The following table shows the movement of earnings and prices over the last three years.

Wages, Earnings and Prices			
12 months ended	Average weekly wage rates % Increase	Average weekly earnings % Increase	Index of Retail prices % Increase
1974 February	14.2	8.6 <sup>‡</sup>	13.2
October	23.5	21.3	17.1
1975 April	32.8	30.7	21.7
*July	32.0	27.6	26.3
October	26.0	24.9	25.9
1976 April	23.5	17.9	18.9
†July	18.5	13.9	12.9
December	11.7	11.8	15.1

\*£6 pay limit introduced

†£4, or 5 per cent, pay limit introduced

‡Earnings were affected by the 3-day week

(Source: Department of Employment)

**The Social Wage.** In their first two years in office, the Labour Government defended their high rate of public spending by the plea that it was necessary to maintain the ‘Social Wage’, i.e. the contribution of public services such as education, health, subsidies and welfare benefits—at a time when prices were rising and incomes being held down.

The result of their refusal to cut spending at the right time has been that in the end real personal disposable income has shrunk faster than ever before (see p. 124), and public spending—some of it on desirable purposes—had to be cut in 1977 far more suddenly and painfully than should have been necessary. And cuts which the Government refused to make on employment grounds when there were—in 1975—800,000 unemployed, had to be made in 1976–7 when the total was around 1.4 million and rising.

The attempt to disguise the effect of inflation and protect living standards by indiscriminate subsidies has been both wasteful and ineffective—as the Government belatedly recognised when it decided to phase them out (see p. 135). The high level of taxation required to pay for this and other excessive spending has meant that many people below the poverty line have been drawn into tax—they are, in effect, paying for their own benefits (see Chapter 4, p. 86).

**Effects on Particular Income Groups.** The widening of the poverty trap has been one consequence of inflation and of the increasing tax burden (see Chapter 17, p. 428). Another has been the effect on individuals in a substantially higher income bracket. A vivid illustration of this was given in the *Sunday Times* on 13th February 1977. It

described the case of a well-known journalist. Despite a 250 per cent increase in gross pay since 1966 his real income, after rising slowly up to 1973–4, fell by 1976–7 to 25 per cent below its 1973–4 level, partly as a consequence of pay restraint; and assuming a 15 per cent rate of inflation, unchanged taxation and a pay limit of £4 for a further year, was likely to return in 1977 to the level of eleven years before, in real terms.

**Discouragement of Management.** There have been many indications of the serious effects that high taxation, pay limits, shrinking differentials, and the rising cost of living are having on skilled people, whether in the professions, in industry or in business. A survey carried out by the Opinion Research Centre (reported in the *Daily Telegraph* on 7th February 1977) found that these factors had “combined to demotivate and undermine enthusiasm of all grades”. “It is true to say that a majority of [the million key people in industry] are fed up, bitter at unfair treatment, and worried about money and their standard of living”. Almost 100,000 managers were found to have made enquiries about taking jobs abroad. More than half a million would ‘consider’ doing so. Some 100,000 were ‘moonlighting’ in order to earn additional income from a second job. One in four managers—about 275,000 in industry, said it was not worth while taking promotion because of taxes on pay rises. A majority of managers felt that lack of financial reward was causing them to be less efficient and enthusiastic. Companies had for three years had difficulty in filling senior positions, and, as other surveys have shown, many companies had difficulty in persuading staff working abroad to return home.

**Discouragement of Skill.** A National Economic Development Office survey, *Engineering Craftsmen: Shortages and Related Problems*, published on 26th January 1977, showed how great had been the squeezing of differentials for skilled workers in the engineering industry. Whereas in 1971 a skilled worker's wage in the motor-vehicle manufacturing industry was 44·8 per cent, and a semi-skilled man's 29·3 per cent, above a labourer's wage, by 1976 the differentials had shrunk to 24·7 and 21·1 per cent respectively. In the aerospace equipment industry differentials had fallen from 58·6 and 21·3 per cent for skilled and semi-skilled to 34·9 and 14·2 respectively (*Financial Times*, 26th January 1977).

### 3. GROSS DOMESTIC PRODUCT PER HEAD

In the broadest sense, the rise in the standard of living of a nation can be judged by the rise in the gross domestic product (GDP) per head. By this criterion, Labour governments compare very poorly with Conservative administrations. In the six years of Labour Government from 1964 to 1970 GDP per head grew by 12·3 per cent, while in the three years of Conservative Government from 1970 to 1973 GDP per head grew by 9·2 per cent—three quarters of the growth in the six years of Labour Government. In the two years of Labour Government to 1975, GDP per head actually fell by 1·1 per cent. Full figures for the period are given below:

Gross Domestic Product Per Head (1970 Prices)

	£
1964	697
1965	710

Gross Domestic Product Per Head (1970 Prices)

	£
1966	720
1967	736
1968	760
1969	769
1970	783
1971	799
1972	810
1973	855
1974	858
1975	846
1976	426 (to June)

(Source: *Economic Trends* Annual Supplement 1976)

#### **4. REAL DISPOSABLE INCOME**

Private consumption and savings out of incomes after tax, are measured by “Real Personal Disposable Income” (RPDI) per head. There is a striking contrast between increases in RPDI under successive Governments. From 1964–70 RPDI rose by 9·8 per cent. In half as many years, from 1970 to 1973, RPDI increased by 16 per cent, over one and a half times as much. In 1975 and 1976 RPDI actually fell.

Real Personal Disposable Income Per Head (1970 Prices)

	£
1964	570
1965	579
1966	589
1967	595
1968	603
1969	606
1970	626
1971	638
1972	686
1973	726
1974	739
1975	734
1976	362 (to June)

(Source: *Economic Trends* Annual Supplement 1976)

# **(B) PRICES: CONSERVATIVE AND LABOUR RECORDS COMPARED**

## **1. THE CONSERVATIVE RECORD**

In 1970 the Conservative Government inherited inflation running, during Labour's last six months in office, at an annual rate of 8·4 per cent. It also inherited an inflationary time bomb in the wage explosion which was already in progress, following the abandonment of restraint in the run up to the election. Its effects still had to work through into prices—and did so in the following year. In the six months up to June 1971 prices were rising at an annual rate of 13 per cent.

The Government took direct action to reduce prices in a number of ways. For example, SET was halved in July 1971 and abolished in 1973; purchase tax was twice cut and finally abolished in 1973. £225 million worth of taxes on food was removed when VAT was introduced in 1973, and overall the changeover to VAT meant a saving of £900 million a year in tax compared to SET and purchase tax at 1970 rates.

These changes, coupled with cuts in direct taxation, contributed to the substantial success of the voluntary policy of wage restraint up to 1972, and gave support to the CBI's price restraint initiative in 1971 (see p. 131). By July 1972 inflation had been reduced to 5·8 per cent (increase over six months expressed at an annual rate).

The explosion in world commodity prices in 1972 put an enormous strain on the system of voluntary restraint and was a major factor in the imposition of statutory controls (see Chapter 2, p. 23). The position was made very much worse by the still greater explosion in oil prices a year later. Between January 1972 and January 1974 Reuters' Commodity Index (see p. 125) rose by 160 per cent, an increase to which the rise in oil prices contributed substantially in the Autumn of 1973. Food prices also rose particularly fast. In the 3½ years up to December 1973, food commodity prices went up by 77 per cent—compared with 6 per cent throughout the whole six years under the previous Labour Government (*Hansard*, 10th December 1973, Col. 97). By February 1974 these increases pushed the rate of inflation to 13·2 per cent. This was still, however, closely in line with the increase in other countries (see p. 126).

## **2. THE LABOUR RECORD**

Before the February 1974 election, Sir Harold Wilson had said:

“The remorseless accelerating rise in prices is a menace which, unless checked, will destroy the fabric of our society. It is eating away at the savings, the security and the future of ordinary families. It feeds on itself and terrifies ordinary families” (Preston, 20th February 1974).

Prices were then rising at 13·2 per cent (February 1973—February 1974). Eighteen months later the rate had more than doubled, to 26·9 per cent (August 1974—August

1975). By the time of Sir Harold Wilson's resignation as Prime Minister in April 1976, the cost of living under his Administration had risen by 50·9 per cent.

In February 1974 our inflation rate was in line with our competitors abroad. Before the October 1974 election Sir Harold Wilson claimed that we were “top of the league in the fight against inflation” (*Daily Telegraph*, 2nd October 1974). But by December 1976 prices had risen more in Britain since February 1974 than in any other EEC country except Ireland.

**Inflation against the World Trend.** The unprecedented surge in the rate of price increases in 1975 was largely due to the irresponsibility of the Labour Government. Labour Ministers attributed the explosion of wage inflation to the threshold pay increases awarded under Stage III of the Conservative Counter-Inflation policy. But it was Mr Healey's March 1974 Budget, with its increase in indirect taxes, which contributed to the triggering of the thresholds. And it was the consequence of the miners' pay award in March 1974, and the increasingly excessive pay increases which followed it, that led to the explosion in labour costs in 1975 and 1976, as the following table illustrates:

Index of Labour Costs per Unit of Output  
(whole economy)

	Year-on-year increase
	%
1970–1	8·2
1971–2	8·4
1972–3	8·3
1973–4	20·9
1974–5	33·1
1975–6 (June to June)	15·0

(Source: *Department of Employment Gazette*)

World commodity prices, meanwhile, had stabilised, and in many cases actually fell in 1974–5, as the following table shows:

Reuters Commodity Index  
(Sept 18th 1931 = 100)  
Index Increase over previous 12 months  
%

Jan 1970	558·7	+7·6
Jan 1971	549·2	-1·7
Jan 1972	547·6	-0·3
Jan 1973	795·0	+45·2
Jan 1974	1416·1	+78·1
Jan 1975	1131·9	-20·0

Reuters Commodity Index  
 (Sept 18th 1931 = 100)  
**Index Increase over previous 12 months**

	%
Jan 1976 1193·2	+5·4
Jan 1977 1613·3	+35·2

The increase in world prices was reflected, after the usual time lag, in the prices of materials purchased by industry.

WHOLESALE PRICES (1970 = 100)  
 Price Indices of Materials and Fuel Purchased by Industry (Input Prices)

	<b>All Manufacturing industry</b>	<b>Change over previous 12 months</b>	<b>Food manufacturing industry</b>	<b>Change over previous 12 months</b>
		%		%
Jan 1972	105·6	3·3	111·4	5·1
Jan 1973	122·7	16·2	129·2	15·9
Jan 1974	209·5	70·7	180·8	39·9
Feb 1974	213·1	69·1	182·5	39·4
Oct 1974	220·1	36·1	181·9	12·3
Jan 1975	222·1	6·0	188·8	4·4
Jan 1976	261·5	17·8	235·3	24·6
Jan 1977	338·2	29·3	302·2	28·4

(Source: Department of Trade)

Other countries took advantage of this relatively favourable raw material cost position, and substantially reduced their own internal rates of inflation by appropriate policies at home. Under the Labour Government, Britain missed this opportunity, and not merely reached levels of inflation far higher than any other major industrial country, but remained at high levels for far longer.

International Price Comparisons  
**CONSUMER PRICES (PERCENTAGE INCREASES)<sup>5</sup>**  
 12 Months to Feb. 1974    Feb. 1974 Dec. 1976    12 Months to Dec. 1976

EEC



International Price Comparisons  
**CONSUMER PRICES (PERCENTAGE INCREASES)<sup>5</sup>**

	<b>12 Months to Feb. 1974</b>	<b>Feb. 1974 Dec. 1976</b>	<b>12 Months to Dec. 1976</b>
UK	13·0	64·7	15·1
Belgium	8·7	34·7	7·6
Denmark	13·6	33·3	13·1
Ireland <sup>4</sup>	14·3	64·8	20·6
Luxembourg	8·7	29·8	8·5
The Netherlands	9·1	28·6	8·3
W. Germany	7·8	14·0	3·9
Italy	13·6	61·0 <sup>1</sup>	21·3
France	11·2	34·7	9·9
<i>EEC Average</i>	10·8 <sup>3</sup>	40·0 <sup>3</sup>	10·7
<i>OECD (Selected member countries)</i>			
Japan	27·0	34·2	10·4
U.S.A.	9·9	22·8	4·8
Sweden	10·1	28·2	9·8
Switzerland	10·0	12·3	1·3
Australia <sup>4</sup>	13·7	50·6	13·9
New Zealand <sup>4</sup>	10·3	48·9	15·6
<i>OECD Average</i>	7·8 <sup>2</sup>	31·0	8·5

*Notes:*

<sup>1</sup> February 1974–November 1976

<sup>2</sup> 1st Quarter 1973—1st Quarter 1974 (Source: NIESR)

<sup>3</sup> Estimate based on national GDPs at 1970 exchange rates.

<sup>4</sup> Figures for Australia and New Zealand and Ireland are based on quarterly estimates.

<sup>5</sup> Source OECD. The consumer price index covers a comprehensive range of consumer items. Slightly different samples and weightings are used in the Consumer Index and in the RPI.

**False Promises.** Labour Ministers made extravagantly optimistic forecasts of future trends. Mr Healey was later forced to admit that his notorious 8·4 per cent claim had applied only to a brief and unrepresentative period of time (ITV, 26th September 1974). But he also claimed on 24th September 1974 that

“If the Social Contract is maintained we can get inflation down close to 10 per cent by the end of next year and into single figures the year after” (Speech at Witham).

At the end of 1975, inflation was running at 25 per cent a year.

In June 1976 Mr Healey was still confident. Interviewed on BBC TV he said that if we did not reach single figure inflation the following year we would

“reach it a very little later. I would not care to give a precise definition *because I would probably be proved wrong again*, but I would say it could be about 12 per cent by the end of this year, and about 7 per cent by the end of next year” (*Daily Telegraph*, 17th June 1976).

His confidence was based on the reduction in the rate of wage inflation that had followed from the introduction of the £6 a week pay limit in July 1975. This benefit was, however, seriously offset by the effects of the disastrous fall in the sterling exchange rate in the Summer and Autumn of 1976. On 30th June 1976, Mr Healey admitted:

“Because of the depreciation (of sterling) which has taken place in recent months, and the increase in commodity prices which has begun ... We will not get into single figures now until late Winter or early Spring” (*Times*, 1st July 1976).

In October 1976 he declared:

“Our objective, which we intend to ensure is achieved, is to bring our inflation down to that of the mean of our international competitors by the end of next year” (*Hansard*, 14th October 1976 Col. 620).

The moment of truth arrived when the Letter of Intent to the IMF was published on 15th December 1976, together with the Government's economic forecast. This showed that inflation was expected to be running at a rate of 15 per cent even at the end of 1977—a rate that it had already reached by December 1976. The short-lived falling off in price increases due to wage restraint had been effectively cancelled out by the collapse of confidence in sterling—itsself a consequence of our creditors' alarm at the Labour Government's levels of spending and borrowing (see Chapter 3).

**Three-Year Record.** By January 1977, the rate of inflation had risen to 16·6 per cent (January 1976—January 1977). The Price Commission, in its quarterly report published in January 1977, warned that worse was to be expected in the early months of 1977, as the effects of the 1976 fall in the sterling exchange rate and the very sharp increase in world commodity prices in the latter part of that year worked through into prices.

In under three years of Labour Government prices had risen by 69·5 per cent; and the value of what Sir Harold Wilson had termed “the pound in your pocket” had fallen to 59p., while the international exchange rate of the pound sterling had fallen by a quarter (see also Chapter 11, p. 277).

The rise in the Index of Retail Prices is shown in the following table:

	Index of Retail Prices (January 1974 = 100)		
	Feb. 1974	Jan. 1977	Increase %
All items	101·7	172·4	69·5
Food: Total	100·9	183·1	81·5
Seasonal	97·6	214·8	120·1

Index of Retail Prices  
(January 1974 = 100)

	Feb. 1974	Jan. 1977	Increase %
Alcoholic Drink	101·2	173·7	71·6
Tobacco	100·9	193·2	91·5
Housing	101·4	154·1	52·0
Fuel & Light	102·6	198·8	93·8
Durable household goods	100·6	157·0	56·1
Clothing & Footwear	102·6	148·5	44·7
Transport & vehicles	104·3	178·9	71·5
Meals out	101·0	172·3	70·6
Services	100·6	166·8	65·8
Miscellaneous goods	102·0	176·2	72·7

(Source: *Department of Employment Gazette*)

Mrs Sally Oppenheim, Conservative spokesman on Prices and Consumer Affairs, summed up the Labour record as “the longterm consequence of the bungling and deceit of 1974–5.” The Government had totally failed to take the opportunities which presented themselves to reduce inflation.

“The year-on-year increase in prices is still the highest of all our main competitors (except Italy) while our three-monthly rate of price increases is more than double and in some cases three times that of our main competitors (except Italy); both are at the highest levels since July 1975. So that another sharp upward trend in prices is now clearly established.

“... this all means that pensioners and housewives will have a hard and gloomy struggle to balance their budgets—some are desperate already. Most families are having to give up at least one important item that has been in their weekly budgets until now.

“I wonder how many people would have voted Labour at the last election if they had been told that prices would rise by 69½ per cent in under three years” (Gloucester, 20th February 1977).

## (C) PRICES IN THE SHOPS

Price indices do not tell the whole story of the effect on family budgets of price increases over the last three years. Many items significant in the normal weekly expenditure of individual families have gone up considerably faster than average. The table below shows a typical weekly food shopping basket for a low income family in 1974 and 1977. It is based on a sample ‘basket’ published regularly in the *Guardian*.

### Food Shopping Basket

The items are chosen to reflect the typical weekly spending by a low-income family with two children on a range of staple foods, but are not intended to make up a complete diet.

	<b>Feb. 1974</b>	<b>Feb. 1977</b>
5 large wrapped and sliced loaves	71p	90
½ lb New Zealand butter	11	26
½ lb Cheddar cheese	17½	32
1 dozen standard eggs	38	58
½ lb standard quality margarine	8	13½
14 pints milk	77	£1·47
1 lb smoked streaky bacon	45	72
1 lb silverside (without bone)	62½	£1·04
1 lb best end neck of lamb (imported)	44½	72
1 lb belly of pork	33½	58
1½ lb beef sausages	39	67½
3 lb broiler chicken	77	£1·17
16 lb potatoes	38½	£2·08
3 lb hearted cabbage	17½	45
2 lb onions	12½	46
3 lb carrots	13½	40
1 lb tomatoes	24	32
1 lb cooking apples	9	18
1 lb dessert apples	11	16
Allowance has also been made for some processed foods which may not be bought every week:		
12 oz. self-raising flour	4½	6
⅔ lb lard	10½	14
1½ kgs granulated sugar*	15½	37½
3 oz instant coffee	8½	16
6 oz lower priced tea	12	24
Total	£7·01	13·59½
<i>Increase</i>		<i>93·9% up</i>
(* 1 kg = 2·2 lb)		

Further examples of increases in prices are given in the tables below:

Sample Food Prices			
(in pence)			
	<b>Feb. 1974</b>	<b>Feb. 1977</b>	<b>Increase</b>
	<b>p</b>	<b>p</b>	<b>%</b>
Bread: 1 large wrapped sliced loaf	14·2	20	41

Sample Food Prices  
(in pence)

	Feb. 1974	Feb. 1977	Increase
	p	p	%
3 lb bag self-raising flour	18	29	61
1 lb silverside (boneless imported)	62·3	104	67
1 lb leg lamb (English)	59·1	92	56
3 lb frozen chicken (pence per lb)	25·6	39	52
1 lb pork sausages	28·9	50	73
1 lb streaky smoked bacon	45·0	72	60
1 lb cod fillets	51·8	97	87
1 lb plaice fillets	61·7	100	62
1 lb potatoes	2·4	13	441
1 lb onions	6·3	23	265
1 lb carrots	4·5	13·3	196
1 lb cooking apples	9	18	100
1 lb dessert apples	11·2	16	43
1 lb lard	15·5	21	35
1 lb New Zealand butter	21·8	54	48
1 lb standard quality margarine	8·2	27	229
1 kg. sugar	10·3	25	143
4 oz. coffee (instant)	33·1	75	127
¼ lb tea (lower priced)	8·1	16	98
1 pint milk	5·5	10·5	91
1 doz. standard eggs	38·0	58	53
375 gm Cornflakes	15·9	26	64
10½ oz biscuits	19·6	31·5	62
(plain chocolate digestive)			
5¾ oz. tin baked beans	5·7	15	163
1 lb marmalade	15·8	26·5	68
1 lb strawberry jam	17·3	29	77
10 oz. tin peas	5·6	9	61
12 oz tin pork luncheon meat	24	36	50
11½ oz tin Cola	6·5	11·5	77

N.B. 1. Feb. 1974 prices are from *Department of Employment Gazette*.

Feb. 1977 prices were not available from this source at time of going to press, and those given are typical supermarket prices.

2. The milk price is of a bottle of standard silver-top milk.

Miscellaneous Typical Retail Prices

**Feb. 1974 Jan. 1977 % Increase**

Petrol 4 Star

### Miscellaneous Typical Retail Prices

	<b>Feb. 1974</b>	<b>Jan. 1977</b>	<b>% Increase</b>
Shell (Typical London price per gallon)	50p	83.5p	67
Cigarettes			
20 Benson & Hedges	30p	50p	67
Special Filter (King Size)			
20 Silk Cut No. 3	21½p	43p	100
Whisky			
Bottle	£2.55	£4.20	65
Beer			
Pint (typical pub price Brewers Society)	13p	26p	100
Cars			
(incl. tax and VAT)			
Mini 850	£739	£1,587	115
Ford Cortina 1300	£1,116	£2,191	90
Range Rover	£2,682	£6,270	134

<b>Clothing &amp; Shoes</b>	<b>Feb. 1974</b>	<b>Feb. 1977</b>	<b>% Increase</b>
Men's suit (2 piece)	£32.50	£46.80	44
Shirt	£2.50	£6.30	152
Pair men's shoes	£11.40	£14.30	25
Woman's summer dress	£6.50	£13.50	108
1 pr. tights (medium price)	60p	46p	-23
Pair woman's shoes	£6.50	£11	69

(Source: CBI estimates and the RPI breakdown for clothing and footwear).

<b>Consumer Durables</b>	<b>Feb. 1974</b>	<b>Feb. 1977</b>	<b>% Increase</b>
Refrigerator (medium price)	£46	£93	102
Gas cooker (medium price)	£42	£122	190
Vacuum cleaner (medium price)	£30	£65	116
T.V. 24" Black & White	£80	£122	53
T.V. 22" Colour	£265	£340	28

(Source: CBI estimates)

<b>Newspapers and Publications</b>	<b>Feb. 1974</b>	<b>Feb. 1977</b>	<b>% Increase</b>
<i>The Times</i>	5p	12p	115
<i>The Sunday Times</i>	10p	22p	120
<i>News of the World</i>	6p	10p	67
<i>Price Commission Quarterly Report</i> (which reports on price increases of all larger firms)	50p	£1.65	230

It should be noted that the very large increases in vegetable prices were aggravated by the 1976 summer drought and heavy autumn and winter rains. Price rises in petrol, tobacco and alcoholic drinks were principally due to increases in tax.

## (D) NATIONALISED INDUSTRY PRICES

Nationalised industry prices were held down by the Conservative Government in 1971–4 as a temporary measure in support first of voluntary and later statutory restraint on prices under the Counter Inflation policy (see Chapter 2, p. 23). It was recognised that this could only be a short-term measure, and that nationalised industry prices would have to return to economic levels if the taxpayer was not to bear the cost of restraint.

Since that time, nationalised industries have, like private industry, been affected by large increases in wage costs and raw material prices.

According to the Price Commission, the Government body responsible for approving price increases, they have contributed an increasing proportion—indeed “a disproportionate share of total price increases”—for much of the period since February 1974 (*Price Commission Quarterly Report*, October 1976). During the first stage of the Price Code, ending in May 1974, 13 per cent of the total *value* of price increases of larger companies (Categories 1 and 2—see p. 131) was accounted for by nationalised industries. But by August 1975 nationalised industries' share of the increase, for the whole period, was 23 per cent—an increase of three quarters in their portion of the total value. Prices in the nationalised industries rose at rates which were, in the Commission's words, “much faster than those in the private sector ... a matter of great concern”.

### Nationalised Industry Prices

	Feb. 1974	Feb. 1977	Increase %
Gas			
Gold star tariff, price per therm	7·34p	14·1p	92
Electricity			
Average price per unit	1·03p	2·33p	126
Coal			
Weighted Av. domestic price per cwt.	95p	£1·82p	91
Postage			
2nd class letter	3p	6½p	116
Telephone, local calls			
(3 mins) Day rate	1p	3p	200
Cheap rate	¼p	1½p	350
Rail Fares—2nd Class			
Tonbridge-London (Year season)	£164	£390	138
London-Birmingham (monthly return)	£6·97	£11·20	61
Edinburgh-Glasgow (Day return)	£1·10	£2·20	100

# (E) PRICE CONTROLS

## 1. PRICE RESTRAINT UNDER THE CONSERVATIVE GOVERNMENT

**Voluntary Restraint.** In July 1971, 200 of the CBI's largest member firms voluntarily undertook to limit price increases during the following year to 5 per cent. At the same time, the Government undertook to limit nationalised industry price increases to the same percentage. Voluntary restraint soon proved remarkably successful. In the six months to June 1971 inflation was 13 per cent at an annual rate. By the six months ending in July 1972 the annual rate was more than halved to 5.8 per cent.

**Standstill in Prices.** The Counter-Inflation (Temporary Provisions) Act received the Royal Assent on 30th November 1972. It imposed an immediate freeze on price increases (except those caused by seasonal and raw material price changes) lasting until 28th April 1973.

**Price Code.** Stage II of the Counter-Inflation programme saw the creation of the Price Code. This was introduced as a temporary measure, but has been kept, and tightened, by the Labour Government long after it has ceased effectively to counter inflation and begun to do economic damage.

The main features of the original Price Code were:

(1) **Limitations on price increases** as a result of increases in unit costs. Only "allowable" cost increases (wages, materials, fuel, rent, rates, interest and bought-in services) could be passed on in price increases. The "productivity deduction" meant that only 50 per cent of the cost of wage increases could be passed on.

(2) **Profit margins** of manufacturing companies were not to exceed the average level of the best two of the previous five years. Retailers' and wholesalers' gross percentage margins were not to exceed the level of the previous complete account year before 30th April 1973.

(3) **Investment.** The price or profit limits might be overridden if this was necessary to provide for investment.

(4) **Low profits.** A minimum return on capital of 5 per cent was provided for.

(5) **Categories.** Firms were divided into three categories: Category 1 firms (with home sales of over £50 million) which had to notify proposed increases to the Price Commission; Category 2 firms (with sales between £5 million and £50 million) which had to report regularly to the Price Commission; Category 3 firms (with sales between £1 million and £5 million) which had to keep records for spot checks.

**Price Code in Stage III of Counter-Inflation.** On 1st November 1973 a new Code on prices came into force. The principal changes were: (a) Category 1 firms had to give four weeks' notice of increases; (b) Category 2 firms had to give two weeks'



notice of increases; and (c) the fall in profit margins as a result of the Code was limited to 10 per cent.

## 2. CHANGES IN THE PRICE CODE UNDER LABOUR

**Before the October 1974 Election.** The Price Code which Labour inherited from the Conservatives was not meant to be permanent, and was already beginning to weigh heavily on industry. The Labour Government tightened the Price Code in May 1974, intensifying the squeeze on company liquidity that rising costs had already imposed.

The substantive changes were:

- a. A restriction on the frequency of price increases—with a few exceptions, the price of an article could not be increased within three months of an earlier increase.
- b. Gross margins of distributors were reduced by 10 per cent.
- c. Stock already on retailers' shelves could no longer be repriced.

All these measures contributed to the weak financial position of the corporate sector in mid-1974 and to the carefully-engineered temporarily low increase in prices which enabled Mr Healey to announce just before the election in October 1974 that the rate of inflation was 8·4 per cent (Press Conference, 23rd September 1974).

**After the Election.** On 12th November 1974, Mrs Shirley Williams, then Secretary of State for Prices and Consumer Protection, published a Consultative Document, *Review of the Price Code* (Cmnd. 5779). This document described Stage 4 of the Counter-Inflation policy, which came into effect on 20th December 1974. The principal changes were:

(i) A reduction in the *productivity deduction* so that firms could pass on 80 per cent of increases in labour costs rather than 50 per cent.

(ii) The introduction of *investment relief* so that firms could recover from prices 17½ per cent of the cost of capital investment (the figure was raised to 20 per cent in the April 1975 Budget).

(iii) The introduction of certain *safeguards*:

- a. distributors were allowed to increase their gross profit margins by 5 per cent in order to raise their net profits to 75 per cent of reference levels.
- b. Companies which could show an erosion of the profit margin of one third on an individual product would obtain relief on that product.
- c. The minimum permitted rate of return on net assets was raised from 8 to 10 per cent.

The Government estimated that the reliefs in the new Code would benefit corporate profitability by about £800 million.

**Introduction of Pay Controls.** On 8th August 1975 the Price Code was amended so that it could be used to enforce the £6 per week limit on pay increases. If the Department of Employment certified that a pay settlement was in breach of the £6 limit, no part of the increase in labour costs as a result of the settlement could be passed on in prices. This formula enabled the Government to justify its denial that it had introduced a statutory pay policy (see Chapter 2, p. 37).

Stage V of the Price Code, which coincided with Stage II of Labour's pay policy, began on 1st August 1976. By then it had become clear that the effects of the Code on company profits—and hence investment—were very severe, and the Government was forced to concede some relaxations of the Code.

The Government's proposals were set out in the White Paper, *Modifications to the Price Code* (Cmnd. 6540), and slightly amended in the Chancellor's statement of 22nd July 1976. The main changes were:

- A rise in the rate of investment relief from 20 per cent to 50 per cent.
- A rise in the factor for calculation of the depreciation of firms, assets to 1.4.
- Abolition of the productivity deduction.
- The allowing of a deduction of 30 per cent from profits for the effect of stock appreciation.
- A rise in the minimum return on capital from 10 to 12½ per cent, and the margin on turnover from 2 to 2½ per cent.
- A change in categories to offset the effects of inflation: all manufacturers with home sales of more than £10 million had thenceforth to notify increases to the Price Commission.

The Government estimated that the changes would be worth just under £1,000 million to industry (a benefit almost completely obliterated by the payroll tax to start in April 1977—see Chapter 2, p. 46) and would increase the retail price level by about 1 per cent over one year.

### 3. CAMOUFLAGING INFLATION

The Labour Government has tried several devices to disguise the extent to which prices in the shops were rising. They have been singularly unsuccessful.

**“Price Check”.** The “Price Check” scheme was a voluntary agreement between the Government and certain manufacturers and retailers to keep increases in the price of certain goods within 5 per cent for 6 months from 1st February 1976. The scheme covered 15 to 20 per cent of consumers' expenditure. Firms could raise the prices of goods outside the scheme in order to subsidise goods within the scheme—and raise prices even of goods within it by more than 5 per cent if their costs rose. The scheme was wholly cosmetic: most of the goods covered were selected precisely because they would not rise in price by more than 5 per cent in six months anyway.

**Bread Price Fiasco.** In December 1976 Mr Hattersley attempted to cut the price of bread, and almost certainly succeeded in raising its price above what it might have been had he not intervened. In November he froze a price increase that the Price

Commission had approved because costs had risen. On 13th December he allowed a 1p increase, raising the statutory maximum price of a standard loaf to 21p. At the same time, he removed the limit on the discounts that retailers negotiate with bakers (set by Mrs Shirley Williams at 22½ per cent). Retailers were to pass on the benefit of any larger discount in lower prices. Mr Hattersley was reported to have predicted that this could lead to very substantial cuts in the price of bread in the shops, and claimed that “standard bread is not as cheap as it could be” (*The Times*, 14th December 1976).

Some delivery drivers promptly boycotted shops selling bread at less than 17p (later 19p) because they feared loss of jobs if small retailers were driven out of business by price cutting. In January 1977 several major bakeries applied to the Price Commission for a further price increase to offset losses incurred through giving larger discounts. And Mr Hattersley admitted that the average price of a large loaf (sliced) had risen to 20½p, compared with 19½p in December 1976 (*Hansard*, 7th February 1977, Col. 1033). On March it went up a further 1p.

Mrs Sally Oppenheim, while stressing Conservative's concern over both the price of bread and the viability of the bakery industry and jobs within it, summed up Mr Hattersley's action as “nothing more than a conjuring trick—Government by gimmickry” (Statement, 14th December 1976).

## 4. EFFECT OF PRICE CONTROLS ON THE ECONOMY

Company profits and liquidity have been declining for over two decades. Price controls have considerably hastened the deterioration, as shown in the table below.

share of gross trading profits of companies in total domestic income  
(both net of stock-appreciation)

	<b>Per cent</b>
1950–9 (average)	15·0
1960–9 (average)	13·5
1970	10·5
1971	10·8
1972	10·5
1973	9·8
1974	6·7
1975	6·0

(Source: CBI, *Economic Trends*)

The Conservative Government introduced the Price Code in 1973 as part of a concerted strategy against inflation, which included restraint on wages. The Labour Government came to power in March 1974 and unhesitatingly made clear that it intended to turn an instrument of policy that was supposed to be temporary into a permanent one. Soon afterwards it abolished the control on pay. Tight price controls combined with high pay awards formed part of the Labour Party's bid for votes at the

October 1974 election. They were inevitably followed by a worse trade balance, rapid inflation, a fall in investment and high unemployment. In one year between 1973 and 1974 the share of profits in total domestic income fell by more than three percentage points.

## **5. THE SOCIAL CONTRACT AND PRICE RESTRAINT**

Control of prices has been made a condition of wage restraint by the TUC since 1972. The unrealistic demand that fresh food prices should be controlled prevented agreement with the Conservative Government on a voluntary package of measures to counter inflation in November of that year. Since the Labour Government took office, price restraint has formed part of successive editions of the Social Contract. It has been pursued at the cost of unemployment for hundreds of thousands thrown out of work because the firms they worked for have been forced to close down or contract. It threatens to hold down our standard of living for many years to come because essential investment has not been carried out and our industries are less productive and far less profitable than they should be.

## **6. THE CONSERVATIVE APPROACH**

Conservatives believe that this is too high a price to pay for the marginal reduction in retail prices that price controls on the present pattern can achieve when world prices are rising as fast as they have over recent years.

The Conservative view was set out in *The Right Approach*:

“Further substantial relaxations of the Price Code are urgently required. One important objective must be a reduction in the large administrative burden that it now involves. If total removal of the Code is not yet possible the present system must certainly give way to one that recognises the need for a return to profitability and is at the same time more flexible and responsive to current consumer requirements”.

## **(F) FOOD SUBSIDIES**

The Conservative Government made very limited use of food subsidies. When it left office in February 1974, the price of milk was held down to 5·5p a pint by a subsidy costing £180 million a year. Butter carried a subsidy of 2p per lb, at a cost of £18 million a year, half of which was paid for out of EEC funds.

The Labour Government was committed by its February 1974 Manifesto to increasing subsidies. In his first Budget, in March 1974, Mr Healey announced a two-part programme to reduce prices by selective price controls and by subsidies. £500 million was allocated for subsidies for 1974–5 (*Hansard*, 26th March 1974, Col. 297). Powers to spend up to £700 million were taken in the Prices Act introduced by Mrs Shirley Williams on 3rd April 1974.

Subsidies were applied as follows:

**Bread:** ½p on a standard 14 oz loaf, at a cost of £21 million in a full year. (Smaller loaves, often bought by pensioners, were not subsidised.) (Announced 20th April 1974).

**Milk:** the subsidy was increased in order to reduce the price from 5·5 to 4·5p a pint at a cost of an additional £134 million (announced 9th April 1974).

**Butter:** the existing 2p per lb subsidy was increased to 5½p per lb at an additional cost of £33 million in 1974–5 (announced 1st April 1974).

**Cheese:** a subsidy was applied to about 65 per cent of hard cheeses to offset the 5p per lb increase that would otherwise have followed price increases agreed in the EEC.

The subsidies were expected to reduce the rise in the Index of Retail Prices by about 1½ per cent, and the rise in food prices by roughly 6 per cent—reductions swamped by other price-raising measures in the Budget (see p. 29). Only one quarter of the benefit was estimated to go to families with less than £30 a week, (*Hansard*, 20th May 1974, Col. 3); nearly half went to families with over £50 a week, well above average earnings at the time.

In July 1974, as part of the pre-election mini-Budget, a further £50 million was allocated from the £500 million budgeted for in March. Subsidies were applied to tea (8p per lb on ordinary teas) and flour (3p per 3 lb bag).

A second Prices Act, which received the Royal Assent on 8th May 1975, provided for a further £500 million to be spent on food subsidies, up to 31st March 1976, and for a further £500 million which could be allocated by order after that date—bringing the total to £1,700 million.

**Phasing Out.** Conservatives throughout criticised this expenditure on indiscriminate subsidies as a wasteful and most inappropriate way of helping lower income groups. In January 1975 the White Paper on Public Expenditure (Cmnd. 5879) indicated that the Government was having second thoughts about the policy. Spending in 1975–6 was to be reduced to £420 million, compared with £488 million in 1974–5. In his April 1975 Budget Mr Healey announced that food subsidies were to be cut by a further £150 million to £270 million in 1976–7. Within three months, however, this decision was changed in the package of measures announced by Mr Wilson on 11th July.

The White Paper, *The Attack on Inflation* (Cmnd. 6151, 11th July 1975) stated:

“The Chancellor of the Exchequer announced in the April Budget that it would be necessary to phase out the food subsidies over a period, starting early in 1976. As a contribution to protecting the living standards of low income families and pensioners during the period of the policy the Government propose to spend £70 million more on food subsidies during 1976–7 than the amount envisaged in the April Budget”.

It was a decision widely criticised by Conservatives. At a time when cutting public expenditure should have been the Government's priority it chose instead to increase wasteful expenditure as part of the price paid for the Social Contract.

On 22nd July 1976, as part of the first round of cuts in public expenditure, Mr Healey announced that the phasing out of food subsidies would be accelerated, to save £80 million in 1977–8. This was expected to add 0.1 per cent to the Index of Retail Prices. On previous plans subsidies would have been “largely phased out” by 1978–9 (*Hansard*, 22nd July 1976, Col. 2016).

The subsidy on bread was cut by ½p in August 1976. The butter subsidy was cut by 4p in June 1976, by 3p in November and by 4p in December, when it was withdrawn. The cheese subsidy was cut by 2p in January 1976, by 3p in November and by 4p in December. The tea subsidy ended in September 1976.

In the second round of spending cuts, announced on 15th December 1976, phasing out was again accelerated, to save a further £160 million in 1977–8 and £60 million in 1978–9.

Expenditure on food subsidies since 1974 and the amounts of subsidy paid on foods at various dates are shown in the following tables:

#### Expenditure on Food Subsidies

(£ million, current prices)

**1974–5 1975–6 1976–7 1977–8 1978–9**

517.6 571.7 409 37 2

(*Source*: Public Expenditure White Papers)

#### Foodstuffs Subsidised

(in pence)

	1973	1974	1974	1975– 6	1976	1976	1976
	June– Dec	Jan– May	June– Dec	Jan– May	June– Oct	Nov– Dec	Dec–
Bread (large loaf)		2	2½	3 <sup>1</sup>	2	1½	1
Butter <sup>1</sup>	2	6½	9	11	7	4	
Cheese		7	12	10	10	7	3
Flour 3 lb bag			3	3	3	1	1
Milk	1	2	2½	2	2	1 <sup>1</sup>	1
Tea			8	8	8		

*Notes*: Subsidies are given in pence per pound for butter, tea and cheese, pence per 3 pound bag of household flour and pence per pint for milk. A large loaf weighs at least 14 oz.

1. Bread reduced to 2p in November 1975. Butter includes a variable EEC subsidy. Milk 1p from December 1st 1976

Foodstuffs Subsidised

(in pence)

1973	1974	1974	1975- 6	1976	1976	1976
June- Dec	Jan- May	June- Dec	Jan- May	June- Oct	Nov- Dec	Dec-

2. Figures indicate the *maximum* value during each period

**What the subsidies meant to ordinary families.** In 1976-7 food subsidies were estimated to save only 0.4 per cent on the Retail Price Index. The savings to various types of household as a result of subsidies were:

	<i>Pence per week</i>
Average family with two children	58
Average family with four or more children	94
Single pensioner	20
Pensioner Couple	32

(*Hansard*, 11th October 1976, Col. 11)

## (G) CONTROL ON DIVIDENDS

Control over dividends was introduced as part of the comprehensive standstill on prices and incomes under the first stage of the Counter-Inflation measures from November 1972 to April 1973. Companies might not declare a dividend (final or interim) in excess of the corresponding amount in the same period the year before. During Stage 2 of the policy between April and November 1973 dividends were not to exceed by more than 5 per cent the amount declared by the company for the preceding year. This limit was retained during the third stage, starting in November 1973, with latitude for firms that needed to raise new capital.

As the recession deepened under the Labour Government and profits sharply declined, the effect of the control on dividends became very much more severe than the control on incomes that it was meant to parallel. While increases in dividends were held to 5 per cent, it was impossible to offset loss of income on shares on which no dividends were paid against increases in those from firms where profits were still being made—and increases became fewer. The effect on pension funds and on the incomes of many retired people on small investment incomes was severe.

Largely as a result of Mr Healey's March Budget, a severe liquidity crisis in industry developed in the Summer of 1974. In July, as part of his attempt to repair the damage, Mr Healey raised the limit on increases in dividends from 5 to 12½ per cent, and said that the rule permitting higher distribution where there was a case for special treatment on investment grounds would be applied flexibly. The control was to be comprehensively reviewed the following year, with the assistance of the Royal

Commission on Income Distribution. Mr Healey effectively accepted Conservative arguments for relaxation of the control when he said that it would

“Help many retired people and assist the life insurance and pension funds which look after the savings of millions of people of modest means” (*Hansard*, 22nd July 1974, Col. 1054).

The 12½ per cent limit soon, however, became as severe as the lower limit had been, as the rate of inflation rose to over 25 per cent.

**The Conservative View** was given in *The Right Approach* which said that further relaxation was needed, if firms were to obtain funds for investment and job creation.

Sir Geoffrey Howe has spoken of the

“...catalogue of unfairness and inefficiency that flows from strict dividend control. Are not the absurdities of present policy becoming glaring enough?

1. Private investors have practically abdicated from the equity market.
2. Institutions face the Hobson's choice of government securities because the risk reward ratio of most companies has lost its appeal.
3. The real victims are not wealthy shareholders but people living on low incomes and occupational pensions, who are also smarting under the impact of investment income surcharge.
4. Resources for investment are less and less forthcoming and deployed with declining efficiency”.

(Source: *The Future of Dividend Control. Paper*, 11th January 1977).

## **(H) CONSUMER PROTECTION**

### **1. THE CONSERVATIVE RECORD**

The Conservative Party has always been more active in consumer protection than Labour. The Conservative Government of 1959–64 greatly expanded the functions of Citizens' Advice Bureaux and set up the Consumer Council. It also enacted three important pieces of legislation to help the consumer:

- The Weights and Measures Act 1963
- The Hire Purchase Act 1964
- The Resale Prices Act 1964

The only major measure of consumer protection enacted by the Labour Government of 1964–70 was the Trade Descriptions Act 1968, which gave effect to some of the recommendations of the Molony Committee set up by the previous Conservative Government.



**The 1970–4 Conservative Government** made several advances in consumer protection:

(i) **A Minister for Consumer Affairs.** A new ministerial portfolio was created, that of Minister of Trade and Consumer Affairs. Sir Geoffrey Howe was appointed to this post on 5th November 1972 and given a seat in the Cabinet, with responsibility for co-ordinating the hitherto fragmented programmes of consumer protection in various Government departments.

(ii) **The Fair Trading Act 1973** strengthened the law on monopolies, mergers and restrictive practices. It created the Office of Fair Trading, widely recognised as one of the most successful bodies of its kind. The Director General can recommend that the Government act by Order (under the Fair Trading Act) to prevent abuses. The Fair Trading Act also imposed controls on pyramid selling.

(iii) **Consumer Advice Centres.** The network of local consumer advice centres was expanded, bringing benefits both to consumers and to small retailers who were able to obtain advice on their dealings with wholesalers.

(iv) **The Supply of Goods (Implied Terms) Act 1973** rendered void clauses in sale contracts that deprived the consumer of basic rights.

(v) **The Insurance Companies Amendment Act 1973** improved the safeguards available to insurance policy holders.

(vi) **Consumer Credit.** In September 1968 the Crowther Committee was appointed by the then Labour Government to review consumer credit. The Committee's report (Cmnd. 4596) in March 1971 recommended a thorough overhaul of the laws governing such credit. After lengthy consultation with all interested parties the Conservative Government's proposals were published in a White Paper in September 1973, *Reform of the Law on Consumer Credit* (Cmnd. 5427), and embodied in the Consumer Credit Bill which received its Second Reading on 14th November 1973 but lapsed at the February 1974 General Election.

Another important measure was the Unsolicited Goods and Services Act 1971, a Private Member's Act introduced by Mr Philip Goodhart, Conservative MP for Beckenham, which provides protection for people receiving unsolicited goods and services.

Legislation on unit pricing was introduced in 1973 but failed to become law before the General Election in February 1974 (see p. 140).

## **2. LABOUR'S RECORD**

The Labour Government has shown very little interest in consumer protection. Its main legislation has been the Unsolicited Goods and Services (Amendment) Act 1975, which made a very minor amendment to the Unsolicited Goods and Services Act 1971 mentioned above.

**The Consumer Credit Act 1974.** The Labour Government completed the enactment of the Consumer Credit Bill begun under the Conservative Government. The Act requires anyone supplying credit, or advising on it, to obtain a licence to do so. The licensing system is supervised by the Director General of Fair Trading. Although the principle of the Act is sound, Labour went further than a Conservative Government would have done, as Mrs Oppenheim, Shadow Spokesman for Prices and Consumer Affairs, pointed out:

“Is the Minister aware that the licensing provisions under the Act are now operating in a ridiculously bureaucratic way and drawing in people such as newsagents who were never intended to be affected? Will he undertake to review the matter urgently with a view to amending the legislation? Is he aware that if he does not do that, the next Conservative Government will?” (*Hansard*, 5th July 1976, Col. 941).

**National Consumer Council.** On 29th January 1975 Mrs Shirley Williams announced the establishment of this body (*Hansard*, Cols. 192–3), whose principal function is to represent the views of consumers to the Government. In the year 1975–6 it received a government grant of £320,000 (NCC Accounts for 1975–76).

### 3. THE CONSERVATIVE APPROACH

Consumer protection has sometimes come into disrepute because it has led to excessive bureaucracy and interference, imposing additional costs on industry and on the taxpayer so that, in the end, the consumer suffers rather than benefits. The Labour Government's handling of the Consumer Credit Act is an example of this.

Mrs Oppenheim set out the Conservative view on consumer protection, and its proper role in fostering the interests of the consumer and promoting efficiency in industry at the same time, when she spoke at the 1976 National Consumer Congress at Aston University, Birmingham. Mrs Oppenheim defined consumer protection as:

“the establishment of the rights of the individual in relation to an obligation to fair practice in commerce and industry, an obligation which in the vast majority of cases is fulfilled. The conflict between the growth of consumerism and healthy trade and industry can only arise where the protagonists of *either* are too strident or unreasonable in their claims or demands. But no such conflict should exist between the interest of either because the two are essentially complementary, and no-one who genuinely has the interests of consumers at heart can protect those interests by destroying or harming those industries and trades on which the economy of the country depends. If the balance between the two becomes uneven or unfair, it must be righted quickly before resentment, animosity or suspicion grow, and wherever possible before legislation is needed, and not after it *has* to be introduced” (18th September 1976).

She went on to say that good consumer practices help to raise standards and ensure active but fair competition in the economy as a whole.

Some aspects of consumer protection such as packaging and labelling requirements add to costs and to prices. Priorities must be selected, and cost must be a consideration.

Great care would have to be taken to ensure that the simplest and most effective form was adopted in each case. A more uniform and cost effective national consumer advice policy was needed when the finance can be provided.

Mrs Oppenheim said that the small shopkeeper and the consumer movement would all benefit if smaller businesses were subjected to the barest minimum of consumer legislation and exempted from the greater part. Medium and large businesses in trade and in industry, which were trading fairly, had no need for concern at consumer protection legislation.

There was, however, still no adequate effective protection for consumers of nationalised industries' goods and services, and in some areas, such as servicing, standards were far from satisfactory.

## 4. UNIT PRICING

**The Conservative Government.** On 12th December 1973 Sir Geoffrey Howe, as Minister for Trade and Consumer Protection, introduced a Unit Pricing Bill intended to give the Government power to require unit pricing—that is the marking of pre-packaged goods with their price per unit of quantity, Xp. per pound or Yp. per pint—as a matter of routine in relation to any particular commodity. Attempts to introduce such legislation had been made twice before by the Conservative MP for Cannock, Mr Patrick Cormack, in 1971 and 1972. The Government's Bill was introduced after a study had been made of unit pricing in other countries. It would have enabled the Minister to make orders and regulations applying unit pricing to appropriate commodities, subject to Parliamentary approval. It would, as Sir Geoffrey Howe said, lead to 'significant improvements for the consumer' (*Hansard*, 30th January 1974, Col. 570). It was expected that orders would be made first for meat, fish, fruit and vegetables. The Bill passed all its stages in the House of Commons, but had not been debated in the House of Lords at the time of the General Election in February 1974.

**The Labour Government** introduced powers to require unit pricing in the Prices Act 1974, presented by Mrs Shirley Williams on 3rd April 1974. Two orders only were made under the Act in the first two years. These related to pre-packed meat, some forms of fish and non pre-packed minced offal, and certain non pre-packed fruit and vegetables.

## (I) METRICATION

Adoption of the metric system was recommended by the Hodgson Committee on Weights and Measures in 1951. Since that time, industry has been gradually converting to metric measurement.

On 24th May 1965 the Labour Government announced in a written Parliamentary answer (*Hansard*, Col. 32) its decision that this country should convert to the metric system. Parliament has never since that time been given the opportunity to vote on the principle of metrication. In 1969, after pressure from industry, the Labour

Government appointed the Metrication Board to co-ordinate the changeover, and remove the remaining legislative obstacles to metrication.

In February 1973 the Conservative Government published a White Paper on Metrication (Cmnd. 4880). The Government's aim was that the changeover to the metric system, where it was shown to be necessary, should be approached, as Sir Geoffrey Howe said, "in a rational and orderly fashion" (*Hansard*, 24th July 1973, Col. 1434). The intention was to enable industry to change over at its own convenience so as to minimise costs and price increases, and also to provide the consumer with adequate information and safeguards.

The Labour Government has introduced legislation on metrication in **the Weights and Measures etc. (No. 2) 1976 Act**. This gives the Secretary of State the power to specify what weights and measures may legally be used. These are listed in a schedule of allowed units, which is appended to the Bill. It contains both Imperial and Metric units and the Minister can at any time add or remove items from this list provided the affirmation of both Houses of Parliament has been obtained. The Bill amends the 1963 Weights and Measures Act under which restrictions were placed on the sizes, weights etc. in which goods may be sold. Although certain manufacturers (e.g. of, prescribed quantities of sugar) have voluntarily ceased selling in imperial units, imperial units could not be compulsorily phased out under the 1963 Act. Hence an amending Bill was required.

The original Weights and Measures Bill intended to amend the 1963 Act was hastily withdrawn in 1976 as a result of Conservative opposition, and a second was introduced in the Lords, just before the Summer Recess.

During the passage of the Bill, important concessions were made by the Government as a result of pressure from Mrs Oppenheim and other Conservative MPs.

Three substantive alterations to the Bill have resulted from this Conservative pressure. Perhaps the most important is that the mile, the inch, the pint and the gallon are preserved and exempted from universal statutory metrication. Only in a specific sphere of trade, and only with the affirmative consent of both Houses of Parliament, can exceptions be made. This is, as Mrs Oppenheim said, "a historic amendment in the annals of metrication" (*Hansard*, 2nd November 1976, Col. 1253).

Second, an assurance has been won from the Government that a wide range of foods (e.g., bread, pre-packed potatoes, tea, cereals etc.) will be able to continue being sold in imperial units until at least April 1978. Finally, fish, meat, vegetables and fruit sold in weighed-out-quantities will not be the subject of compulsory metrication until after the end of 1979.

In both these last two cases, the Government will not necessarily enforce metrication immediately after those dates. These two amendments will help to ensure that further fuel is not added to food price rises, through a changeover at a time when prices are rising fast.

## 6. INDUSTRY

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## Speaking Note

### The Condition of British Industry

Labour's period of office has seen a drastic and dangerous deterioration in Britain's industrial performance.

- Real profits have declined to their lowest recorded level.
- Investment has fallen more sharply than at any time since the War.
- Industrial production has fallen below the levels of the three-day week.
- The number of bankruptcies in 1976 was the highest ever recorded.
- Unemployment is at levels not seen since the Thirties.

### Causes of Decline

Adverse world conditions have created difficulties for all major industrial countries, but the severity of the industrial crisis in Britain is in large measure a consequence of the policies of the Labour Government.

- Labour have allowed the rate of inflation in Britain to reach levels far in excess of the average among our international rivals.
- Labour have allowed the Price Code to reduce investment and destroy jobs.
- Labour initially imposed an unmanageable tax burden upon industry.
- Labour destroyed confidence by subjecting huge areas of private industry to the threat of nationalisation. Labour's nationalisation programme includes the take-over of British Leyland, North Sea Oil, the Aerospace Industry, the Ship-building Industry, and the nation's entire resources of building land. The new National Enterprise Board has power to buy into *any* manufacturing company, while the Labour "Programme for Britain, 1976", endorsed at the 1976 Conference, advocates nationalisation in nearly 40 sectors of the economy.
- Labour have wasted scarce resources and reduced the efficiency of industry by propping up "lame ducks" which have no prospect of viability. Expensive financial support for unproductive jobs can only delay redundancies in assisted companies. These subsidies have meant a loss of jobs elsewhere because fewer

resources have been available for viable companies. Moreover, by fostering a false sense of security, indiscriminate “job preservation” has discouraged the improvements in productivity upon which real job security depends.

- Labour have penalised small businesses (see Chapter 7).
- Labour's huge increase in public borrowing is starving private industry of funds needed for investment. In order to finance its massive borrowing requirement, the Government is making unprecedented demands on the financial markets, which threaten to “crowd out” the private sector. The inevitable outcome of the Government's over-borrowing was the raising of the minimum lending rate to a record 15 per cent.

## **Conservative Strategy**

*The Right Approach* outlines the principles underlying Conservative policy towards industry.

### **The next Conservative Government will:**

- Restore confidence by ending the threat of nationalisation.
- Encourage wealth creation rather than wealth consumption by allowing the higher real post-tax profits which can alone enable investment and by making “further substantial relaxations of the Price Code”.
- Cut public spending in order to reduce inflation and release the necessary financial and other resources for investment in productive free enterprise.
- End the ideological intervention in industry practised by the Labour Government. By restoring safeguards on assistance under the 1972 Industry Act Conservatives would make it more difficult for government to support unviable firms, without making it impossible to support potentially viable firms where assistance can be justified in Parliament.
- Maintain a dialogue with industry through the NEDO apparatus.

## **(A) PARTY RECORDS CONTRASTED**

### **1. CONSERVATIVE RECORD**

The present malaise of British industry results in part from the long-term problems of declining profits and profitability. Over the last two decades both have fallen consistently. This progressive and increasingly dramatic decline in the return on capital has been the main reason for the fall in investment which extremist members of the Labour Party have been eager to depict as an “investment strike”.

Under the last Conservative Government some check in this long-term downward trend became apparent (see p. 144); Conservative policies were, however, ultimately undermined by the energy crisis and the sharp rise in oil prices in the winter of 1973–4.

The Conservative Government assisted British industry through direct legislative action. On 27th October 1970 Lord Barber announced reductions in Corporation Tax from 45 to 42½ per cent, while at the same time abolishing the inefficient system of investment grants and improving depreciation allowances. Free depreciation for plant and machinery was made available throughout the country in March 1972. The Industry Act 1972 (see p. 178) introduced a new structure for selective and regional assistance to industry.

After an initial delay, because industrial confidence took time to recover from the effects of 6 years of stagnation under the Labour Government of 1964–70, industrial production rose dramatically. Under Labour, industrial production had risen on average by only 2½ per cent per annum. By the end of 1972, production was rising at an annual rate of 8·4 per cent; and it continued to rise until the outbreak of the energy crisis in the autumn of 1973.

**Investment.** Rates of return on capital on the most significant measure, i.e., at replacement cost and after providing for stock appreciation, had declined by almost 40 per cent between 1964 and 1970. In the period 1971–3 they increased once more. Labour leaders like to pretend that there was little new investment in this period, and that resources were squandered on largely non-productive and speculative ventures. In truth, again after an initial delay, there was an upsurge in both actual and planned investment. By the autumn of 1973 officially recorded investment intentions were at an all-time high (Department of Trade and Industry, *Investment Intentions Survey*, September 1976); and in normal circumstances (i.e., without the energy crisis and substantial new taxation) this would have implied a substantial rate of industrial growth in ensuing years. Indeed, Mr Healey declared in his 1974 Budget speech:

“Business is in a uniquely favourable position today” (*Hansard*, 1st April 1974, Col. 1007).

## 2. CONDITION OF INDUSTRY UNDER LABOUR

In contrast to Conservative achievements, the latest period of Labour rule has seen the most drastic decline in British industrial performance since the war.

**Profits** have been virtually eliminated. *The Bank of England Quarterly Bulletin* (March 1976, Vol. 16 No. 1) shows that, allowing for inflation, the real post-tax rate of return on the capital stock of industrial and commercial companies would have fallen to zero in 1974 but for stock relief. Even so, real rates of return for all British companies are now at uniquely low levels rendering it impossible for many companies to finance internally any new investment.

Rates of Return on Capital Employed, 1964–75

(All companies at current replacement costs after providing for stock appreciation.)

	<i>Rate of Return</i>
1964	10·6
1967	8·9
1970	6·4

Rates of Return on Capital Employed, 1964–75

(All companies at current replacement costs after providing for stock appreciation.)

	<i>Rate of Return</i>
1971	7·0
1972	7·3
1973	6·7
1974	3·2
1975	2·0

(Source: *Trade and Industry*, 8th October 1976).

**Production.** Since April 1975 industrial production has remained *below* the level of the three-day week. The recovery which was alleged to be imminent in the first quarter of 1976 has yet to materialise and, when adjustment is made for measurement by deliveries, production would appear to have been virtually stagnant throughout 1976 (see also Chapter 11, p. 278).

**Productivity.** While industrial output remains stagnant the level of output per head in British industry has declined noticeably from 1973 levels. Although a recovery in productivity has been discernible since the second half of 1975, and although the Social Contract claimed that ‘priority should be given to negotiating agreements which will have beneficial effects on unit costs and efficiency’ (*Collective Bargaining and the Social Contract*, June 26th 1974), the first year of the Social Contract saw a distinct decline in output per head. (For details, see Chapter 11, p. 281).

Several recent studies, including the Select Committee on Nationalised Industries’ examination of the steel industry (see p. 171) and the CPRS report on the motor industry (see p. 162) have again cited low productivity as one of the main factors undermining the competitiveness of British industry. However, little has been done by the Government to attack the problem, and the decline in productivity which usually accompanies a recession has been more marked than usual.

**Bankruptcies.** In 1975 company bankruptcies were more than twice as numerous as in 1973. In 1976 unadjusted figures for failures published in *Trade and Industry* (4th February 1977) were 12½ per cent up on the record levels of 1975 and well over double those in 1973—6,070 failures as against 2,575.

**Investment.** Measured at 1970 prices, investment by all industries in 1975 was over 14½ per cent down on figures for 1973. In the 1976 investment by manufacturing industries was a further 5 per cent down on the levels of 1975. (Department of Industry, 24th February 1977).

The Department of Industry predicted that in 1977 there would be a strong recovery, with investment 15–20 per cent above 1976 levels (*Investment Intentions Survey*, October 1976). If so, it is all the more urgent that the Government acts to release resources to the private sector. But this survey was concluded before the rise in Minimum Lending Rate to 15 per cent. CBI Monthly Trends Surveys published in November and December 1976 showed a very sharp downturn in business confidence although the February 1977 Quarterly Trends Survey indicates a modest return of



confidence. Industrial investment in 1977 may still not reach the levels predicted by the Government.

### 3. LABOUR'S RESPONSIBILITY

The Labour Government has constantly sought to throw the blame for its record of industrial failure on external forces for which it disclaims responsibility.

Certainly the energy crisis, world-wide recession and inflation have created grave difficulties for all major industrial countries. Moreover, British industry is undeniably afflicted by long-standing structural problems which antedate the present Government. But the Government's misguided economic policies and Socialist priorities since 1974 have revived and accelerated the trend of decline over the last two decades which the last Conservative Government had attempted to cure.

## (B) INDUSTRY AND ECONOMIC POLICY

### 1. CONSEQUENCES OF LABOUR'S MISMANAGEMENT

Labour's mishandling of the economy has dealt industry a succession of severe blows.

**Inflation.** The continuing high rate of inflation under the Labour Government has had a damaging effect on the costs, profits and competitiveness of British companies. (For table of inflation rates in competing industrial countries, see Chapter 5, p. 126)

**Increased Controls on Prices.** The Price Code (see also Chapter 5, p. 131) has become a constraint on profitability and cash flow. Its damaging effects are increasingly felt in low investment and lost jobs. It also imposes a serious administrative burden on industry. (ICI have estimated that its administrative costs resulting from the Price Code reach £½ million a year.) As *The Right Approach* commented:

“Further substantial relaxations of the Price Code are urgently required ... If total removal of the Code is not yet possible the present system must certainly give way to one that recognises the need for a return to profitability.”

**Dividend control**, similarly, has become increasingly onerous (see Chapter 5, p. 136).

**Increased Taxation.** Until the introduction of the Chancellor's stock relief scheme in November 1974 huge stock “profits” added an enormous sum to industry's tax liabilities (see Chapter 4, p. 102). Despite this, Labour imposed massive *additional* taxes upon industry. In the March 1974 Budget, Mr Healey was estimated by the CBI to have added an extra £1,100 million to industry's financial burden: £500 million in higher contributions towards pensions and social benefits; £420 million through the

increased rate of Corporation Tax and the increase in Advance Corporation Tax payable for that year; and £100–200 million in additional wage costs due to triggering of threshold agreements following rises in indirect taxation (see also Chapter 5, p. 125).

The initial effect of Labour's failure to control inflation, the misuse of price controls, and inequitable taxation was an unprecedented industrial liquidity crisis. In 1974 the financial deficit of industrial and commercial companies was £3,259 million. Stock relief somewhat eased industry's tax burden, but the company sector remained over £300 million in deficit in 1975. (*Bank of England Quarterly Bulletin*, June 1976). Companies which have survived have done so by destocking, and by drastic cuts in their investment plans which have done much to cause the low production and high unemployment from which we are now suffering. Mr Healey's repeated claims to be giving priority to industry appeared dubious after his July 1976 economic measures which included a renewed assault on hard-pressed British industry. Firms which had been assured by the Chancellor that resources would be released from the public sector to stimulate investment discovered that an extra £910 million was to be taken from them through a new 2 per cent payroll tax (see p. 166).

**Public Expenditure and the Pre-emption of Resources.** In order to finance its own massive borrowing requirement the Government is itself placing enormous demands upon the financial markets, and, by competing for funds on terms which no private company can hope to match, Labour is pushing up the price of capital and threatening to “crowd out” the private sector. The Bank of England's Minimum Lending Rate was, as a direct consequence of the Government's borrowing policies, forced up to an all-time high of 15 per cent in October 1976. If present high interest rates are long maintained, any recovery in investment is likely to be weakened.

**Sterling Depreciation.** The external value of the pound has declined by a third since March 1974 (see Chapter 11, p. 277). This has provided windfall profits for some British firms and should have given a sharper competitive edge to UK exports. But that edge has been blunted by a complementary abrupt increase in industrial costs. In the seven months from April to November 1976 industrial raw materials and fuel costs rose by almost 16 per cent. The rise in October alone after the latest sterling plunge was 4¼ per cent. These increases make it very difficult for industry to slow down the rate of increases in prices charged and will have a serious domestic inflationary effect in the months to come.

## 2. NEW SOURCES OF FINANCE

Although Left-wing MPs and some trade union leaders have been eager to blame others for the fruits of their policies and have spoken of an “investment strike” which will only be broken by yet more state control, Mr Callaghan and Mr Healey have from time to time appeared to recognise some of the mistakes of the last three years. Falling investment has been the inevitable consequence of the financial and other pressures to which companies in the private sector have been subject. But instead of tackling the fundamental causes of industry's difficulties the Chancellor has confined his activities to encouraging the formation of new financial institutions—a refurbished Finance For Industry and the new “Equity Bank”—and to offering new forms of State assistance to investment under the 1972 Industry Act.

**Finance for Industry.** In his Budget of November 1974, Mr Healey arranged for an extra £1,000 million to be made available over two years to Finance For Industry. This is a medium-term credit institution owned by the Bank of England and the major clearing banks. The loans which it provides are at commercial rates of interest. £210 million had been committed to British firms by June 1976 (*Hansard*, 18th June 1976, W.A., Col. 289).

**Equity Capital for Industry.** After prolonged negotiations presided over by Sir Henry Benson of the Bank of England, Equity Capital for Industry was inaugurated on 13th May 1976. Its initial target was to raise resources of £40 million. That has been achieved after an excellent response from city institutions.

**Accelerated Projects Scheme.** In his Budget of April 1975, Mr Healey announced the “Accelerated Projects Scheme” in which companies which brought forward deferred investment schemes were offered assistance, mainly in the form of loans at concessionary rates of interest, under Section 8 of the Industry Act 1972. £120 million in all was made available under the Scheme, whose closure was announced on 6th August 1976. By 26th October 1976 about £80 million assistance had been offered towards 106 projects involving investment of about £590 million. It was officially estimated that the projects would involve foreign exchange benefits of about £435 million per annum by 1980 and would create or safeguard 13,500 jobs (*Hansard*, 3rd November 1976, W.A., Col. 638).

**The Industry Schemes.** While the Accelerated Projects Scheme was open to all industries, the various Industry Schemes—which offer assistance in the same form—are designed to eliminate bottlenecks in specific industries, which, in the judgement of the Government, are of particular importance to the performance of the economy as a whole. The first scheme, for the wool textile industry, was introduced by the Conservative Government and has now closed. Its success prompted requests from the industry that the Labour Government should introduce a follow-up scheme. The following table shows the progress of the schemes up to October 1976:

Scheme	Amount Provided	Date Introduced	Final Date for applications	Amount Offered
Wool Textiles	£18 m.	July 1973	Dec. 1975	£13·9 m.
Ferrous Foundry	£40 m.	Aug. 1975	Dec. 1976	£15·8 m.
Machine Tools	£20 m.	Aug. 1975	Dec. 1976	£2·4 m.
Clothing	£20 m.	Oct. 1975	Dec. 1976	£0·45m.
Paper and Board Machinery	£23 m.	June 1976	June 1978	none
Printing Machinery	£15 m.	Aug. 1976	Dec. 1977	none
Textile Machinery	£20 m.	Aug. 1976	Dec. 1977	none
Poultry Meat	£5 m.	Aug. 1976	Mar. 1977	£0·45m.
TOTALS	£161 m.			£33 m.

Source: *Hansard*, 27th October 1976, WA, Col. 238–40, and 4th November 1976, WA, Col. 701–4)

Many of the schemes are still in their early stages but the response of the industries has varied greatly. The ferrous foundry and wool textile schemes have been much more successful than those for the clothing and machine tools industries, which highlights the difficulties of Government in providing the sort of assistance that is genuinely helpful to industry. Nonetheless the Government has announced (29th November 1976) a new £5 million wool textile scheme.

In his “mini-Budget” on 15th December 1976 Mr Healey also announced that £100 million would be devoted to the continuation of the Accelerated Projects Scheme, while £10–£15 million would be made available for further industry schemes in 1977–8 and 1978–9.

**The Conservative Response.** Conservatives have welcomed these measures which may be of benefit to at least some companies. But it is important not to over-estimate their significance. Not only are the funds put at industry's disposal in this fashion limited, but there has also in some cases been a very low take-up. As Mr Michael Heseltine, then Conservative spokesman on Industry, said:

“Selective aid to individual sectors of the economy can never be a *substitute* for that general climate of optimism in which companies after analysing their own opportunities can decide their policies with confidence and act to implement them with all the consequent benefits to themselves and the economy as a whole” (Solihull, July 9th 1976).

The low take-up on some of the schemes demonstrates the important truth, still not appreciated by the Government, that industry's *fundamental* problem is not the absence of liquidity in itself, although this has been acute. The real difficulty stems from the prime underlying cause of that liquidity shortage—the absence of *profit*. While profits remain low or non-existent only a relatively small number of companies have any incentive or can *afford* to undertake additional borrowing, even when the Government offers concessionary rates of interest.

The irony is that if the Government would only take general measures to restore profitability—for which there can be no adequate substitute—then the creation of new sources of finance would be largely unnecessary: industry would be able to finance a large proportion of its investment internally, and at the same time would be able to afford to borrow funds from conventional lenders.

As *The Right Approach* comments, profits and profitability are:

“the cornerstone of the whole edifice of industrial enterprise ... They provide both the incentive and the financial resources out of which expansion comes ... If fewer people are embarking on new ventures to make profits, the reason is that fewer such possibilities exist.”

## **(C) NATIONALISATION AND STATE CONTROL**

In addition to the problems created by the Government's economic policies, industry has been confronted with Labour's mammoth programme of nationalisation and increased State control and subsidy. Both of Labour's 1974 manifestos committed the party to a decisive extension of the public sector.

Responsibility for carrying out Labour's industrial policy in Government initially rested with one of its most enthusiastic architects during Labour's period of Opposition, Mr Anthony Wedgwood Benn, who never sought to deny that he had an ideological prejudice in favour of State ownership and control as a means to a purely political goal.

“We want industry to be in the public sector, to change the power structure of our society” (Brighton, 6th October 1971).

While Mr Benn was Secretary of State for Industry, the following measures were implemented or initiated:

## **1. THE INDUSTRY ACT 1975**

The main features of the Act are:

(a) The creation of the National Enterprise Board as a State holding company which, in addition to its duties to administer existing Government shareholdings, is empowered to extend State ownership into profitable manufacturing industry. The Board is completely subordinate to the Secretary of State who may issue specific instructions on matters of commercial policy and may direct the Board to exercise his powers under the Industry Act 1972 to give selective financial assistance. The Act gives the NEB a total budget of £1,000 million.

(b) Provision for the compulsory disclosure of company plans to trade union representatives of a company's workforce.

(c) A system of ostensibly voluntary Planning Agreements with major companies. In exchange for subjecting their corporate plans to a measure of Government direction companies will receive guarantees about future levels of regional aid.

(d) The removal of the safeguards in the Industry Act 1972 (see p. 178) including provisions which

- i. required that Government assistance should only be given by means of the acquisition of loan or share capital where the Secretary of State is satisfied that it cannot appropriately be given in any other way;
- ii. prohibited the Secretary of State from acquiring, under Section 8, more than 50 per cent of the Equity share capital;
- iii. required the Secretary of State to dispose of any shares or stock acquired under the Act as soon as it was practicable to do so.

## **Conservative Objections**

(1) **Investment.** The only economic argument which Mr Benn used to justify taking these powers to extend State ownership and control was that they were necessary to boost investment. But, as is shown on pp. 144–7, it is the Labour Government's own policies that have reduced to such low levels production, profitability and investment in British industry. The erosion of profits has been the single most decisive influence. Statistics published by the Government and the CBI have demonstrated that the rise and fall of investment nearly always follows the rise and fall of profits. In the face of pressure from the Government, accompanied by offers of financial assistance, companies owned by the NEB or enmeshed in State Planning Agreements *might conceivably* invest more, in times of economic depression, than their counterparts in the private sector; but, in these circumstances, they are unlikely to invest wisely or efficiently.

Too often in the past government interference in the nationalised industries has led to investment decisions being made in the light of political rather than commercial criteria, with costly consequences for the taxpayer. (For details of the nationalised industries' financial performance since the war, see p. 168). There is nothing in the Industry Act to prevent this happening in the future. Indeed, the powers in the Act which enable the Secretary of State to give specific directions to the NEB make political interference more, not less, likely. But, as Mr Harold Lever, Chancellor of the Duchy of Lancaster, has commented:

“It is misleading to say that the country needs more investment. To compel people to invest against their judgement would be harmful. The Government's job is to help create conditions which produce more opportunities for profitable investment”  
(*Sunday Telegraph*, 20th June 1976).

It is a cause for concern that in relying on our present low investment to justify extending State control many of Mr Lever's colleagues have a vested interest in *not* providing the opportunities for profit-making to which he referred.

(2) **Disclosure of Company Plans.** Conservatives support greater employee participation in company affairs, but they oppose the disclosure provisions of the Industry Act because:

(a) The disclosure of tentative corporate plans and the frequently unreliable economic estimates upon which they are based could lead to disruptive misunderstandings between management and trade unions if, as might happen, trade union representatives mistook these estimates for hard facts, and used them as a basis for wage bargaining.

(b) It is wrong that information should be given to trade unionists—who do not have to be members of the company concerned—rather than to employees.

(c) No government can guarantee that the release of information to trade unions and Government Departments will never involve a breach of confidence. Leaks of sensitive information could give a company's rivals both at home and abroad important commercial advantages.

(3) **Planning Agreements.** Although Planning Agreements are supposedly voluntary, Conservatives feel that the other powers which the Government has taken in the Act—for instance, the powers to acquire a majority equity stake and to compel companies to disclose their forward planning to trade unions—may be abused to force companies to sacrifice their independence and subsequently to agree to a corporate strategy which they did not themselves judge to be commercially viable, and which would not be possible but for the injection of State finance.

Furthermore, *compulsory* planning agreements have been widely advocated by Left-wingers in the Labour Party and the TUC, including Mr Bob Cryer, appointed to the Department of Industry by Mr Callaghan in September 1976. Left-wingers are dissatisfied at the progress being made towards the conclusion of planning agreements, although Mr Varley has announced that formal discussions have been opened with eleven companies (British Airways, National Coal Board, British Steel, GEC, Reyrolle-Parsons, Babcock and Wilcox, Clarke Chapman, Whessoe, Head Wrightson, Leyland, Chrysler), all either in the public sector or heavily dependent on Government business or assistance. Mr Varley has stated that “it is plain that the Government will have to take stock of the position very soon”, because of the “pretty poor” response of industry to planning agreements (*Hansard*, 8th November 1976, Col. 19). Mr Albert Booth, Secretary of State for Employment, has remarked that:

“We have to examine certainly within the next 12 months whether we can continue to rely on the voluntary basis for establishing planning agreements” (Brighton, 6th September 1976).

## (2) NATIONALISATION OF BRITISH LEYLAND

**Approach to Government.** British Leyland was formed in 1968 through a merger of British Motor Holdings and the Leyland Motor Corporation. The merger was encouraged by Labour's Industrial Reorganisation Corporation, which provided finance, and by Mr Benn, who was then Minister of Technology.

Plagued by overmanning, strikes, and by inefficient plant location, the company never achieved the level of profitability necessary to finance the investment upon which success in the motor vehicle industry depends. In the period 1968 to 1974 Leyland, employing between 188,000 and 208,000 men made only £104 million post-tax profit on total sales of over £8,000 million. Against this background, the difficulties created in 1974 by worldwide recession, accelerating domestic inflation, and Mr Healey's squeeze on corporate liquidity proved overwhelming. On 18th December 1974 British Leyland approached Mr Benn and informed him that the Corporation could not maintain its present level of employment, nor carry out its plans for the future, without Government assistance. The Government appointed a team under Sir Don (now Lord) Ryder to advise on the best course of action.

**Ryder Report Recommendations.** The Report, which was received on 26th March 1975, argued that:

- a. Leyland should be brought into State ownership; but maintained largely in its existing form, producing both for the more expensive end of the car market and for the small car market.
- b. To become viable Leyland must greatly increase its level of capital expenditure.
- c. There must be a progressive reduction in manning levels and a sharp improvement in the company's strike record. It was recommended that, although the first tranche would be provided unconditionally, further injections of public money should depend upon these aims having been achieved. It was also claimed, however, that "any manpower reductions from increased productivity will be partly, perhaps mainly offset by the expansion of British Leyland's capacity".
- d. There should be a reorganisation of the corporate structure.
- e. Introduction of a system of industrial democracy.

It was argued that the company could itself generate £1,400 million from profits, but that it would need an additional £1,400 million largely from the Government.

**Reactions to the Report.** Conservatives argued that for two main reasons the Ryder strategy did not offer a prospect of commercial success:

(1) It was based on unrealistic assumptions of future profits, production and sales. For example, the team expected that from a profit record of £104 million in 1968 to 1974 the company would jump to staggering profits of £1,400 million (in inflated price terms) in the period 1974 to 1984, despite the fact that the Report acknowledges that in the decade ahead the world demand for cars will be "less buoyant than in the recent past".

(2) Although it acknowledged the prime importance of less overmanning, fewer strikes and a less restrictive use of labour, the Report's proposals for achieving these objectives were entirely inadequate.

Because of these deficiencies, Conservatives did not feel that the strategy in the Report could justify expenditure of huge sums of taxpayers' money. This view later received support in the Report of the All-Party Parliamentary Sub-Committee on the Motor Vehicle Industry published in August 1975. The Sub-Committee's Chairman, Mr Patrick Duffy, Labour MP for Sheffield, Attercliffe, observed, "We were left with the feeling that Ryder and his team thought of money rather as confetti" (*Times*, 13th August 1975).

However, on 24th April 1975, the Government, after only a month's consideration, announced that it accepted the Ryder strategy involving total capital expenditure of £2,800 million.

Mr Benn sponsored the British Leyland Act 1975, which received the Royal Assent on 3rd July 1975. This permitted the expenditure of public money for the acquisition of Leyland's equity by the Government, which later transferred its 95 per cent holding to the NEB on 25th February 1976.



**Recent Events at Leyland.** Leyland's record since nationalisation amply vindicates the criticisms of the Conservative Party and the Select Committee.

Leyland has continued to be bedevilled by strikes leading to lost production and a diminishing share of foreign and domestic markets. In the six months to December 1975 alone Leyland lost 40,000 vehicles through industrial disputes. On 9th December 1975 Mr Derek Whittaker, Managing Director of Leyland Cars, informed shop stewards from all Leyland car factories that almost all capital spending was to be stopped until productivity improved and the company started to pay its way. He explained that if this course were not taken, Leyland Cars, which under the Ryder strategy was not due to receive more loan capital before the summer of 1976, would have to go to the Government for more funds before March (*Daily Telegraph*, 10th December 1975).

However, this action appears to have had little effect on sections of the workforce. Mr Whittaker admitted (*Trade and Industry*, 16th July 1976) that Leyland's production in early 1976 "slumped through a series of very damaging disputes". Although Leyland announced a pre-tax profit of £44.3 million for the nine months to the end of March 1976, this was largely the result of a currency windfall. Mr Heseltine condemned an NEB report in July 1976, designed to justify the commitment of a further £100 million to British Leyland in a letter to Mr Eric Varley. He said that the NEB had appeared "more advocate than judge" with regard to Leyland. Mr Varley failed to answer many of the Conservatives' detailed criticisms of Leyland's performance and plans but the Opposition nevertheless did not oppose the Parliamentary Order on 4th August 1976. Mr Heseltine, however, wrote to the Parliamentary Public Accounts Committee asking for an investigation into the insufficient accountability of the NEB. Serious disruption through strikes continued into the autumn (September 1976 being the worst month for time lost since July 1975) and Leyland's production average of 15,246 vehicles per week for the year 1976 suggested that they would be unable to reach the management's declared target of 25,000 vehicles per week for some time.

Leyland's share of the UK market, the major source of its trading strength, declined to 27.4 per cent in 1976, compared with 30.9 per cent in 1975.

## **The Conservative Alternative**

**Attitude to Government Assistance.** Conservatives accept that there are occasions when public money must be used to aid companies in difficulties. But the fundamental pre-condition of the provision of such money is that the company which is helped should have a feasible programme for returning to commercial viability within a reasonable period of time. As **Mrs Thatcher** said:

"The basic principle of Government policy for British Leyland—as for any other ailing firm—must be to find a recipe for success" (Statement, 2nd May 1975).

In the long run, job security in companies which receive State assistance depends upon this. Moreover, subsidies to maintain jobs within unprofitable companies nearly always mean that productive jobs have to be sacrificed elsewhere because:

(a) Scarce resources are diverted from companies which are or could be more successful. If the Government uses funds already allocated to industry, then there is less available for more deserving cases. If, on the other hand, the Government raises the money for subsidy through extra taxation then the effect on demand is likely to mean a loss of jobs throughout the economy.

(b) Subsidies to an otherwise unviable company cause unfair competition which can have damaging repercussions for that company's rivals, particularly at a time of shrinking markets.

(c) By fostering a false sense of security among workers throughout the economy, the featherbedding of unviable jobs makes it difficult to secure the improvements in productivity upon which the future success of British industry and real job security depends.

**Policy for Leyland.** The Conservative Party recognised the significance of British Leyland to the economy as employer and exporter and were convinced of the need to find a formula which would secure a sound future for the company. Mr Michael Heseltine clearly set out how the Government should, and the Conservatives would, have set about restoring the company to economic health.

*First*, the Government should have commissioned the Ryder team to provide costed alternatives for British Leyland.

*Second*, the Government, after a full public debate could have decided which schemes made the most effective use of our national resources. It should then have set the broad economic limits within which the company could operate, leaving to the workforce and management team the responsibility for drawing up a detailed plan. Mr Heseltine set out some of the characteristics such a plan would need to have:

“What we really need are not generalities but firm targets for improvements in output per head, a reduction in production lost through internal disputes and details of the extent to which it would be desirable to reduce the number of separate plants to a manageable level. What we must see are agreed indications of the level or rate of growth of the wage bill and labour costs, the rate of return on capital that would be considered adequate, proposals for the reduction in the number of bargaining units in the company” (Woodcote, 2nd May 1975).

A Conservative Government would have made agreement on these targets a necessary condition of the *first* instalment of public money. Because the targets would have been both precise and generally known, it should then have been possible to persuade both management and workforce—as Labour has clearly failed to do—that further instalments really did depend upon success in achieving them. In the event, a further sum of £100 million was approved for British Leyland in August 1976 without any clear evidence being produced that agreements on productivity had been reached or were working.

### **3. SUBSIDIES TO OTHER COMPANIES**

**NEB Holdings.** In addition to its intervention in British Leyland through the NEB, which now holds 95 per cent of the equity, the Labour Government has brought a number of other companies under State control. Mr Benn has boasted that as Secretary of State for Industry he nationalised 62 companies (*Hansard*, 19th May 1976, Col. 1581). Many of the companies which are now in the NEB's portfolio are conspicuous for their lack of a firm prospect of commercial success. In using for his Socialist purposes the powers conferred upon him by Section 8 of the Industry Act 1972, Mr Benn defied the spirit if not the letter of the law, for, as Conservatives made plain at the time of the passing of the Act, those powers were intended to help companies which were assured of a sound economic future.

The following table shows the extent of the NEB's holdings in November 1976:

National Enterprise Board			
<i>Shareholdings at 30 November 1976</i>			
<i>Subsidiary companies</i>	<i>Number and description of shares</i>	<i>Percentage held by the NEB</i>	<i>Cost £'000</i>
British Leyland Ltd.	246,490,683 50p ord.	95·1	246,491
Data Recording Instruments Co. Ltd.	2,400,000 £1 ord.	53·9	2,407
Ferranti Ltd.	4,000,000 50p ord. voting	50·0	6,000
	2,666,666 50p ord. non-voting	100·0	2,667
Alfred Herbert Ltd.	43,632,948 25p ord.	100·0	26,180
Rolls-Royce (1971) Ltd.	175,000,000 £1 ord.	100·0	175,000
<i>Other investments</i>			
Agemaspark Ltd.	3,700 £1 ord.	30·0	100
	50,000 £1 pref.	100·0	50
Anglo-Venezuelan Railway Corporation Ltd.	3,500 £1 ord.	35·0	3
Brown Boveri Kent Ltd.	7,658,938 25p ord.	17·6	1,880
The Cambridge Instrument Co. Ltd.	37,684,255 1p ord.	28·0	1,250
	4,261,757 10p ord.		
Dunford & Elliott Ltd.	271,357 25p ord. voting	2·6	122
International Computer (Holdings)	8,148,750 £1 ord.	24·4	12,083
Sinclair Radionics Ltd.	75,000 £1 ord.	42·9	450
	200,000 £1 pref.	100·0	200
Reed & Smith Holdings	2,400,000 50p ord.	29·8	792
Twinlock	7,123,000 10p ord.	33·3	997
	Total		476,672

In the Government's December 1976 budget Mr Healey announced that the NEB would receive an *extra* £50 million per year in 1977–8 and 1978–9. This was in the Government's opinion justifiable because of the heavy strain being placed on the NEB'S existing available finance by British Leyland and Rolls-Royce. But unless the NEB is able to resist any further political pressure to intervene to support “lame duck” firms there can be no confidence that this extra money will be spent efficiently.

**Ferranti.** On 14th May 1975 Mr Benn announced that the Government, which had previously given a guarantee to Ferranti's bankers, had decided to take a controlling interest in the company, and to provide £15 million-worth of new capital. The company has since been transferred to the NEB.

Conservatives protested at the nationalisation of Ferranti because Mr Benn (a) failed to produce any evidence that the company could be made viable; (b) sought no concrete undertakings from the relevant trade unions; and (c) appeared to have made no effort to seek an alternative in which other firms could share the cost of rescue with the taxpayer.

**Automatic Oil Tools Limited.** Mr Benn and Mr Varley authorised in the summer of 1975 payments totalling £0.5 million under Section 8 of the 1972 Industry Act to Automatic Oil Tools, an oil instrument company. The company went into receivership on 28th October 1976.

## Workers' Co-operatives

**Meriden.** In September 1973 the management of Norton Villiers Triumph concluded that in the market conditions which then existed the company had no prospect of viability unless it closed one of its three factories. Their plans were obstructed, however, because employees at the plant to be closed, Meriden, illegally seized control and declared themselves to be a workers' co-operative.

In July 1974, ignoring both the illegality of the workers' action and the advice of the Industrial Development Advisory Board (IDAB)—a statutory body established by the last Conservative Government to advise the Government on the use of public money in the private sector—Mr Benn made available £4.9 million to enable the co-operative to purchase the assets they had seized.

Although workers at NVT's other two factories feared that this meant that their jobs would now be lost, Mr Benn eventually enticed them to accept a three factory system, promising in a letter of the 6th November 1974 that:

“the Government is fully committed to securing the future of the motor cycle industry in this country and, of course, this involves success of NVT no less than the co-operative”.

In the event this pledge was not redeemed. In July 1975, just after Mr Benn had been removed from the Department of Industry, the Government announced that the conclusion of the consultants, whom he had commissioned to investigate prospects for the industry, was, as NVT had maintained all along, that a three factory system was

no longer viable. The consultants also argued that by now even a strategy involving a two factory system would carry high risks. In these circumstances the Government decided not to give further funds to the motor cycle industry. The practical effect of this decision was that the subsidiary companies running NVT'S two remaining factories had to go into liquidation. Meriden's continuing difficulties resulted in its applying to the Government for a further £1 million of assistance. On 10th January 1977 Mr Varley told the House of Commons that no further Government money would be available. However, after lengthy negotiations involving Mr Harold Lever and Sir Arnold Weinstock, Mr Varley announced on 7th February 1977 that the Government would, after all, grant a further £½ million for the co-operative to purchase the marketing organisation of NVT. Under this agreement, GEC provided the co-operative with up to £1 million and some necessary technical and managerial assistance. The Government also agreed to defer until the 31st December 1978 interest payments totalling £1.05 million.

**The Scottish Daily News.** In June 1974 Scottish News Enterprises, a workers co-operative set up after the transfer of publication of the *Scottish Daily Express* from Glasgow to Manchester, applied to the Department of Industry for a loan to finance publication of a new paper, the *Scottish Daily News*. Although the Industrial Development Advisory Board and a team at Strathclyde University advised that the project was not viable, Mr Benn agreed to provide a grant of £1.2 million. Publication of the paper began in May 1975, but with circulation and advertising revenue both much lower than the co-operative had forecast, substantial losses were incurred from the outset. The project collapsed 6 months later, with many workers losing substantial savings.

**Kirkby Mechanical Engineering.** In September 1974 representatives of the workforce of IPD Industrial Limited, a firm engaged in light engineering and the manufacture of soft drinks, which had gone into liquidation, applied for a grant of £3.9 million to establish a co-operative. The IDAB advised that the firm was not viable, and when Mr Benn nonetheless acceded to the workers' request the members of that Board took the unprecedented step of insisting that he should place their objection before Parliament. It was also revealed that Sir Peter Carey, then second Permanent Secretary at the Department of Industry, registered his opposition to the scheme upon file. On 23rd July 1976 the *Daily Telegraph* reported that the Kirkby Co-operative had lost £1½ million in the eighteen months since it was established.

**Conservative Criticisms.** Conservatives emphasised that they were not opposed to the provision of public money to co-operatives as such. There is ample room in a free economy for experiment with many kinds of industrial ownership. But by giving financial encouragement to co-operative schemes which were known to be economically unsound, and acting in every case against the advice of the IDAB, Mr Benn not only wasted taxpayers' money but also unnecessarily brought the co-operative ideal into disrepute.

Conservative criticisms were echoed on 21st October 1976 in the Sixth Report from the all-party Parliamentary Committee of Public Accounts. The Report commented that Mr Benn had harmed the cause of workers' co-operatives by allowing his political aspirations to "outweigh the serious doubts in all cases about the co-operatives' viability."

# **(D) LABOUR'S NEW ‘INDUSTRIAL STRATEGY’**

In the latter part of 1975, against a background of falling production and rising unemployment, there appeared to be evidence of a change of course in the Government's industrial policy. In July 1975 Mr Benn was removed to the Department of Energy and replaced by Mr Varley.

## **1. THE CHEQUERS CONFERENCE**

The Government's new thinking on industrial strategy was set out in two documents submitted to a meeting of the National Economic Development Council at Chequers on 5th November 1975.

**The White Paper ‘An Approach to Industrial Strategy’ (Cmnd. 6315).** The White Paper identified a number of related reasons for our industrial decline including: (i) a low rate of investment and a declining rate of industrial profitability; (ii) low labour productivity reflecting poor management, restrictive practices, overmanning and disruptive industrial action; (iii) frequent changes of Government policy; (iv) the pre-emption of resources by the public sector and by personal consumption.

The paper stressed the importance of sustaining “a vigorous, alert and profitable private sector” and made two main recommendations:

- i. A change in priorities: “the Government intends to give greater weight than hitherto to the need for increasing the national rate of growth ... For the immediate future this will mean giving priority to industrial development over consumption and *even our social objectives* (our italics)”.
- ii. The development of industrial strategy on a sector by sector basis.

The Government proposed to undertake a detailed investigation which, looking 5 years ahead, would identify over 30 key sectors of industry, covering:

- a. Industries which are likely to be successful.
- b. Industries which have the potential for success if appropriate action is taken.
- c. Industries whose performance is most important to the rest of the economy.

Every year the Government will submit its assessment of the prospects of these key sectors to management and unions in the National Economic Development Council. Discussions on areas for improvement and action will then be carried on both in the NEDC itself and in the appropriate Economic Development Councils (“little Neddies”).

**‘The Industry Act 1972—Criteria for Assistance’** (NEDC (75) 67). This document, published by the Department of Industry, which was somewhat revised following the discussions at Chequers, was eventually made available to the House of Commons on

12th January 1976. It enunciated a number of principles for government assistance to individual companies including the following:

- i. “Available resources should go into those industries and companies which have the soundest performance and/or the best prospects as regards viability and rate of return.”
- ii. “Profitability and return on capital should be taken as the prime test of the efficient use of resources.”

The document adds:

“The Government are conscious of the desire for job security and of the natural resentment of redundancy ... At the same time, if we are to break through the balance of payments restraint ... more and not less emphasis will be required on competitiveness in home and export markets. Failure to achieve this would in the end be the enemy of job security.”

As Sir Harold Wilson expressed it, the Government pledged itself to support “the valiant and the brave” and “the wounded heroes”, but the funding of “lame ducks” would be eschewed (*Times*, 6th November 1975).

**Conservative Response to the Chequers Strategy.** After nearly a year and a half of unconcealed hostility towards free enterprise companies from Mr Benn, the Conservative Party welcomed the Government's sudden profession of concern for the private sector. At the same time, however, Conservatives expressed doubts about Labour's sincerity: if the Government really had changed course why did it not take the opportunity of Chequers to announce an end to further nationalisation, the relaxation of price controls, and immediate cuts in public expenditure?

Conservative fears that Labour's “new strategy” was not to be taken seriously were soon confirmed by the reintroduction of the Bill to nationalise aerospace and shipbuilding; the Government's “rescue operation” for Chrysler UK; and the nationalisation of Alfred Herbert. Furthermore, in 1976, Conservative attempts to write into law the Government's own professed “Criteria for Assistance” were rejected during the passage of the Industry (Amendment) Bill (see p. 166).

## **2. NATIONALISATION OF AEROSPACE AND SHIPBUILDING**

The Bill to nationalise aerospace and shipbuilding was reintroduced at the beginning of the 1975–6 Session and received its Second Reading on 2nd December 1975.

The Bill sets up two new public corporations:

1. *British Aerospace*, which will take over the securities of 4 private companies: British Aircraft Corporation, Hawker Siddeley Aviation, Hawker Siddeley Dynamics, and Scottish Aviation; and

2. *British Shipbuilders*, which was planned to nationalise 19 shipbuilding companies, 12 shiprepairing companies, 5 manufacturers of slow speed diesel marine engines, and 3 training companies.

**Powers of the Secretary of State.** The Bill confers upon the Secretary of State the widest powers ever given to a Minister in relation to public corporations, empowering him to appoint Chairman and Members without regard, unlike previous acts of nationalisation, to their qualifications or experience; to alter by Order the whole nature of either of the corporations by prescribing different or additional duties to those imposed by the Bill; to give general directions in the “national interest”; and to oblige the corporations to formulate their corporate plans along lines which they have settled with him.

**Powers and Duty of the Corporations to Diversify.** So long as they have the consent of the Secretary of State the Corporations may acquire interests in further companies. If the Corporations do not seek to acquire such interests, they can be obliged by the Secretary of State to do so.

**Cost.** The Corporations will have combined borrowing powers of £550 million. The cost of compensation for existing shareholders is not yet certain, but is expected to be in the region of £300 million. Large initial cash injections will undoubtedly be required.

**Objections to Nationalisation.** The Government has relied upon only two main arguments to justify nationalisation of these industries:

- i. That the industries concerned have received a great deal of public money and that in consequence a “special degree of accountability is necessary”.
- ii. That these industries have not performed efficiently, and that the State would do better.

Labour's arguments do not hold good for any of the entirely different industries which the Government has quite improperly bundled together in a single Bill.

**Government Aid.** In the case of the **aerospace** industry almost all direct support has been for two particular projects, Concorde and the Rolls Royce RB211 engine.

Government Assistance to Aerospace Companies\* (1945–1976)

	<b>£ million</b>
Concorde airframe and aero engines	689·6
RB211	224·6
All other projects	93·8

\* Less receipts

(*Hansard*, 11th January 1977, W.A., Cols. 463–5)

Labour Ministers have argued that account should also be taken of the amount spent on Government purchasing from the aerospace industry—£7,720 million since 1945. This is “support” in an entirely different sense. And the Government's argument



implies the absurd contention that any regular and substantial customer has a right to take over the company he deals with. In the US the industry is dependent on Government orders for 80 per cent of its output; there has been no suggestion there that this justifies nationalisation.

Government grants and aid to the **shipbuilding** industry under the various Shipbuilding Industry Acts have totalled £252 million since 1950. They have been provided, either to enable our national industry to compete on fairer terms with other nations whose shipbuilding industries were being subsidised, directly or indirectly, or to arrest the decline of the industry in areas which already suffer from above average unemployment.

There is no evidence that the shipbuilding industry has in any way abused the aid which the Government has freely chosen to provide. Moreover, the Government has entirely failed to point out that of the £239 million worth of money that has gone to shipbuilding since 1965, £209 million went to shipyards that were *already* wholly or partly nationalised.

The shiprepairing industry and the manufacturers of slow speed marine diesels have received virtually no special assistance. The reasons for nationalising these industries have no industrial foundation.

**Accountability.** The Government has failed to explain satisfactorily what it means by accountability or how nationalisation will improve it.

In common with other private companies the aerospace and shipbuilding industries are subject to the law of the land and to the disciplines of the competitive free market. The latter, by conferring upon purchasers an effective sanction in the form of the opportunity to take their custom elsewhere if unsatisfied, secures a degree of “accountability” on the part of private producers towards the buyers of their goods which is entirely lacking in the monopolistic public sector.

Costs and profits related to Government contracts in both shipbuilding and aerospace are continuously reviewed and stringently controlled. For defence contracts there are three review bodies to monitor the companies concerned—the Ministry of Defence Technical Costs Department, the Government Contracts Review Board and the Public Accounts Committee. Together, these bodies ensure careful scrutiny not only before contracts are placed but also throughout the period of their running, and retrospectively after completion.

**Nationalisation and Efficiency.** Allegations that the aerospace and shipbuilding industries have failed the nation are absurd.

**Aerospace** is immensely profitable. The pre-tax profits of BAC and the Aerospace Division of Hawker Siddeley (excluding Hawker Siddeley, Canada) show the following returns on capital:

**1972 1973**

BAC 13% 26%

### 1972 1973

HSAD 26% 38·8%

In 1974 BAC's rate of return was 27·5 per cent. These figures compare with an average rate of return between 1955 and 1973 in the public sector of 6 per cent. In the last 10 years BAC and Hawker Siddeley alone have contributed by way of tax on profits more to the Exchequer than was paid by all the nationalised industries put together.

The aerospace industry is also making an indispensable contribution to our balance of payments. In the last 13 years exports have been worth £5,105 million, and in 1976 they reached a record annual total of £904 million—more than 50 per cent of turnover.

Aerospace companies of all nations are now finding it difficult to fund the high cost of launching new projects and collaboration is necessary, usually on an international basis to facilitate access to one another's markets. Nationalisation will make our industry less attractive as a partner and opportunities will narrow once BAC and Hawker Siddeley cease to operate independently.

**Shipbuilding.** British shipbuilding has been contracting since the war. But the decline of the industry has been largely the result of world forces which no industry, government-owned or not, could have resisted. Even so, the industry has registered some striking achievements: in particular, there has been a remarkable rise in productivity. In 1955, 130,000 men produced 1·3 million registered tons; in 1973, 69,000 men produced 1·06 million registered tons.

In the last two years, however, the position of many shipbuilders has deteriorated following a dramatic fall in orders. To a large extent this reflects a worldwide drop in demand for ships, but other factors include Labour's failure to restrict the rate of inflation in this country to the same level as our competitors and the threat of nationalisation which has now been hanging over the industry for two years. This has created intolerable uncertainty both for producers and potential purchasers. Labour's own measure of responsibility for the shipbuilders' plight places a clear obligation on the Government to assist the industry on the road to recovery. It does not entitle Labour to exact the penalty of nationalisation.

**Harmful Effects of Nationalisation.** Labour ministers have been unable to reinforce their claim that the State can run these industries more efficiently by unveiling a coherent strategy for the new Corporations to follow. And, in the absence of a convincing strategy, experience of the existing nationalised industries must suggest that this new extension of the State sector will do positive harm. (For details of the financial record of the existing public sector, see p. 167).

Although Organising Committees were set up for both British Aerospace and British Shipbuilders, plans for the future of the two industries are conspicuously absent. This has resulted in the resignation of several members of the Committee for British Shipbuilders, including the designated Chief Executive, Mr Graham Day.

*State ownership will mean damaging bureaucratic interference.* Both aerospace and shipbuilding are technically sophisticated and financially high risk industries requiring experienced and expert management capable of making technical and commercial judgements speedily, unimpeded by outside interference and by considerations of political expediency. But by giving such sweeping powers to the Secretary of State, the Bill ensures that most key decisions will be made in Whitehall. And, as Mr Benn himself said:

“What we lack in Government is entrepreneurial ability” (London, 6th June 1974).

*The industries affected will be artificially sheltered from the constructive disciplines of the free market.* By creating a domestic monopoly, nationalisation will reduce the stimulus of competition; moreover, once nationalised, our shipbuilders and aircraft manufacturers will no longer be subject to the salutary constraint of having to attract private capital. This was why the Plowden Committee, appointed to review the aircraft industry in December 1964 by Mr Roy Jenkins, then Minister of Aviation, reported against nationalisation in December 1965 (Cmnd. 2853, para. 479).

Furthermore, as in the rest of the public sector, the fact that the new Corporations are not subject to the disciplines of the free market will make it difficult to persuade trade unionists of the importance of high productivity and reasonable wage levels.

**Unemployment.** Mr Varley has acknowledged that under nationalisation job prospects in both industries will be poor. In the Debate on the Second Reading of the Bill he said of the aerospace industry:

“... a sensibly planned reduction of manpower ... will almost certainly be necessary” (*Hansard*, 2nd December 1975, Col. 1448).

More recently he has said of the shipbuilding industry:

“Certainly some yards will close ... I can't speculate as to which yards, but it's absolutely certain” (*Times*, 26th June 1976).

**A Rough Passage.** The Bill's progress through Parliament was stormy. It was in Committee for five months, involving 58 sittings. In 105 divisions the Government rejected all Conservative attempts to amend the Bill.

Before the Commons Report Stage began, Conservatives demonstrated that the Bill was “prima facie” hybrid. However, Mr Michael Foot sought to deny affected persons the right to “petition” in their interests by an unprecedented series of procedural motions and guillotines.

The House of Lords properly insisted that shiprepairing should be deleted from the Bill in order to protect the rights of individuals against the actions of the executive. But the Government, which could still have taken the aerospace, shipbuilding and marine engineering industries into public ownership, insisted on its complete nationalisation programme. By so doing it took the decision to permit the *whole* bill to be lost for the 1975–6 session despite its earlier claims that nationalisation was a necessity if the industries were to survive. (see Chapter 19, p. 470–1).

**The Conservative Pledge.** *The Right Approach* states that:

“as much as possible of the interests of British Shipbuilders and British Aerospace—if the Government do succeed in setting up these nationalised bodies—should be sold off to the private sector”.

### **3. GOVERNMENT ASSISTANCE TO CHRYSLER (UK)**

The credibility of Labour's Chequers protestations and the reputation of Mr Eric Varley were soon destroyed by the Government's “rescue” proposals for the struggling car firm, Chrysler (UK).

In October 1975 the Government had begun discussions with the Chrysler Corporation which, following heavy losses by its British subsidiary, had threatened to withdraw from the United Kingdom. In December the Government's negotiating position was seriously weakened by well-publicised and acrimonious divisions within the Cabinet. Mr Varley, Secretary of State for Industry, feeling that he had been betrayed by his colleagues, notably by the Chancellor of the Duchy of Lancaster (and the Prime Minister's economic adviser), Mr Harold Lever, first threatened, then reconsidered, resignation. These divisions were skilfully exploited by the Chrysler Chairman, Mr Riccardo, who promptly extracted from the Government a set of costly proposals designed to enable Chrysler (UK) to maintain its operations on a substantial scale.

**The Government's Scheme.** The Government agreed to contribute substantially to Chrysler's expenditure and to share its financial risks incurring what the Government estimates, probably optimistically, to be a maximum liability of £162·5 million. In return, Chrysler agreed to commit about £70 million to their UK subsidiary with the public promise, given in a Declaration of Intent (which is not legally binding), to allow Chrysler (UK) to play a continuing and expanding role within the Chrysler Group and to integrate Chrysler (UK)'s activities in the Corporation's worldwide activities.

The Government estimated that the restructuring of Chrysler would lead to 8,000 redundancies, 5,000 in the Midlands and 3,000 at Linwood. However, the scheme is also intended to create 1,500 *new* jobs at Linwood in the autumn of 1976.

**Collapse of Chequers Strategy.** Extensive and politically inspired assistance to Chrysler (UK) destroyed at a stroke all that was best in the new “industrial strategy”. Far from having the soundest performance or the best prospects—the criteria recommended at Chequers (see p. 157)—Chrysler had the worst in the British car industry. Over the previous decade, Chrysler/Rootes (UK) had lost £4·38 million, while Vauxhall lost £300,000 and Ford made a profit of £215·4 million (*Economist*, 8th November 1975).

The Central Policy Review Staff (CPRS) Report, *The Future of the British Car Industry*, which was published on 16th December 1975, and which the Government had available to it when it made its decision, showed that there was likely to be 25 per

cent over-capacity in Western European car manufacturing in the next seven years. In these circumstances, as the Report made clear, only the most competitive car manufacturers can survive. But the Report also showed that British car workers produce only half as much output per shift as their EEC counterparts.

Since the return on capital in the motor industry is low, high productive volumes and economies of scale are essential to success. Chrysler (UK) notoriously enjoys neither. Its share of the domestic market has always been very low, steadily declining from 12.2 per cent of the UK market in passenger cars in 1967. Throughout 1976 UK-produced Chrysler cars have averaged less than 5 per cent of the market. Moreover, in addition to being unable to sell enough cars in Britain, world over-capacity means that Chrysler has also only a limited prospect of expanding overseas sales.

Such considerations caused the All-Party Report of the Parliamentary Expenditure Sub-Committee, published in the summer of 1975, to conclude that Chrysler is “in a long-term loss-making situation most probably because of lack of scale”, a view echoed by the CPRS Report.

Furthermore, when cross-examined on 14th January 1976 by the Parliamentary Sub-Committee on the Motor Industry, Mr Varley admitted that the Industrial Development Advisory Board had studied the Government's proposals and found that they offered *no* prospect of commercial success (*Guardian*, 15th January 1976).

Labour's supine capitulation to political pressures, within weeks of the bold declarations of Chequers, not only resulted in a substantial waste of scarce resources, but also further reduced confidence at home and overseas in the Government's determination to tackle our economic difficulties. Subsequent difficulties with the exchange rate might well have been less severe if the Chequers strategy had not been abandoned so lightly. The Government's proposals will harm employment prospects elsewhere in the car industry, particularly in the already troubled British Leyland. And the improvements in productivity regarded as vital by the CPRS Report are unlikely to be encouraged by further government subsidies for unproductive jobs.

By artificially propping up the least efficient producer the Government is merely ensuring that the cut-backs which must inevitably come will not be confined to the weakest companies.

As Mr Heseltine said in the debate on the Motor Vehicle Industry on 16th December 1975:

“The Secretary of State knows that what he is doing is preserving one set of unviable jobs at the expense of another set of productive jobs, and that he is doing it for entirely political reasons” (*Hansard*, Col. 1208).

**Linwood.** The Government argued that its subventions were justified on social grounds, claiming in particular that Linwood was entirely dependent on its Chrysler plant for employment. In fact, before the Government's “rescue” operation, Chrysler provided only a relatively small number—about 7,000—of the 86,000 jobs in the Linwood employment area. Only four of Scotland's nineteen employment areas have

lower unemployment rates. The number of Chrysler employees *volunteering* for redundancy in Linwood has been almost 60 per cent higher than the level required.

## 4. ALFRED HERBERT

In December 1975 the Government provided £26 million of assistance to the machine tool manufacturers, Alfred Herbert, in the form of State purchase of equity capital. The Conservative Opposition opposed this proposal because the Government had again failed to produce any evidence that in its existing form the firm, which lost £14.4 million between 1970 and 1974, could ever return to viability. The machine tool industry is, however, one which is particularly susceptible to cyclical changes.

# (E) LABOUR'S CONFLICTING PROGRAMMES IN 1976

Industrial confidence in 1976 was not enhanced by the Labour Party's inability to find a precise direction for its policy and by repeated indications of the growing influence of the far Left. In Mr Varley's own words, despite the disappearance of Mr Benn, the Government was still pursuing

“avowedly and deliberately a Socialist industrial policy which uses the Socialist instruments of intervention foreshadowed in our manifesto” (*Hansard*, 8th April 1976, Col. 638).

## 1. “LABOUR'S PROGRAMME 1976”

This “strategy”, by far the most extreme yet advanced by the Labour Party, was adopted at the 1976 Party Conference as Labour Party policy. The policy is based on state planning on Marxist lines for British industry. It deplores the fact that “in the past, economic planning in the national interest has been frustrated by the inability to control the economic processes in private hands”.

**More Nationalisation.** Control is to be extended by the State over a wide range of industries, including banks and insurance companies, “all genuine ports and port functions”, British Caledonian Airways, Burmah Oil, parts of road haulage, construction, building materials, plant hire, food manufacturing, brewing, fishing, forestry, “timber-based industry”, pharmaceuticals, mining equipment and telecommunications equipment. A further thirty-two unspecified sectors of industry “which are of particular importance” are to be directed through “a significant public stake”. Also threatened is any “medium-sized firm based in Scotland and Wales” required by the Scottish or Welsh Development Agencies and any “important sector of the UK economy” not at present under UK control.

**Expansion of the NEB.** “If the NEB is unable to pursue an expansionist policy, it will soon be reduced to a bankrupt failure”. The Programme argues on this basis that the NEB “should be encouraged to spend its present £550 million as fast as it can to take over key firms”. Despite the already heavy burden of public borrowing, Labour's

planners wish to waste £1,000 million every year on the NEB's nationalisation programme. "Additional state holding companies" are demanded, "to prevent the need for a large, possibly bureaucratic structure", and "ensure that the extension of public ownership into a number of diverse sectors of industry is not frustrated by the inability of the one State Holding Company to manage them properly".

**Planning Agreements.** Companies that are not nationalised will be controlled by *compulsory* planning agreements. These will embrace the "top hundred" companies by 1978, and will enable the Government to issue directives to companies "on a wide range of individual matters". Control of any company "which fails to meet its responsibilities to its workers or to the community as a whole" may be assumed by a new Socialist official responsible to the Minister, to be called the "Official Trustee".

## 2. NATIONALISATION OF BANKING AND INSURANCE

The annexation of private savings for Socialist purposes through the nationalisation of banks and insurance companies has been a target of the Labour left since 1920. Mr Eric Heffer has commented that the aim of the Labour Party is to "have eliminated the basis of capitalism in this country" (Brighton, 6th October 1971). Following a Supply Day Debate on 19th May 1976 in which Conservatives questioned the Government over its intentions concerning these companies, Mr Callaghan, Mr Healey and Mr Harold Lever have all stated that the Government has "no intention" of nationalising banking and insurance.

But on 7th September 1976 Labour's left-dominated National Executive Committee unveiled the document *Banking and Finance* which advocates the nationalisation of an unspecified merchant bank, the four major clearing banks—Barclays, Midland, Lloyds and National Westminster—and seven insurance companies—Legal and General, Commercial Union, Royal, Prudential, Guardian Royal Exchange, General Accident and Sun Alliance and London. It also demands that the nationalised Bank of England "be socialised". These proposals were endorsed at Labour's 1976 Party Conference and are thus now party policy.

Mr Benn has stated that nationalisation of these companies is the "long-term answer to unemployment and to low growth in this country" (*Financial Times*, 8th September 1976). Like all Socialist extremists Mr Benn asserts that the failure of Labour governments results from their being insufficiently Socialist; for him the poor record of nationalised industries justifies expanding the public sector still further in the hope that it may ultimately prove itself profitable. Mr Healey has said that "he (Mr Callaghan) and I will do our best" to see that nationalisation of banking and insurance is not in the next Labour manifesto (*Hansard*, 14th October 1976, Col. 615). But Mr Heffer, secure in the knowledge that the Left controls Labour's policy-making committees (see Chapter 28, p. 679), immediately retorted that it was not Mr Healey nor Mr Callaghan who had the power to decide what would be in the next Manifesto but the TUC-Labour Party liaison committee.

**Opposition to the Proposals.** Sir Geoffrey Howe condemned *Banking and Finance* as "a blueprint for the bankruptcy of Britain" (7th September 1976). He rejected the

assertion that low investment resulted from a lack of State control. It resulted from a lack of confidence arising from the condition of the economy and “the pervasive atmosphere of Socialism”.

The plans are opposed by the unions in the banking and insurance industries; even Mr Clive Jenkins, General Secretary of ASTMS, was prevented by his own executive from voting for the proposals at the Labour Party Conference. The National Westminster Staff Association has said that nationalisation would “lead, through reduction in competition, to a lower standard of service to customers, a worsening of staff career prospects and a fall in profits”. 20 million people with bank accounts and 15 million policyholders have so far had no say in the matter, although nationalisation would render their savings open to investment for political rather than commercial ends.

To nationalise the threatened companies at present market capitalisation would cost over £3½ billion. Annual servicing costs through the issue of gilt-edged stock would be over £500 million, while overseas earnings would be endangered. In the US, which accounts for £908 million of overseas general premiums, state-owned companies are debarred from writing insurance business in 29 states. In 1975 the British insurance industry contributed well over £400 million to our balance of payments.

### **3. THE NEDC INDUSTRIAL STRATEGY**

Mr Callaghan referred to the proposals in *Labour's Programme 1976* as “plans for the 1980s” and set himself to producing, in the short-term, a reassuring display of accord between Government, TUC, and CBI. On 7th July 1976, at a meeting of the National Economic Development Council, discussions took place on the first phase of Labour's industrial strategy, described by Mr Healey as

“a most valuable first step down the road to which we pointed in our discussions at Chequers last November” (Memorandum to NEDC, 7th July 1976).

**The Prime Minister** made characteristically reassuring remarks about the need to ensure a profitable private sector. Nearly forty reports, commissioned at the NEDC's January 1976 meeting, were submitted on various sectors of industry by the Sector Working Parties. Some of the reports were said to be “less developed than others”, but the exercise was agreed by all the parties present to provide a basis for alleviating the problems expected to confront the sectors as expansion gets under way. Mr Callaghan spoke of a “great sense of realism which pervades the whole country”, (*Times*, 8th July 1976) while Lord Watkinson, as President, pledged the CBI's “full co-operation in making this industrial strategy work” (*Times*, 8th July 1976).

A memorandum submitted by Mr Healey and Mr Varley to the 7th July meeting stated:

“The Government are committed to promoting a profitable and vigorous private sector aspect of our mixed economy, and to giving greater priority to industry over consumption *or even our social objectives*. The last Budget provides concrete



evidence of the Government's determination to provide an improved climate for industry.”

### **3. JULY 1976 MEASURES**

Ironically, the measures introduced by Mr Healey on 22nd July 1976 provided concrete evidence of the insincerity of the Government's words. Labour's long-delayed cuts in public expenditure (see Chapter 2, p. 45), which had been expected to release substantial resources to industry, carried with them a £910 million addition to private sector costs in the form of an employment tax, disguised as a 2 per cent rise in employers' national insurance contributions, (see also Chapter 4, p. 100) and cuts of £105 million in regional assistance to industry.

The Treasury has estimated that the final effect of the July measures will be the loss of 150,000–160,000 jobs. Industrial reaction was inevitably markedly hostile. The CBI, which had prepared an initiative to encourage industrial investment on the basis of the Government's NEDC promises, withdrew its co-operation. On 23rd July Lord Watkinson informed Mr Callaghan that he would not after all be sending letters to British companies asking them to bring forward investment plans. Mr Varley curtly dismissed this as “over-reaction” (*Hansard*, 2nd August 1976, Col. 1196).

Mr Heseltine commented:

“We have Denis beaming at industry's front door with a present of £1,012 million [a reference to the public spending cuts] but it's Healey at the backdoor rifling £1,015 million from the till ... A Socialist Government will never do more than pay lip-service to the interests of industry. Mr Healey's now you see it, now you don't package makes a mockery of their pretended anxiety to assist in an industrial recovery” (Shiplake, 23rd July 1976).

### **4. INDUSTRY (AMENDMENT) ACT 1976**

Further evidence of Labour's ulterior motives was provided during the passage of the Industry (Amendment) Act, 1976, which extends by £1 billion the amount of money available to the Government to spend under Section 8 of the Industry Act 1972 from a maximum of £550 million to £1,600 million.

Conservative amendments designed to restore the original safeguards on government assistance to industry removed by Labour from the 1972 Industry Act (see p. 149), and to write into law some of the pious principles contained in the Government's own document “Criteria for Assistance” (NEDC(75)67) (see p. 157), were rejected out of hand. Mr Huckfield, Under-Secretary of State for Industry, commented that profitability was not a necessary prerequisite of Government assistance. The Opposition should “take another, more comprehensive look at what is stated in the criteria” to understand what the Government's policy really was (*Hansard*, Standing Committee G, 27th July 1976, Col. 172).

## 5. THE SOCIAL CONTRACT: “THE NEXT THREE YEARS”

The Labour Party&slash;TUC document, *The Next Three Years and the Problem of Priorities*, published on 28th July 1976, (see also Chapter 2, p. 47) confirmed the underlying Leftward shift of Labour Party policy. It endorses the desire expressed in *Labour's Programme 1976* for Socialist planning agreements with the “top 100 companies”, stating: “We believe that planning agreements will prove to be one of the most effective means of implementing the industrial strategy”.

It supports Left-wing plans to commit up to £1,000 million a year to the NEB. It advocates a new Investment Reserve Fund into which “would be placed a proportion of firms' profits”. It hints at nationalisation of financial institutions, including the banking system. Import controls are demanded under worker supervision.

“The trade unions should be involved in the subsequent setting of import penetration ceilings industry by industry, company by company”.

The construction industry is to suffer from the creation of a “powerful public enterprise stake”.

The Price Code which has had a serious dampening effect on investment is to be continued. Companies will be unable to claim relief on investment in property overseas.

“Consideration should also be given to the use of price controls on a discretionary basis to support the negotiation of planning agreements”.

Despite the many concessions to the Left in this second phase of the “Social Contract”, Mr Callaghan hailed it as offering the prospect of a “three-year period of industrial stability” (*Daily Telegraph*, 29th July 1976). It was more accurately described by Sir Geoffrey Howe, Shadow Chancellor, as “laying bare the double-talk and deception at the heart of the Labour Party” (*Financial Times*, 29th July 1976).

## (F) NATIONALISED INDUSTRIES' PERFORMANCE

**General.** Labour's assertion that nationalisation will improve the efficiency of British industry appears absurd when set against the record of the industries in the existing public sector. The last two and a half years have seen a marked intensification of the unresolved problems which have always bedevilled our nationalised industries: political interference, bad labour relations, overmanning, low morale, and the absence of incentives to make profits.

The latest available annual profit and loss figures for the nationalised industries are as follows:

## Nationalised Industries' Financial Results

(Surplus&slash;deficit after depreciation and interest charges before grants to meet deficits on revenue account and compensation for price restraint.)

	<i>£ million</i>	
	1974–5	1975–6
National Coal Board*	—	5·3
Electricity (England and Wales)	–257·6	8·5
North of Scotland Hydro-electric Board	–2·3	0·1
South of Scotland Electricity Board	–20·4	2·7
British Gas Corporation	–44·2	25·1
British Steel Corporation	65·5	–254·9
Post Office	–306·7	147·9
British Airways Board	–9·4	–16·3
British Airports Authority	3·8	16·8
	1974	1975
British Railways	–157·8 <sup>†</sup>	5·5 <sup>†</sup>
British Transport Docks Board	0·7	0·8
British Waterways	–5·3	8·0
National Freight Corporation	–15·8	–31·0
National Bus Company	–12·3 <sup>‡</sup>	–19·0 <sup>‡</sup>
Scottish Transport Group	–7·4 <sup>‡</sup>	–3·3 <sup>‡</sup>
	–769·2	–103·8

\*After taking account of social and operating grants totalling £68·2 million in 1974–5 and £32·4 million in 1975–6.

<sup>†</sup>After taking account of specific grants totalling £234·2 million in 1974 and £505·8 million in 1975.

<sup>‡</sup>The National Bus Company and Scottish Transport Group receive bus fuel tax grants and local authority revenue subsidies, both of which are substantial.

(Source: *Hansard*, 21st July 1976, W.A., Col. 492–493)

Payments of compensation for price restraint in 1974–6 have been as follows:

<i>Industry</i>	<i>£ million</i>	
	1974–5	1975–6
Electricity (England and Wales)	257·6	56·5
North of Scotland Hydro-electric Board	2·3	—
South of Scotland Electricity Board	20·4	—
British Gas Corporation	28·9	—
Post Office	307·0	—

The overall financial performance of the nationalised industries since 1945 has been extremely disappointing. Socialists have sought to claim that the State has taken control of ailing rather than profitable industries, and use the failure of existing nationalised industries as an argument to “justify” further State takeovers of profitable firms. This logic imposes no limit on the eventual size of the public sector.

Since 1945, write-offs, subsidies, compensation and other payments made to nationalised industries have been as follows:

<i>Industry</i>	<b>Subsidies, compensation and other payments for the period to March 1976<sup>§</sup></b>	<b>Capital debts and revenue deficits written off since 1945<sup>  </sup></b>
	<i>£ million</i>	<i>£ million</i>
National Coal Board	590	864·6
Electricity Industry (England & Wales)	649	—
Electricity Industry (Scotland)	50	—
British Gas Corporation	107	—
British Steel Corporation	—	350·0
Post Office	465	207·1**
British Airways Board	48	135·0 <sup>‡</sup>
British Transport Commission*	260	487·4
British Railways Board	2,497	1,450·8
London Transport Board <sup>†</sup>	41	269·8
British Transport Docks Board	—	—
British Waterways Board	43	—
National Freight Corporation	51	—
National Bus Company	48	—
Scottish Transport Group	27	—
	4,885	3,780·2

\*ceased to exist from 1st January 1963.

<sup>†</sup>ceased to be a nationalised industry from 1st January 1970.

<sup>‡</sup>includes £30 million reconstituted as a reserve since capitalised as public dividend

<i>Industry</i>	<b>Subsidies, compensation and other payments for the period to March 1976<sup>§</sup></b> <i>£ million</i>	<b>Capital debts and revenue deficits written off since 1945<sup>  </sup></b> <i>£ million</i>
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capital.

\*\*includes £13 million reconstituted as public dividend capital.

<sup>§</sup>*Hansard*, 24th May 1976, W.A., Col. 83.

<sup>||</sup>*Hansard*, 24th May 1976, W.A., Col. 82.

**The McIntosh Report.** Serious concern over the commercial performance of the nationalised industries, which have accumulated huge aggregate losses since their establishment, led Sir Harold Wilson to commission a detailed study from the National Economic Development Office of the operations of nine of the industries. The Report of the committee, chaired by Sir Ronald McIntosh, was published on 18th November 1976. Sir Ronald commented:

“I knew the situation was bad but I had not realised until we began this study that it was as bad as it is” (*Times*, 19th November 1976).

The Report criticised the deteriorating and distrustful relationship between the nationalised industries and government. The main structural reform advocated was the establishment of Policy Councils for each industry whose responsibility would be to agree corporate objectives and strategies and to lay down the criteria governing the performance of the industries. The boards of the nationalised industries, themselves appointed by the Councils, would be responsible for managing the corporations in line with Policy Council decisions. The Councils would account to Parliament through annual reports; their Presidents would be appointed by the Government. Government would no longer be able to intervene directly in the actions of nationalised industry boards, although in extreme circumstances it would have the power to override Policy Council decisions.

Sir Ronald hoped that this policy would remove “useless layers of bureaucratic decision-taking which exist at present”, but concern was expressed in several quarters that it might itself merely add a further layer to the management of the state industries.

**Conservative Policy.** The Conservative Party is anxious that the mixed economy as it now exists should be made to operate as effectively as possible. *The Right Approach* outlined some aspects of Conservative policy on the nationalised industries:

- a. The re-establishment of clear financial objectives for each corporation which should then be adhered to. Effective monitoring of the performance of the industries would be necessary to weigh their progress against targets and to prevent abuses, but “objectives will be irrelevant unless management is granted the degree of freedom needed to set prices and meet each industry's statutory obligations without outside interference”.
- b. The recruitment and support of top-quality managers, which will require changes in terms and conditions of service.
- c. “Corporations should, as a rule, be paid for undertaking activities which do not conform with their legal obligations or their financial objectives”.

- d. Clear boundaries should be set to the spheres of action of the corporations so that they are not enabled to compete unfairly with the private sector.
- e. In appropriate cases assets or activities should be sold back to private enterprise where willing buyers can be found.

Nationalised industries are sponsored by several different Government departments. Discussion of the energy and transport industries will be found in Chapters 9 and 15 respectively. The Department of Industry is responsible for two public sector industries—British Steel and the Post Office.

## (G) STEEL

The British steel industry lay under the shadow of nationalisation from 1945. Labour's first 1949 nationalisation measure was reversed by the Conservatives' Iron and Steel Act 1953. This enabled the progressive denationalisation of most of the industry to take place. Labour manifestos repeatedly promised that steel would once more be returned to “public ownership” and in 1967 the fourteen largest steel companies (controlling 95 per cent of UK capacity and two-thirds of UK turnover) were taken into a new British Steel Corporation (BSC). A Conservative review of the industry in 1970 concluded that integration had gone too far to be reversed and a large commercial unit for bulk steel-making was desirable. Certain of BSC's peripheral activities were, however, hived off to private sector firms.

**British Steel's financial performance** since 1970 is shown below:

	<i>Profit/loss after taxation</i>	<i>Capital expenditure (£ million)</i>	<i>Liquid steel production (m. tonnes)</i>	<i>No. of BSC employees at end of period</i>	<i>Output per year per employee (1970=100)</i>	<i>Return on avge. net assets %</i>
1970– 1	–£10·4 m.	143	26·1	252,400	100·0	2·9
1971– 2	–£68·0 m.	237	21·5	229,700	90·5	–
1972– 3	+£2·8 m.	198	25·1	226,600	107·2	3·4
1973– 4	+£50·2 m.	187	23·0	220,400	101·0	6·8
1974– 5	+£72·6 m.	311	20·8	228,300	88·1	8·9
1975– 6	–£254·9 m.	530	17·2	210,200	79·1	–

(Source: BSC Annual Reports and Accounts)

The loss in the last financial year reflected the extent of the world recession and the consequent reduction in demand for steel. BSC's operations were at a very low and uneconomic level throughout the year. Raw materials costs and rapid inflation were other contributory factors. On 23rd January 1976 the Corporation announced an

agreement with the TUC Steel Industry Committee and the National Craftsmen's Co-ordinating Committee on proposals to reduce employment costs and to improve labour productivity, which compares unfavourably with that in other countries.

The following table shows the **productivity figures** presented to the Select Committee on Nationalised Industries (Sub-Committee B, 7th April 1976, p. 45).

*Liquid Steel tonnes per man year Productivity Index*

BSC	131	100
France	164	125
Germany	225	172
Italy	232	177
Netherlands	243	185
US	274	209
Japan	372	284

(Source: ECSC 1973)

**Investment Programme and Political Delay.** In the period 1963–73 the British steel industry, which had been investing actively until 1963, lagged behind the other major European steel producers in capital investment programmes. The BSC accordingly presented in 1973 a plan designed to modernise the industry and to increase productivity in order to make it fully competitive in world markets. This was published as a White Paper, *BSC: Ten Year Development Strategy* (Cmnd. 5226).

The total strategy was projected to cost £3,000 million at 1972 prices. The plan involved the ending of steelmaking at Irlam, Workington, Hartlepool, East Moors, Ebbw Vale and Shotton, although finishing plants at the last two units would be expanded. Major investment was planned to concentrate production on large plants of up to 5 million tonne capacity at Port Talbot, Llanwern, Scunthorpe, South Teeside (Lackenby and Redcar) and Ravenscraig, together with new developments at Hunterston in Scotland.

The progress of BSC's investment plan has been delayed by political interference. Mr Varley has commented that the Conservative White Paper,

“provides a basic framework” for investment but “was never intended to be a rigid schedule of events and priorities, and we do not propose to treat it as such” (*Hansard*, 26th April 1976, Col. 35).

For electoral reasons Labour in 1974 promised a review of the closure aspects of the Conservative plan. Lord Beswick, then Minister of State for Industry but now Chairman designate of British Aerospace, reported accordingly to Parliament on 4th February and 6th August 1975. His review postponed the East Moors and Hartlepool closures and delayed a decision on Shotton (see below). Some closures in Scotland were also deferred. Decisions on the closure of certain plants are still awaited and the cost of BSC's plan has now increased to an estimated £10,000 million by the end of the development period.

The Iron and Steel (Amendment) Act 1976 provided for the extension of BSC's borrowing powers from £2 billion to £4 billion, which Mr Varley admitted (*Hansard*, 26th April 1976, Col. 35) would still be inadequate to finance the investment programme.

Costs and progress have also been affected by industrial problems. The need for a review of manning levels was only accepted by the unions in January 1976. There were 368 strikes in 1975–6, all but two of which were unofficial. One million tonnes of iron production were lost at Llanwern where a new blast furnace was completed in March 1975 but not blown in until 16th February 1976.

**Shotton.** The Labour Government announced on 19th July 1976 that the BSC must review yet again its plans to close in the 1980s the Shotton steelmaking plant and carry out new investment at Port Talbot. BSC's former Chairman, Sir Monty Finniston, who is widely believed to have been replaced when his term of office expired in 1976 because of his articulately expressed annoyance at repeated government interference with the industry, commented that Labour's unwillingness to close older plant must affect the prospects for investment in new development at both Port Talbot and Hunterston (*Glasgow Herald*, 26th July 1976).

**Conservatives believe that** uncertainty must be dispelled about the future of an industry that is central to Britain's industrial performance as a whole. Mr Heseltine observed that Labour's failure to reach concrete decisions on BSC's future structure, “will bring satisfaction only to our overseas competitors, who once again see that Britain's competitive position is undermined by its own Government” (*Hansard*, 19th July 1976, Col. 1285).

## **(H) THE POST OFFICE**

**The 1964–70 Labour Government** reorganised the Post Office into a commercial corporation similar to other nationalised industries under the Post Office Act 1969. The Act gave the Corporation a monopoly in telecommunications and posts, and the power to administer the monopoly and to license competitors. The new Post Office came into existence on 1st October 1969.

**The Conservative Government of 1970–4** resisted price increases as part of the movement to secure voluntary restraint in prices and wages, in particular deferring until February 1971 an increase of 50 per cent in postal prices planned by Labour in May 1970 (the necessary stamps were printed), but kept secret in an attempt to influence the result of the June 1970 election. The Giro system was subjected to a review but continued in the light of independent advice, while strong action was taken to reduce the telephone waiting list. The Post Office (Borrowing) Act 1972 provided for the Government's share in a 5-year £4 billion investment programme to modernise Britain's telephone system.

### **Labour's Record (1974–6)**



**Prices and Collections.** Prices have more than doubled since Labour's return to power in March 1974. Postal prices since 1964 are shown in the following table:

Postal prices 1964–75

**% increase since Labour returned to power  
(1974)**

1964		3d		
1965 (May)		4d		
		<i>1st Class</i>	<i>2nd Class</i>	
1968 (Sept.)	5d	4d		
1971 (Feb.)*	3p	2½p		
1973 (Sept.)	3½p	3p		
1974 (June)	4½p	3½p	+ 28·6	+ 16·7
1975 (March)	7p	5½p	+100·0	+ 83·3
1975 (Oct.)	8½p	6½p	+142·9	+116·7

\*Planned by Labour for May 1970 (7d and 6d stamps printed) but postponed for electoral purposes.

The economic position of the parcels service, which lost £42·8 million in 1975–6 has become increasingly serious. Mr Varley halved a proposed 25 per cent increase in parcel prices on 29th April 1976.

Despite these price increases and the fact that a high proportion of first class mail is delivered within 24 hours, there is still widespread dissatisfaction at the unreliability of the postal service.

A *Times* survey (6th July 1976) produced the following information on weekend postal deliveries after the suspension of Sunday services in May 1976, indicating that even Friday first-class posting might not ensure Monday delivery.

Weekend post: % delivered of 1st and 2nd class letters

<i>Day of posting</i>	<i>Class</i>	<i>Day of delivery</i>				
		<i>Sat.</i>	<i>Mon.</i>	<i>Tues.</i>	<i>Wed.</i>	<i>Later</i>
		%	%	%	%	%
Friday	1	40	50	10		
	2		60	25	10	5
Saturday	1		65	30	5	
	2		30	50	10	10
Sunday	1			85	15	
	2			15	70	15
Monday	1			75	25	
	2			10	60	30

Increased charges have also led to a decline in the use of the first-class post from 44 per cent of mail in 1974 to less than a third in 1976 (*Hansard*, 16th July 1976, W.A., Col. 315).

**Financial Performance.** The following table contains information on the Post Office's financial performance since its establishment in its modern form in 1969.

	Profits/losses	Capital Expenditure (£ million)	Profit/loss by Division		Numbers Employed
			Telecommunications (£ million)	Posts (£ million)	
1969– 70	+ 36.2	393.1	+ 61.3	– 24.8	407,669
1970– 1	+ 20.5	459.8	+ 93.5	– 72.6	414,844
1971– 2	+ 36.1	541.1	+ 58.0	– 12.6	416,370
1972– 3	– 64.1	654.4	– 9.7	– 42.5	421,313
1973– 4	–128.1	725.0	– 61.4	– 57.5	420,914
1974– 5	–306.7	826.4	–194.2	–109.2	434,065
1975– 6	+147.9	963.2	+154.7	– 9.2	420,655

Subsidies, compensation and other payments made to the Post Office up to March 1976 totalled £465 million (*Hansard*, 24th May 1976, W.A., Col. 83). There have been three capital write-offs—£130.6 million (16th March 1973), £46.8 million (17th August 1973), and £29.7 million (25th March 1976).

In 1974–5 the Post Office recorded a hitherto unparalleled loss (since surpassed by British Rail) for any UK commercial enterprise. The turnaround in 1975–6 was much more dramatic than was predicted and has led to a pledge from the Post Office to hold its telecommunications prices at present levels until at least July 1977. More recently, the Post Office has been preparing public opinion for the announcement that its profit after the recent massive price increases will be between £350 and £400 million in 1976–7. Plans do, however, appear to have been made for raising postal charges to 9p and 7p during 1977.

**Telecommunications.** A sustained high level of usage of the telephone service despite greatly increased charges was a major contributory factor to the Post Office's strong position in 1975–6.

Tariffs since 1970 have altered as follows (1970=100):

1970	100·0
1971	109·5
1972	110·1
1973	111·2
1974	116·7
1975	131·4
1976	210·6

(Source: Post Office Annual Report and Accounts)

Local telephone charges under the Labour Government have increased even more alarmingly than the average rise for telecommunications, as the following table demonstrates:

Post Office Telephones		
<b>(Local (not call boxes) telephone charges)</b>		
<b>Unit Charge</b>		<b>Time per unit</b>
<i>15th October 1973</i>		
1 penny	Monday-Friday 8–6	3 mins
	Cheap	12 mins
<i>12th August 1974</i>		
1½ pence	Monday-Friday 8–6	3 mins
	Cheap	12 mins
<i>28th April 1975</i>		
1·8 pence	Monday-Friday 9–1	2 mins
	Monday-Friday 8am–9am, 1pm–6pm	3 mins
	Cheap	8 mins
<i>October 1975</i>		
3 pence	Monday-Friday 9–1	2 mins
	Monday-Friday 8am–9am, 1pm–6pm	3 mins
	Cheap	8 mins

*Note:*

Monday-Friday 8–6: increase of 200 per cent since Labour returned to power.

Cheap rate: increase of 350 per cent since Labour returned to power.

**Giro** was founded in 1968 under the aegis of Mr Anthony Wedgwood Benn, then Postmaster-General, who intended to create a “working man's banking service”. Its financial performance since then has been disappointing, and ironically its greatest success has been in the development of a business deposit service. A new personal loans service was begun in June 1975, under which some £2 million had been lent by the end of 1975–6.

**The Post Office (Banking Services) Act 1976** allowed Giro to extend its banking activities to compete more directly with the commercial banks and wrote off £16·7 million of Giro's debts, converting another £13 million debt into public dividend

capital. Conservatives expressed concern about the possible harmful effect of state-subsidised competition on existing banks, particularly as bank nationalisation is now Labour Party policy. Doubts were also expressed at the wisdom of committing more public money to Giro at a time when public expenditure cuts were the overriding economic need.

**Future of Post Office.** The erratic financial performance of the Post Office, together with its huge size (the largest British employer), has led to increasing agitation for a splitting of the post and telecommunications services. This has now been advocated by the Post Office Engineering Union, the London Chamber of Commerce and the CBI, as well as being an idea ‘floated’ by Sir William Ryland, Chairman of the Post Office, during a lecture in London (*Times*, 18th May 1976).

A committee under the chairmanship of Mr Charles Carter, Vice-Chancellor of Lancaster University, appointed by the Government to conduct a wide-ranging inquiry into the structure and operations of the Post Office, began its work in January 1976 and is expected to report in the spring of 1977.

## **(I) CONSERVATIVE STRATEGY FOR INDUSTRY**

### **1. SUPPORT FOR FREE ENTERPRISE**

Conservatives believe that national prosperity depends above all else upon creating an economic and institutional environment in which companies in the private sector can thrive and expand. Because its working depends on tens of thousands of independent judgments and decisions, all subject to the penalties and rewards of competition, the free enterprise system is capable of rapid response to changing markets and techniques, and is much less likely than a system of central control to produce massive and wasteful errors.

At the same time the free enterprise system, if allowed to function properly, provides for (a) the consumer who is offered a fuller choice of goods and services; (b) the employee who may take his skills elsewhere if he chooses; (c) the saver who has a wide range of investment opportunities; and (d) the citizen who enjoys the freedom from State control and patronage which only the diffusion of property and personal ownership can confer. In *The Right Approach* Conservatives reaffirm that

“Restoration of our national prosperity will depend above all else on our industrial performance. All our economic policies therefore ... are designed to create a climate in which industry can thrive and expand.”

**Stability.** Conservatives recognise that continuous legislation and constant changes in the management of the economy erode industrial confidence. Fluctuations in the economic cycle have been exaggerated and distorted by the ceaseless chopping and changing of government policy. It has become increasingly difficult to plan investment with confidence. As Sir Geoffrey Howe has said:

“Some people seem to believe that a party has not got a policy unless it is pledged to a frenzy of activity, of endless change and a diet of senseless statutes ... What people are looking for in the next Conservative Government is a period of reasonable, reliable stability. And we should I think promise ... that in the next Conservative Government, so far as is possible, and so far as is sensible ... there will be no change unless the case for it is proven” (Blackpool, 8th October 1975).

**A New Partnership.** As Mr Heseltine told the Conservative Industry Conference, the Conservatives

“are the only party wholly committed to the free enterprise system” (Solihull, 9th July 1976).

The main emphasis in Conservative policy is on removing the restrictions with which a Socialist Government is destroying free enterprise. But Conservatives have always recognised that in some areas of commercial and industrial life government intervention may be appropriate and necessary. For instance, the Government must provide a proper legal framework for the operation of free enterprise. The Government must also see that where foreign nations offer their industries state subsidies or other forms of help, the position of British producers is not jeopardised. There has to be coherent policy for those industries which are likely to remain in the public sector. And, the Government has a clear obligation to help solve the human and other problems that arise from rapid industrial change, or from an unbalanced distribution of employment opportunities. (For details of Conservative attitude to the regional assistance of industry, see p. 177. For details of attitude to financial assistance to particular firms see p. 148).

Conservatives believe that the State can only effectively fulfil these and other obligations in industrial matters if, as in all other advanced free enterprise economies, there is a constructive voluntary partnership between the Government and both sides of industry. Such a partnership is obviously impossible while the State threatens the very existence of the private sector. But by removing the dead-weight of Socialist restrictions, Conservatives can expect to restore industry's confidence in government. In these circumstances it should be possible to develop a responsible relationship with the private sector, for example through the full use of the National Economic Development Council and the “little Neddies” subordinate to it.

**The Right Climate.** Despite the overriding desire of the Party to lessen the burden of bureaucracy, of new regulations and new legislation, the grave condition of British industry means that the next Conservative Government will have at first to introduce some significant changes of policy. But once it has created the economic environment in which it is possible for our free enterprise firms to lead us back to prosperity, the Conservative Government will keep further changes to a minimum.

*The Right Approach* outlines the actions that a Conservative government will take to help British industry:

(i) Introduce “**further substantial relaxations of the Price Code**”, which is becoming increasingly damaging to business and industry.

(ii) **Ensure that companies have access to adequate sources of external finance on reasonable terms** by “curbing the growing appetite of the public sector”. “Very large reductions will be unavoidable” so that Conservatives can release the men, finance and resources at present squandered by the State for investment in productive free enterprise.

(iii) **Reduce industry's costs by pursuing a non-inflationary monetary policy.** Cuts in public expenditure will help a Conservative government to exercise proper control over the money supply.

(iv) **Remove the threat of nationalisation.** The 1975 Industry Act will be repealed and the safeguards on the use of powers to give financial assistance to industry under the 1972 Industry Act will be restored and strengthened. And as Mr Heseltine told the 1976 Party Conference:

“The National Enterprise Board is to go. We cannot tolerate the existence of an organisation that has the statutory duty to nationalise profitable companies in manufacturing industry.”

Some sort of administrative mechanism will be necessary for selling off NEB shareholdings where this is possible, and for administering those which cannot be sold off immediately:

“Until health is restored or any prospect of achieving it abandoned those companies will be given the opportunity to recover from the traumas of recent years” (*Brighton* 17th October 1976).

Furthermore, “as much as possible of the interests of British shipbuilders and British aerospace, if the Government do succeed in setting up these nationalised bodies, should be sold off to the private sector” (*The Right Approach*).

(v) **Bring about “a radical revision of company taxation”** in the light of the work of the Sandilands and Morpeth Committees (see Chapter 4, p. 103).

(vi) **Restore profitability.** This is the key to the recovery of industry and of the economy. Sound economic management and the restoration of confidence combined with the relaxation of Socialist controls, can do more than anything else to bring this about. In the words of **Mrs Thatcher**:

“The way to recovery is through profits, good profits leading to high investment, leading to well paid jobs, leading to a better standard of living tomorrow. No profits means no investment and that means a dying industry geared to yesterday's world” (Blackpool, 10th October 1975).

## **(J) REGIONAL DEVELOPMENT**

Since the 1930s Britain has been a leader in the development of policies designed to counteract regional difficulties. Yet, paradoxically, those problems are now, as a result of the present recession and the continuing decline of traditional industries, as

acute as at any time in the period since then, despite the extensive support actions undertaken by successive governments. However, it is clear that, in the long-term, security cannot be provided by the indiscriminate public support of, or ownership of, industries that can no longer be competitive in international terms. The long-term benefits must be derived from restoring industrial confidence through the pursuit of sensible economic policies. Proper incentives must also be given to the creators of small businesses, many of which comprise the industries of the future (see Chapter 7, p. 187).

In 1963 the Conservatives made an important new departure in regional policy by switching the emphasis from actions specifically designed to relieve local unemployment to longer-term policies designed to bring about the overall regeneration of areas suffering decline. Hence, the improvement of communications, of the urban environment, of housing and of education became priorities designed to make the depressed regions more attractive to new industrial development.

## **1. THE LABOUR RECORD, 1964–1970**

When Labour took office in October 1964, the rate of unemployment in the then development districts was 3·8 per cent. Mr Callaghan, then Chancellor of the Exchequer, later commented that the regions were “absolutely booming ahead” (TV Broadcast, 6th April 1965).

But following the deflationary package announced by the Government in July 1966 unemployment began to rise. Between 1966 and 1969 employment in the North-West fell by 116,000, and 52,000 jobs were lost in Wales.

The Labour Government in 1965 established Economic Planning Councils and Boards for the regions. But from 1966 the resources were never available to implement their proposals.

**Development Areas.** Labour's Industrial Development Act 1966 replaced the existing development districts by Development Areas. These covered about 20 per cent of the employed population (against 13 per cent in the old districts). They included:

*Scotland*, except for the Edinburgh Area;

*Wales*, except for the southern coast and parts of North Wales;

*Northern Ireland*;

*Northern Region* (Northumberland, Durham, Cumbria and the old North Riding of Yorkshire);

*Merseyside* (with Widnes and Skelmersdale);

*The South West*—nearly all Cornwall and most of North Devon.

The Act also introduced 40 per cent investment grants in Development Areas for investment in manufacturing and mining plant and machinery, which replaced existing free depreciation allowances. These were opposed by Conservatives as being wasteful and ineffective. Large sums were paid for investment in the regions that would have taken place in any event and they were paid without any regard for the profitability or viability of the firms and the potential extent of the employment they afforded.

Labour scheduled certain other areas for particular regional assistance. **Special Development Areas** were established in November 1967 within existing Development Areas in places affected by particularly high unemployment. **Intermediate Areas** were scheduled in 1970 following the Report of a committee under Sir Joseph Hunt (Cmnd. 3998). These were chiefly old industrial centres on the borders of the Development Areas which had seen much-needed resources channelled away into even more hard-pressed neighbouring areas. They were:

Yorkshire and Notts/Derby coalfield, North Humberside, North-East Lancashire, South-East Wales, Leith and Plymouth.

## **2. CONSERVATIVE GOVERNMENT, 1970–1974**

### **Industry Act 1972 and New Regional Framework**

Before the 1972 Industry Act was introduced, Conservatives had already taken action to help the regions. Free depreciation was reintroduced in place of investment grants and extended to assist service industries. New special Development Areas were scheduled in West Central Scotland, Tyneside and Wearside and parts of South Wales. Edinburgh, Portobello, Bridlington, Filey, Oswestry, Okehampton and Tavistock were made Intermediate Areas. In July 1971 a £100 million infrastructure improvement programme was announced to improve various key services in the regions.

**The Industry Act 1972** established a new framework for regional assistance. It included the following provisions:

(a) **Regional Development Grants**—necessary to maintain an advantage for development areas as free depreciation was extended to the whole country—payable towards capital expenditure on new buildings or adaptations of old ones, on new plant or machinery, and on mining works at a rate of 20 per cent in Development Areas and 22 per cent in special Development Areas. Grants at 20 per cent were payable (on buildings only) in intermediate areas.

(b) **Selective Financial Assistance.** Section 7 of the Act replaced grants and loans in Development Areas under the Local Employment Acts with selective financial assistance in assisted areas to provide, maintain or safeguard employment. Under the Act, as designed by the Conservatives, any taking up of stocks had to have the consent of the assisted company.

Section 8 of the Act enabled the Secretary of State to give any form of financial assistance (initially with a time limit until 31st December 1977 since removed by



Labour) to industry inside or outside the assisted areas where he was satisfied that it was likely to benefit the UK economy as a whole or any part of it. Labour has since, under the 1975 Industry Act, removed safeguards on the giving of that assistance which the Conservatives had included in the Act (see p. 149).

**(c) Credits and Grants for Construction of Ships and Off-Shore Installations.**

The Act provided temporary financial assistance by means of tapering grants for the construction and equipment in 1972–4 of new merchant ships over 100 gross tons and of mobile off-shore installations.

**Regional Industrial Development Boards.** Regional Industrial Development Boards were set up for Scotland, Wales, the Northern Yorkshire, Humberside and North Western Regions, with an industrial development office for the South West at Plymouth. These were headed by Regional Industrial Directors.

An Industrial Development Advisory Board advises the Secretary of State on the exercise of his functions under the Industry Act 1972.

The regional Boards advise on industrial opportunities and on selective financial assistance for the development of industry in their regions. They comprise members drawn from local industry and commerce who have a special personal commitment to, and knowledge of their regions. These Boards have strengthened their links with the Department's regional offices and with Economic Planning Councils and Boards in order to facilitate co-ordination of social and industrial development.

### 3. LABOUR'S RECORD SINCE 1974

It is difficult to assess how effective the Conservative programme of assistance to the regions might have proved had the economic downturn which followed the energy crisis and Labour's return to power not affected the regions as severely as the rest of the country. Labour's fuelling of inflation, combined with their erosion of industrial confidence and liquidity, inevitably drove unemployment levels to new post-war records.

The Conservatives' Industry Act 1972 required the Secretary of State to present annually to Parliament reports on the workings of the Act. These annual reports contain estimates of the number of jobs associated with regional assistance. These are set out in the table below.

Estimated Employment Associated with the Operation of the Industry Act 1972\*§

	1973–4†	1974–5	1975–6
<b>Total UK</b>	<b>72,342</b>	<b>87,386</b>	<b>62,868</b>
Scotland	16,241	16,206	19,874
Wales	10,970	12,618	9,632
Northern	14,600	24,014	6,589
Yorks. & Humberside	11,784	11,618	5,420
East West Midlands	1,466	1,768	2,818

Estimated Employment Associated with the Operation of the Industry Act 1972*§			
	1973–4†	1974–5	1975–6
<b>Total UK</b>	<b>72,342</b>	<b>87,386</b>	<b>62,868</b>
South West	2,085	1,542	1,323
North West	15,196	19,620	17,212

(Source: Industry Act 1972 Annual Reports)

*Notes:*

\* Excluding effect of service industry grants. Figures understate the employment effect in that no attempt has been made to quantify jobs created as a consequence of the employment indirectly generated by the Act.

† First full year of operation of Act.

§ All figures include jobs safeguarded by operation of Act.

In 1975–6 a decline in the number and size of new selective assistance projects has been seen in several areas, although support has resulted in the creation or maintenance of a significant number of jobs.

**Labour Policy.** The only significant initiatives taken by the Labour Government in the field of regional policy have been its modifications to the REP (see p. 180), and the introduction of a temporary employment subsidy (see Chapter 8, p. 206).

**Scottish and Welsh Development Agencies.** A significant change made by Labour to the regional structure established by the Conservatives has been the creation of Scottish and Welsh Development Agencies (in operation from December 1975 and January 1976 respectively—See Chapters 22 and 23). These have the purpose, common to other Regional Industrial Development Boards, of accelerating the economic and industrial development of their regions. However, both agencies, though independent of the National Enterprise Board, are closely linked to the Board, which will consult with the Agencies before taking any action in supporting companies in Scotland or Wales. The Agencies have the power to undertake joint commercial ventures with private sector companies and to start new industrial undertakings. They have the power to acquire equity in private sector firms. £200 million (which may be raised to £300 million subject to Parliamentary approval) has been assigned to the Scottish Agency and £100 million (£150 million) to the Welsh Agency.

Conservatives have objected to the unnecessary powers of the Agencies to acquire equity in private firms for possibly Socialist purposes. As *The Right Approach* states:

“The powers of the Scottish and Welsh Development Agencies to buy into profitable companies should be removed”.

**Dispersal of Industry.** Successive governments have recognised the importance of securing new industrial development in assisted areas and reducing congestion in more densely populated areas by encouraging new industries to settle in the regions. Improved communications have enhanced the attractiveness of the regions in this respect. Since 1947 approval for industrial development from the Department of Industry (previously the Board of Trade) has been obtained through Industrial

Development Certificates (IDCs), now necessary for developments over 12,500 square feet in the South East and 15,000 square feet elsewhere. Clearly IDC applications are examined most closely in non-assisted areas. In February 1976 the Department of Industry announced an experimental scheme enabling IDCs to be granted for speculative industrial redevelopment of old industrial sites containing obsolete industrial premises outside assisted areas.

The Conservatives in 1963 established the Location of Offices Bureau (LOB) to assist businesses considering a move from London. By March 1975 the LOB had helped 1,715 firms to move 121,640 jobs. The Conservative Government commissioned a report from Sir Henry Hardman (published June 1973) on the feasibility of the dispersal of parts of the Civil Service to the regions. The Labour Government acted on this Report in July 1974 when it announced that 31,000 Civil Service posts were to be dispersed to other parts of Britain, 90 per cent to the assisted areas.

## **4. THE REGIONAL EMPLOYMENT PREMIUM (REP)**

**Origin.** The proposal to pay a premium for employment in manufacturing industry in the Development Areas was first put forward by the previous Labour Government in a Green Paper, *The Development Areas: a Proposal for a Regional Employment Premium*, in March 1967 and subsequently embodied in a White Paper (Cmnd. 3310, 1967). It was brought into effect in the Finance Act 1967. The premium originally amounted to £1.50 a week for men, 75p for women and boys, and 48p for girls, employed in manufacturing industry.

**Conservative Policy.** Conservatives have criticised the premium because it discriminated against service industries; it was paid to new or old, stagnant or expanding industries alike; and particularly at a time of rising unemployment it was likely simply to divert unemployment from Development Areas to 'grey' areas. Nevertheless, it was clear that many firms had budgeted and entered into contracts in the expectation of receiving the premium: and that they could be in difficulties if it was suddenly withdrawn. The Conservative Government therefore fulfilled the original Labour undertaking to pay REP in full until September 1974. Lord Barber said in his Budget Speech in 1972 that it would be phased out over a period after that date; the rate and method of phasing out would be announced in due course in the light of circumstances at the time, and after consultations with industry. When discussions on this began with the CBI and the TUC in the summer of 1973, anxiety was expressed about the effect of the withdrawal of REP but little conclusive evidence of its effectiveness was produced.

Mr Healey's **About-turn.** Labour's return to office in March 1974 occasioned a further review of the premium. In August 1974 the doubling of existing rates of REP was announced together with the indefinite extension of the scheme. Doubts about the efficiency of the system were overridden but the Labour government has since shown little appreciation of the need for consistency in its approach to manufacturing industry in the regions. In July 1976, as part of his economic package, Mr Healey announced that the rate of REP would again be changed so the £2 a week would be paid for both male and female workers. As the last stage of his complete volte-face

Mr Healey announced on 15th December 1976 that REP would be completely phased out early in 1977—only two days after his colleague Mr Bob Cryer, Under-Secretary at the Department of Industry, had described it as “a welcome inducement to investment and the maintenance of employment in the assisted areas” (*Hansard*, 13th December 1976, Col. 959).

## 5. CONDITION OF THE REGIONS

### (1) Northern

The region was particularly hard hit by Labour's crisis measures in 1966. Unemployment which had averaged only 2·7 per cent between 1951 and 1964 rose steadily until 1972. The whole area (5,946 square miles) is designated a development area; the areas of greatest need, on the west coast and the industrial north east, have special development area status.

**Advance Factories.** Labour has continued the Advance Factories programme begun by the Conservatives in the north. In 1974–5 20 new factories were announced covering a total area of 32,075 square metres and in 1975–6 34 new factories covering 47,240 square metres.

**Steel and Oil.** Teesside continues to be an important growth area. The development of a large new steel complex on Teesside at a cost of £1,000 million at 1972 prices will almost double capacity to about 12 million tonnes in the 1980s. A new oil terminal has been developed in the same area to handle oil piped from the Ekofisk field.

**Roads.** The 1963 Hailsham plan inaugurated a programme including 100 motorway and trunk road schemes. A dual north-south road (based on the A1 and A1/M) has been developed in the east and is complemented by the development of the M6 in the west. Improvement of the A66 from Scotch Corner via Penrith to Workington is under way, while the Conservative Government announced in December 1972 a 75 per cent grant towards the Tyneside rapid transport system—the largest grant ever given for transport in the northern region.

**Assistance under Local Employment Acts.** Until 1972, before other means of assistance were made available under the Industry Act, assistance under the Local Employment Acts was running at a high level. In the years 1970–1 to 1973–4 over £67 million of assistance was offered to the region for projects expected to create 53,143 jobs. In 1974–6 nearly £13 million was offered to projects creating 7,059 jobs.

**Assistance under Industry Act.** The following table shows offers of assistance made to the Northern Region through grants and loans under the Industry Act 1972.

	<i>Number of offers</i>	<i>£'000</i>	<i>Estimated assisted employment</i>
1972–3	47	1,987	32,401
1973–4	182	10,092	14,600
1974–5	151	6,768	24,014

	<i>Number of offers</i>	<i>£'000</i>	<i>Estimated assisted employment</i>
1975-6	139	6,403	6,589

(Source: *Industry Act Annual Reports*)

**Unemployment.** Under the Labour Government unemployment in the Northern region has increased over 50 per cent to an average of 88,600 in 1975-6 against 58,100 in 1973-4. Unemployment in 1975-6 ran at the rate of 6.8 per cent. By October 1976, 104,600 people were out of work (a rate of 7.8 per cent).

**Regional Strategy.** In 1974 the Northern Economic Planning Council with the Government and the North Regional Planning Committee jointly commissioned a Northern Regional Strategy to be completed by the end of 1976.

## (2) Yorkshire and Humberside

The region suffered under the 1964-70 Labour Government from lack of new growth to replace old industries. In many cases industry in the region or potential new investment was attracted to the neighbouring development areas. In 1972 the Conservatives acted to counteract this problem by scheduling the whole region (some 5,954 square miles) an Intermediate Area. The decline of the important coal industry has continued to present problems. But in recent years the discovery and development of the huge new Selby coalfield has offered new long-term employment in the industry. However, new difficulties will arise on Humberside because of the Labour Government's incompetent handling of the interests of the fishing industry. Many jobs are now in jeopardy (see also Chapters 9 and 12).

**Advance Factories.** The Labour Government announced 10 new advance factories with a total area of 12,090 square metres in 1974-5 and 24 in 1975-6 with a total area of 24,750 square metres.

**Roads.** Conservatives took effective action to improve communications in the region. Important new roads including an East-West road to replace the A18 were announced, while on 26th May 1971 the Government inaugurated the construction of the Humber Suspension Bridge which had long been requested by the region.

**Assistance under Industry Act.** The following table shows offers of assistance made under the Industry Act 1972.

	<i>Number of Offers</i>	<i>£'000</i>	<i>Estimated Assisted employment</i>
1972-3	13	478	1,116
1973-4	154	7,957	11,784
1974-5	146	5,741	11,618
1975-6	109	5,228	5,420

(Source: *Industry Act Annual Reports*)

**Wool Textile Scheme.** In 1973 the Conservatives introduced an £18 million industry scheme under Section 8 of the Industry Act 1972 (see p. 148) to assist an industry that is central to the regional economy. The success of the scheme, which closed in

December 1975, prompted the industry to lobby for its extension. The Labour Government finally responded on November 29th 1976 by offering a further £5 million to help the industry.

**Unemployment.** Unemployment in the region increased by almost 80 per cent from an average of 54,100 in 1973–4 to 97,200 in 1975–6. In the latter year it was running at an average of 4·8 per cent. By October 1976, 113,400 were unemployed (a rate of 5·5 per cent).

**Regional Strategy.** In 1976 the Regional Economic Planning Council produced a revised strategy for the region for the period until 1986. It reaffirmed the objectives outlined in the earlier 1970 strategy endorsed by the Conservatives in 1971. The first priorities are to be encouragement of industrial investment, the development of communications to the ports and environmental improvements.

### (3) South West

In the 1960s the lack of adequate roads was identified as the most serious problem impeding the economic development of the South West, an area of 9,207 square miles. The Conservative Government of 1970–4 devoted its main energies to the improvement of communications. By mid-1972, £350 million of trunk and principal road schemes were under construction, in the firm programme or in preparation, in Devon, Cornwall and Somerset. A regional Transport Co-ordinating Committee was established in 1973.

Most of the region's manufacturing industry has been concentrated in the north-east and east of the region. Devon and Cornwall experienced little economic growth until designated as assisted areas. Regional assistance has, however, helped to attract small or medium-sized projects to the far west. Much of the employment in the assisted areas is of a seasonal nature, connected with the tourist industry. Because of the importance of this service industry the abolition of Selective Employment Tax by the Conservatives was an important means of assistance to the region.

**Advance Factories.** The Labour Government announced advance factory assistance to the South West totalling four factories with a total area of 3,820 square metres in 1974–5 and three factories with an area of 2,700 square metres in 1975–6.

**Assistance under Local Employment Acts.** Between 1970 and 1974 the South Western development areas received almost £6·7 million of assistance under the Local Employment Acts with which 7,985 jobs were associated. In 1974–6 the same areas received about £½ million of assistance. The additional employment estimated to arise from this assistance was 226 jobs.

**Assistance under Industry Act 1972.** The following table shows assistance offered under Section 7 of the Industry Act 1972 to the South West in the form of grants and loans to firms in the region.

	<i>Number of offers</i>	<i>£000</i>	<i>Estimated associated employment</i>
1972–3	12	630	686

	<i>Number of offers</i>	<i>£000</i>	<i>Estimated associated employment</i>
1973–4	17	595	2,085
1974–5	29	1,498	1,542
1975–6	45	975	1,323

(Source: Industry Act Annual Reports)

**Unemployment.** The year 1975–6 was a difficult one for the South West. In parts of Cornwall and North Devon the level of unemployment during the year was among the highest in the country. Twenty manufacturing companies closed down with the loss of over 700 jobs. In the region as a whole unemployment has risen from an average of 36,200 in 1973–4 to 86,900 in 1975–6. The Development Area has suffered very badly—unemployment running at 8·8 per cent in 1975–6 against 3·6 per cent in 1973–4. For the Intermediate Area figures were just as bad—unemployment at 6·7 per cent against 2·8 per cent in 1973–4. In October 1976, 105,500 people were out of work in the region as a whole (a rate of 6·6 per cent).

**Regional Strategy.** In April 1974 the Regional Economic Planning Council published *A Strategic Settlement Pattern for the South West* which reviewed likely population changes until 2001. The report anticipated substantial growth in all parts of the South West. The council has also undertaken studies of tourism and retirement migration.

#### (4) North West

The North West is one of the most highly industrialised regions of Britain with a wide range of industries, some of which have unfortunately long been in decline. The reduction of employment in older industries has necessitated a very rapid transformation in the region's economy—200,000 jobs were, for instance, lost in the textile industry between 1953 and 1968. The Conservative Government of 1951–64 provided a high level of assistance to the North West. Between 1956 and 1967 the area of new industrial building approved was larger than for any other region. It was expected to provide 200,000 new jobs. The building of the M6 and the electrification of the railway to Crewe were well under way by 1964. Unfortunately, the deflationary measures taken by the Labour Government after 1966 did not encourage new industrial development and accelerated the decline of older industries. Recently, problems in the textile industry have aroused great concern and imminent closures are forcing up the rate of unemployment in certain areas, notably Skelmersdale New Town. These difficulties make it all the more important that the Government should take effective action to check the foreign “dumping” of textiles.

**Advance Factories.** Announcements of advance factories in the North West totalled 18 in 1974–5 with a total area of 25,069 square metres. In 1975–6 there were announcements of 23 factories with a total area of 32,490 square metres.

**Roads.** Apart from the M6, many recent developments of communications have been of great assistance to the region—these have included the M55, M56, M61 and M62. The north-south rail route through the region is now fully electrified. The second Mersey tunnel was completed in 1974; the same year saw the completion of a major programme to modernise Manchester airport.

**Assistance under Local Employment Acts.** Assistance to the Merseyside development area under the Local Employment Acts totalled £23·9 million between 1970 and 1974. 21,959 jobs were estimated to be associated with this assistance. In 1974–6 £4·4 million was given to the area with an estimated 2,215 jobs associated.

**Assistance under Industry Act.** The following table shows assistance offered under Section 7 of the Industry Act 1972 to the North West in the forms of grants, loans and support to firms in the region:

	<i>No. of offers</i>	<i>£000</i>	<i>Estimated associated employment</i>
1972–3	11	1,321	2,149
1973–4	172	9,891	15,196
1974–5	163	19,856	19,620
1975–6	178	16,923	17,212

**Unemployment.** The North West Industrial Development Board comments that 1975–6 “has not been an easy one for the North West. The national pattern has been reflected in the region in a slightly more aggravated form and the problem of Merseyside has unfortunately increased rather than diminished”. Unemployment figures on a comparative basis have been:

	<i>March 1975</i>	<i>March 1976</i>
	<i>%</i>	<i>%</i>
Great Britain	3·4	5·4
North West	4·4	6·7
Merseyside	7·1	9·9

(Industry Act Annual Report 1976)

The average unemployment in the North West Development and Intermediate Areas rose from 94,200 in 1973–4 to 173,100, in 1975–6, an increase of nearly 84 per cent. By October 1976, 196,400 people were unemployed in the region as a whole (a rate of 7 per cent).

A paper entitled *A Study of the North West*, produced by Conservative M.P.'s in the North West in September 1976, emphasised that the burdens placed by Labour on small businesses were a major cause of the increasing rate of unemployment in the North West (see also Chapter 7, p. 196).

**Regional Strategy.** The North West Joint Planning Team published in May 1974 a full-scale strategy, *Strategic Plan for the North West*. It urged programmes to attack urban environmental problems, particularly slum clearance, new parks and playing fields and the control of pollution. Structurally it argued for concentration on the “Mersey belt” of South Lancashire, Merseyside and Greater Manchester. It saw Central Lancashire New Town as a major long-term growth area. A permanent regional planning unit was also recommended. In December 1975 the Government announced its acceptance of the broad conclusion of this strategic plan.



## 5. EUROPEAN COMMUNITY POLICY

A community regional policy was implicit in the Treaty of Rome, but only in 1973 did the EEC Commission agree the document, *Report on Regional Problems in the Enlarged Community* (Document 70/73). This demonstrated that throughout the 1960s the Community achieved an annual growth rate of 5·4 per cent per annum but the ratio between the richest and poorest regions, calculated in terms of GDP per head, remained constant at 5:1, despite grants and loans offered by the European Coal and Steel Community, the European Social Fund, the European Investment Bank and the European Agricultural Guidance and Guarantee Fund.

In July 1973 the Commission proposed the establishment of a Regional Policy Committee and a European Regional Development Fund (ERDF) of 2,250 million units of account (£931·5 million) to be distributed over three years. The fund was intended to complement assistance provided to under-developed regions by individual governments. The Community's definition of regions requiring assistance embraced a GDP consistently below the national average, dependence on a declining industry and a high rate of unemployment or net outward migration.

Discussions delayed the introduction of the ERDF. Heads of Government finally agreed to establish it from 1st January 1975 but the actual size of the Fund was much smaller than had been projected—only 1,300 million units of account (£541·6 million). Furthermore, no overall Community criteria were agreed and applications for assistance will now come from member governments alone for funds to augment existing national programmes. A set proportional distribution was agreed between member states—40 per cent for Italy, 28 per cent for the UK (about £150 million), 15 per cent for France and 6 per cent for Ireland.

Assistance granted to the UK in 1975 and 1976 (to 31st July) was as follows:

	<b>1975</b>	<b>1976</b>
	<i>(calendar year)</i>	<i>(1st Jan.-31st July)</i>
	<b>£000</b>	<b>£000</b>
Northern Ireland	7,751	4,967
Scotland (special development area or development area)	9,852	6,155
Wales (special development area, development area or intermediate area)	6,200	6,167
<i>English Assisted Areas</i>		
Northern (special development or development area)	7,175	7,250
North West (special development or intermediate area)	3,030	4,147
Yorkshire and Humberside (development or intermediate area)	996	1,296
South-West (development or intermediate area)	779	168
East Midlands (intermediate area)	113	185
West Midlands (intermediate area)	11	—

	<b>1975</b> <i>(calendar year)</i>	<b>1976</b> <i>(1st Jan.-31st July)</i>
	<b>£000</b>	<b>£000</b>
Total	35,907	30,335

*(Hansard, 2nd August 1976, W.A. Cols. 625–6)*

**Conservative Response.** Conservatives have been critical of the ERDF in some respects. The European Conservative Group in the European Parliament, in a 1974 policy statement, said: “The Fund simply provides and co-ordinates support from Community sources for existing regional policies of Member countries”.

## 7. SMALL BUSINESSES

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<b>(A) The Importance of Small Firms</b>	<b>187</b>
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### Speaking Note

- Small businesses form a large part of the economy. They employ some 6 million people, including 1·9 million self-employed, and contribute about 20 per cent of the GNP.
- Small businesses are a vital part of the economy, providing the consumer with a wide range of goods and services. If allowed to prosper, small firms could play an important part in reducing the present level of unemployment.
- Labour's disastrous measures over the last three years have hit small firms particularly hard. Unprecedented rates of inflation have savagely restricted their profitability and made it difficult for them to acquire sufficient capital for investment. On top of this penal rates of capital taxation have largely removed incentives and threaten to break up many small firms.
- Small firms are hampered by restrictive legislation resulting in a heavy burden of form-filling. Particularly onerous is the complicated multi-rate system of VAT, which Conservatives are pledged to end.
- Conservatives believe that small firms have a key part to play in the revival of our economy. They provide an outlet for the initiative and enterprise which has been the backbone of Britain's industrial greatness in the past. This initiative has been stifled by Socialist policies and bureaucratic incompetence.
- Conservatives have fought for small businesses in Parliament over the last three years. The Party has set up a Small Business Bureau with its own newspaper to provide a voice for those who own and work in small firms, and for the self-employed.

## (A) IMPORTANCE OF SMALL FIRMS

The Conservative Party has always recognised the importance of the small firms and the self-employed, not only in the wide range of products and services they provide, but as the seedbed of tomorrow's industrial giants. **Mrs Thatcher** has said of smaller businesses:

“They are the soil in which tomorrow's prosperity grows. In commerce and in industry, the small firms of today can be the large firms of tomorrow” (Fairlie, Ayrshire, 6th September 1975).

In the past, a major part of the drive and thrust, the inventiveness and innovation in our economy has come from small firms—often from the individual businessman setting up on his own to develop a new product or expand into a new market. Years of economic crisis, high taxation, rigid controls, increasing state interference and bureaucracy, and unprecedented inflation have stifled much of this new enterprise and crippled the development of many existing firms. The British economy will not revive, nor will unemployment be brought down, until these handicaps are removed and the dynamism that exists in many small firms is allowed free rein.

Conservatives believe that until there is a revival of the small firms sector—in all its variety—it will be difficult for the economy as a whole to revive. And it is, by the same token, on the successful management of the whole economy that the success of small businesses depends far more than on any specific aids or reliefs—necessary though some of these may be.

**Problems of small firms.** Inflation has had a particularly crippling effect on small firms. They have been faced not only with soaring raw material costs, but often with demands for wage increases which can be met by larger firms or by the public sector, but are far beyond their own resources. Profit levels squeezed simultaneously by rising costs, strict price controls and by recession have left no margin for investment or expansion. Many firms have been forced to depend on borrowing even for working capital normally provided from their own ploughed back profits. High interest rates have made the cost of such borrowing prohibitive.

These difficulties have been made worse, under the Labour Government, by a series of measures that have been particularly damaging to small firms. Taxation—in particular, taxation of capital—has been foremost among these. But other measures, including price controls, the Employment Protection Act, National Insurance provisions and increasing bureaucracy in many fields have been introduced with small regard to the burden they imposed on small companies.

**Definition of a small business** is difficult. In its widest sense, it embraces all forms of enterprise, from the individual professional man, craftsman or artisan, to the small farmer, shopkeeper, transport operator or manufacturer. The employment of two hundred people is usually taken as the upper size limit, though for different purposes other definitions—such as turnover, capital, or profit levels—are appropriate. Probably the one characteristic common to all small enterprises is that they depend for

their momentum on the initiative of one person, or at least a very small number of people.

## 1. THE BOLTON REPORT

The most recent comprehensive Government investigation into small firms was the Committee of Inquiry on Small Firms set up by the Labour Government in 1969 under the Chairmanship of Mr J. E. Bolton. Its report, *Small Firms* (Cmnd. 4811), was published in November 1971. The Committee used as its basic definition of a small firm in the manufacturing sector the employment of up to 200 people. Other definitions were used in other sectors, e.g., for retailing, a turnover of under £50,000. The Committee estimated that there were in total approximately 1¼ million small firms in the United Kingdom. Small firms were estimated to contribute some 20 per cent of the gross national product and employ about six million people—including 1·9 million people who were classed as self-employed.

Absence of reliable recent information makes it difficult to update the Bolton estimates of the size of the small firms sector. The report's estimates were based mainly on the Census of Production published in 1971. Other official statistics that are available are not categorised in such a way as to make information on small firms easily extractable. But what evidence there is suggests that the harsh economic climate has resulted in a continuous decline in their numbers—beyond what the Committee predicted.

**Importance and Functions.** The Bolton Committee distinguished eight important functions of small firms:

1. They are an outlet for enterprising and independent people.
2. In certain industries the most efficient form of business organisation is the small firm.
3. Many small firms supply large companies with goods at lower cost than such companies could achieve themselves.
4. They add to the variety of products and services offered to the customer.
5. Small companies provide a competitive check to monopoly profits and monopolistic inefficiency.
6. They are an important source of innovation.
7. The small firm sector is the traditional breeding ground for new industries.
8. Small firms provide the means of entry into business for new entrepreneurial talent and the seedbed from which new large companies will grow to challenge and stimulate the existing leaders of industry.

To these could be added a number of other valuable contributions made by small companies. For example, a study sponsored by the Anglo-German Foundation for the Study of Industrial Society, *New Technology Based Firms in Britain and Germany*, and undertaken by A. D. Little Ltd. (1976), highlighted the recent high technology/growth firms in such areas as digital electronics and computers. Twelve electronics firms founded since 1960 with combined sales of £27 million are among the successes described.

Small firms are a fertile source of invention, as Mr David Mitchell, Conservative MP for Basingstoke, demonstrated in his booklet *Seedcorn* (Aims of Industry, 1970). They provide reliable personal service. They have a good record of industrial relations—according to Department of Employment statistics. Moreover, their efficiency is shown by the fact that they tend to achieve at least as high, and in some cases a higher, rate of return on capital than large firms (Article by Samuels & Smyth in *Economica*, May 1968). Small firms also have a good export record. The proportion of small firms receiving The Queen's Award for exporting has increased steadily over the last four years. Prominent among them are the high technology firms referred to in the A. D. Little study which export over 30 per cent of sales. Others provide components for finished products exported by larger firms.

## **(B) THE CONSERVATIVE RECORD 1970–4**

The Bolton Committee identified many factors which had contributed to the long-term decline of the small business sector—a decline which the deteriorating economic situation under the previous Labour Government had accelerated. In particular they blamed increased taxation—income tax, purchase tax and corporation tax; the introduction of SET; capital gains tax on death; close company tax rules on distribution of profits; and the introduction of ceilings on bank lending which prevented small firms from obtaining finance. The Report noted that the Conservative Government had already taken many of the actions that it was recommending.

By the time the Conservative Government left office in 1974 all the major recommendations of the Bolton Committee had been implemented. The Government had done more for small businesses than any government before it. Measures adopted included the following:

- a. The appointment in November 1971—for the first time—of a Minister in the Department of Trade and Industry with special responsibility for small firms.
- b. Ten regional Small Firms Information Centres were opened, linked to the Small Firms Division at the Department of Trade and Industry.
- c. Many small firms were exempted, under the Finance Act 1973, from statistical enquiries, by allowing the Business Statistics Office to use VAT data; the Survey Control Unit of the Central Statistical Office were to approve all statistical surveys; and all enquiry forms were to make clear whether completion was obligatory.
- d. Selective Employment Tax and Purchase Tax were abolished.
- e. Value Added Tax exemption was set, at £5,000 a year turnover, higher than in other EEC countries—exempting about half a million traders; the 10 per cent single rate of tax made its operation as simple as possible.
- f. Corporation Tax rate was reduced from 45 to 42½ per cent in 1971; the introduction of a new reduced rate for small firms was announced in 1973, on adoption of imputation system of Corporation Tax (rate expected to be 40 per cent).
- g. Estate duty exemption limit was raised from £10,000 to £15,000 with a further £15,000 for surviving spouses.

- h. Capital gains tax on death was abolished; the rate of tax on company gains was cut from 45 per cent to 30 per cent.
- i. The effective standard rate of tax on earned incomes was cut from 32·1 per cent to 30 per cent; the abolition of surtax and introduction of the unified system of tax, with investment income surcharge, brought substantial relief especially to people such as small businessmen retired on modest investment incomes.
- j. The burdensome shortfall provisions imposed by the Labour Government (under which 'close' companies, i.e., unquoted companies controlled by a small number of proprietors—often small family firms—were forced to distribute as dividends 60 per cent of trading profits, and 100 per cent of investment income unless they had specific investment plans) were substantially eased in 1971 and 1972.
- k. Disclosure requirements, on turnover and directors' remuneration, were eased: firms with turnover below £250,000 and total Board remuneration of £15,000 or less were exempted.
- l. Small firms and those with adequate training facilities were exempted from compulsory training levy, under the Employment and Training Act 1973.

## **(C) LABOUR'S RECORD SINCE 1974**

The period of the Labour Government has been disastrous for many small companies, not only because they are frequently the first to suffer at a time of economic crisis, but because of the generally antipathetic approach of the Government to the small business sector. Labour Ministers, intent on extending state control, through nationalisation, planning agreements with large companies and the activities of the National Enterprise Board, have little sympathy or concern with the problems of the small firm—the grass roots of the private enterprise system. Their taxation measures are particularly destructive to small companies. They are well on the way, as **Mrs Thatcher** said, to making this 'a single generation society'. (London, 21st June 1975).

### **1. INFLATION**

Small companies have been hit particularly hard by inflation. They have in many cases had to compete for labour with the public sector and with large companies which had conceded massive wage increases before a measure of control was introduced in 1975. Even since then the £6, and later the 5 per cent or £4 pay limit were higher than many small firms could afford to pay.

Soaring raw material costs combined with price control have driven many small firms to depend on borrowing even for working capital normally provided out of profits. Relief on stock appreciation for Corporation Tax purposes was withheld from them for a crucial six months, when introduced for larger firms in November 1974. Mr Healey conceded it in April 1975, to firms with stock levels not exceeding £25,000 and un-incorporated businesses, with backdating for two years, and an additional 5 per cent tax free supplement to compensate for delay; but for many small firms this came too late to save them from liquidation (see Chapter 4, p. 102).

**The credit squeeze**, made necessary by the high level of Government borrowing, has been another factor in the destruction of many small firms. Interest at the highest rates ever seen in this country has made the cost of borrowing, whether for working capital or for investment, prohibitive. The squeeze on bank credit in the autumn of 1976 meant the withdrawal of overdraft facilities for many small companies, often with disastrous results.

## 2. TAXATION

A considerable element of risk is involved in the setting up of small businesses. Many small firms, even when well established, run on very narrow margins with limited resources. A high level of taxation makes risk-taking either not worthwhile or outright impossible.

Expansion—which is often necessary if a firm is to survive—is impossible if profits, already squeezed by rising costs and price control, are taxed away and cannot be ploughed back, and high interest rates prohibit borrowing. The psychological disincentive is not the least important effect of high taxation on the potential entrepreneur. Many choose instead the greater security of a salaried job.

**Corporation Tax:** The rate of Corporation Tax in 1974 was expected to be 40 per cent for small companies. (Since it is levied in arrears the rate for 1973–4 was not announced until the March 1974 Budget.) Mr Healey raised it to 42 per cent—and at the same time increased by 50 per cent the amount of Advance Corporation Tax to be paid in the year 1974–5 (see page 102).

Conservatives succeeded in the 1974 Finance Bill in raising the profit limit qualifying firms for the reduced small firm rate of Corporation Tax from £15,000 to £25,000 and marginal relief limits from £15–25,000 to £35–40,000—increases still insufficient to compensate for the effects of inflation.

**Capital Transfer Tax:** Introduced in 1975 (see p. 97), CTT is particularly damaging to small firms. In the past, the owner of a small company could pass on his business to his son, or partner, during his lifetime tax free and so ensure its future. CTT makes such transfers fully taxable. Since many firms have no liquid assets out of which to pay the tax, this means that many small companies have to be broken up on the death of the owner. The fact that they have no future has an inevitably inhibiting effect on development for years before the retirement of the owner—investment, or recruitment of new managers, is not worthwhile in a firm with a limited lifespan. Provisions such as beneficial shareholding which made possible the transfer of capital under estate duty are not possible under CTT. No special relief is given for transfers within families apart from spouses, as is the case in other countries with similar taxes on transfers. Moreover, the tax has to be paid out of income already heavily taxed—especially if it has been distributed in the form of dividends, liable to a top marginal rate of tax of 98 per cent.

Conservatives succeeded in the first 1975 Finance Bill in persuading the Government to introduce reduced rates of CTT for transfers of up to £250,000—an amendment of substantial benefit to small firms and farms (see p. 98). In the 1976 Finance Bill the

Government was forced to concede a 30 per cent discount on the value of a business transferred in the case of a sole proprietor or (in an unquoted company) a controlling shareholder. Since the rate of inflation over the three years since Labour took office has amounted to twice this discount, such businesses may well have been pushed into a higher tax bracket in spite of the concession, without the value of the business increasing in real terms.

**Wealth Tax** (see p. 98) represents a particular threat to small companies. As with CTT the lack of funds other than those tied up in the business would mean in many cases that essential assets would have to be sold off to pay the tax, possibly leading to the breaking up of the company. Where the proprietors are already paying tax at a marginal rate of 98 per cent its payment out of income would be impossible.

**Capital Gains Tax:** In the summer of 1975, in the Finance (No. 2) Act, Capital Gains Tax was modified so that tax on the disposal of shares constituting a controlling interest in a company was allowed to be paid in instalments. This represented a concession to small firms, but in general the effects of the tax have become more severe because the assessment of capital is not indexed to inflation. In addition, since there are no cross exemptions for CTT and CGT, an element of double taxation can result in certain circumstances.

**Value Added Tax:** The Labour Government has destroyed the original simplicity of VAT and made its operation far more complicated and onerous (see p. 94). Small businesses have been particularly hard hit.

- a. In March 1974 VAT was extended to confectionery, potato crisps and ice creams—affecting some 50,000 retailers, many in the small business category.
- b. In July 1974 confusion was caused to retailers by the cutting of VAT from 10 to 8 per cent—a pre-election gimmick (see p. 98).
- c. In April 1975 VAT was made multi-rate, when the 25 per cent rate applied in November 1974 to petrol was extended to a wide range of allegedly semi-luxury items—a move subsequently admitted by Mr Healey to be damaging (*Hansard*, 6th April 1976, Col. 255). The top rate was halved, to 12½ per cent, in March 1976—but considerable harm had been caused not only to retailers but to many small companies, for example boat builders and sports equipment manufacturers whose goods had been taxed at the higher rate.
- d. The Government has resisted Conservative pressure to raise the VAT registration exemption limit. The original £5,000 limit would need to be raised to at least £9,000 to keep pace with inflation since the introduction of VAT in 1973. Such an increase would be likely to exempt some ¼ million businesses.

VAT imposes a considerable burden of work on small businesses, where the owner often has himself to spend many hours on paper work which he cannot afford to employ someone else to carry out. The Labour Government's frequent changes in the tax have made this burden a great deal worse.

Sir Geoffrey Howe gave the following pledge at the 1976 Conservative Party Conference:



“We shall cut the bureaucratic burden on businesses and the self-employed by ending the Healey madness of multi-rate Value Added Tax” (Brighton, 5th October 1976).

The Conservative Party has set up a group of experts to examine all aspects of VAT (see p. 94) including the problems it presents for small businesses. Its report is expected in the Spring of 1977.

**Income Tax** (see p. 75). The UK not only has the highest starting rate of tax in the world but also one of the highest top rates on both earned and unearned income. In the case of a sole trader or partner, the whole income of the business is classed as his personal income and taxed accordingly. In contrast the owner/manager of the company pays income tax only on that part of profits drawn as salary.

The effect of the high level of income tax is very serious because it absorbs the profits which should be used for reinvestment in the case of an unincorporated enterprise, and makes the firm dependent on borrowing. And since the tax lessens the rewards which provide the initial incentive, the stimulus to start or own a small business is bound to be weakened. In Germany, which has a flourishing small business sector, the ratio of direct to indirect taxes is some 30 per cent lower than in the UK (Graham Bannock: *The Smaller Business in Britain and Germany*—see p. 10).

In retirement many small business owners and self-employed live on income from capital they have built up, on which they pay investment income surcharge; they thus pay more tax than an employee whose pension is subject only to income tax. The lowering of the threshold to the surcharge from £2,000 to £1,000 (£1,500 for people over 65) in 1975 coupled with the increase in the rate of income tax has made their position very much worse.

### **3. OTHER MEASURES WHICH HIT SMALL FIRMS**

**National Insurance and the Self-employed.** The Conservative Government's Social Security Act 1973 laid down a new system of earnings-related contributions for employers, employees and self-employed, to take effect from April 1975. Under this Act, the self-employed person would have paid a flat-rate contribution plus 5 per cent of annual profits or gains between £1,150 and £2,500.

Without a shred of justification the Labour Government amended this (to take effect from April 1975) in its Social Security Amendment Act 1974 so that the flat rate of £2.41 per week continued, but the earnings-related contribution was increased to 8 per cent of profits or gains between £1,600 and £3,600. In April 1976 the top end of this range was increased to £4,900. In April 1977 the flat rate contribution will go up from £2.41 to £2.66 a week, and the scale for which the 8 per cent levy applies will change to the range £1,750–£5,000. The increases in 1977 are broadly in line with those of employees.

The Government's National Insurance measures announced in 1974 placed an extra burden on the self-employed of £21 million a year. They unfairly singled out the self-employed while failing to provide them with any extra benefits. A disproportionate

share of the cost of social security benefits was imposed on the self-employed, who receive least benefits.

Following considerable pressure from the self-employed themselves, strongly supported by Conservatives, some of the bias was removed when contributions were next increased in April 1976. While the earnings-related contribution for all employed people rose to 5¾ per cent, no self-employed person with profits or gains under £3,600 had to pay more. Nevertheless, the upper limit on which contributions were payable was raised further. At the other end of the scale more and more self-employed were becoming liable to the earnings-related contribution, solely because inflation had pushed their incomes above £1,600.

The further increases starting in April 1977 have been opposed by Conservatives because they are not needed to pay for benefits, but are a form of disguised tax (see Chapter 4, p.100). The increase in the lower limit of the earnings-related contribution from £1,600–£1,750, although welcome, did not even keep pace with inflation over the previous year, let alone the period since April 1975 when the limit of £1,600 was introduced.

As *The Right Approach* observes, social security arrangements for the self-employed are “thoroughly unsatisfactory” both in respect of contributions paid and benefits received. These matters are being looked at closely by Conservatives who are pledged “to do everything possible to meet the legitimate grievances of self-employed people in all sectors of the community”.

**Employment Protection Act 1975** (see Chapter 8, p. 216). This Act is likely to have wide-ranging and serious effects on small firms, although it is too early to gauge the precise consequences in all areas of application. The Act came partly into effect in 1976, to be fully implemented early in 1977. Among the ways in which it adversely affects small firms are:

- a. The pressure on such firms to recognise trade unions. Trade unions are required to be consulted about redundancies, and union members have certain conciliation rights not available to other employees. The Act also requires that time off be granted for trade union activities and for other activities such as council meetings. Conservatives succeeded in amending this to “reasonable” time off, but the requirement may still create difficulties for small firms which often cannot afford to spare individuals at busy periods.
- b. The operation of disclosure of information provisions. These have not yet been fully defined but are likely to be wide-ranging and may include financial and other plans (e.g., planned disposal of assets). These must be made available during wage-bargaining. The leakage of such information could be valuable to competitors.
- c. Universal guaranteed week provisions.
- d. Central Maternity Fund payments requirements—although establishment of the Fund, as a result of Conservative pressure, reduced the cost of maternity benefits which the small firm would otherwise have had to pay.
- e. The obligation in certain cases for the employer to re-employ a woman after maternity leave.

- f. The obligation of employers to give 60 days notice in the case of redundancies involving 10 men or more, or 90 days for 100 men or more.
- g. Schedule 11 on fair remuneration. This will probably result in firms having to apply the 'general level of terms and conditions' which are typical for the industry or area. The precise meaning of 'general level' is as yet undefined and the result may well be a rate effectively based on the higher wage rates prevalent in the area. The Schedule totally ignores the fact that the small firm is powerless to control market forces and is thus restricted in what it can afford to pay in wages. The result is likely to be a rise in the level of unemployment because small firms cannot afford to employ people at these rates. The Act will involve the small business in even more paperwork and form-filling.

**Finance Act 1976: Disclosure of Information Provisions.** The Act gives unprecedented powers of investigation and enforcement (see Chapter 4, p. 105).

**Rates.** Small traders and shopkeepers have been badly hit by increases in rates. For example, a survey undertaken by the National Chamber of Trade in 1974, showed that the average business rate increase for 1974–5 compared with 1972–3 was 55 per cent. Between 1974–5 and 1976–7, average business rates for non-metropolitan districts went up by 33 per cent (*Hansard*, 5th May, 1976, Col, 371).

At present, unlike householders, traders do not have a statutory right to pay their rates by instalments if they wish to do so. There is also the difficulty that where a shopkeeper has a small flat above his shop, he cannot get the special rate relief available to domestic ratepayers unless the flat constitutes at least 50 per cent of the rateable value of the property as a whole.

At the October 1974 General Election Conservatives recognised the need for special help to be provided for small traders and shopkeepers in connection with rates. On 18th April 1975, Mr John MacGregor, Conservative MP for Norfolk South, introduced a Private Member's Bill, the Local Government (Rate Relief for Small Businesses) Bill, which would have gone a long way to meet these difficulties. It would have given special relief to small traders on similar lines to that already available to domestic ratepayers. It would have provided more flexible arrangements to cover small mixed hereditaments, i.e., where the property consisted of a flat above a shop, and it would have given small traders the right to pay their rates by instalments. The Bill was supported by Mr Keith Speed, Conservative spokesman on local government, but the Labour Government blocked its further progress.

Mr Speed gave the following pledge at the 1976 Conservative Conference:

“We are pledged to act so that small business rate-payers have a right to pay by instalments, and will get a substantial measure of relief where the ratepayer lives at his place of business” (Brighton, 6th October 1976).

## **(D) EVIDENCE OF DAMAGE TO SMALL FIRMS**

1. **Bankruptcies and liquidations.** Company liquidations in 1976 were about 12 per cent higher than in 1975 and higher than at any time since at least 1960. The total number of liquidations during 1975 and 1976 was 82 per cent higher than in the previous two years. Receiving orders in 1976, although slightly below the 1975 level, were “still at an historically high level” (*Trade and Industry*, 4th February 1977). About 65 per cent of all receiving orders were accounted for by self-employed persons. Small firms are not separately identified in the insolvency figures, but on past experience it is likely that a high proportion of firms going into liquidation were small businesses. Voluntary liquidations in the two years 1975 and 1976 were 75 per cent higher than in the previous two years. These clearly included many small firms which had not found it worthwhile to continue trading, although not compelled to close. No statistics are available on other sole traders who cease trading, or decline without going into liquidation.

2. “**A Study of the North West**”, published in 1976 by the Hon Peter Morrison and other Conservative MPs, highlights the decline in the number of small firms in that area and concludes that this decline is largely responsible for the rise in unemployment.

3. “**The Smaller Business in Britain and Germany**”, a study by Graham Bannock, sponsored by the Anglo-German Foundation for the Study of Industrial Society and published in 1976, provided evidence of the decline among small businesses in Britain over recent years, and contrasted this with their expansion in other countries. In the retail trade for example, the number of small firms as a percentage of the total decreased by 2 per cent in the period 1968–71, and in construction the number of contractors employing 24 or less was down by 12 per cent in the same period (a loss of over 9,000 firms). In contrast, figures for most West European countries show a smaller, if any, decline; those for West Germany show that in manufacturing there are 40 per cent *more* small firms than in Britain, and in some countries, notably Japan, there has been an increase in recent years.

Altogether, according to Bannock's study, some 20,000 small firms have been lost to the manufacturing sector since the war and with them a potential source of employment for several hundred thousands. Small firms are a particularly important source of employment because they tend to be more labour intensive than large firms and to provide a wider range of employment possibilities for certain groups including women and part-time workers. A thriving small firms sector would have done much to ease present unemployment rates.

## **(E) THE CONSERVATIVE APPROACH**

The Conservative Party is greatly concerned at the serious plight of many small firms, and keenly aware of the vital role that they and the self-employed play in building national prosperity. **Mrs Thatcher** emphasised:

“The Opposition will fight for small businesses ... they are a valuable part of our national life” (*Hansard*, 17th December 1974, Col. 1397).

**Mrs Thatcher** later stated:

“the Conservative Party wishes to distinguish between equitable taxes, and those taxes imposed by way of social vengeance. In consequence, we are now examining the whole area of capital taxes, especially those on small firms, to ensure that such companies can survive and can continue from one generation to the next. We cannot make life easy, but businesses must be allowed to grow stronger, to contribute to our productive resources and the continuing need to create wealth.

“Above all, we should treat such businesses and the people who run them in a sympathetic way. They want to become prosperous. They are quite right to do so. As their businesses prosper they create the jobs for tomorrow.

“A private sector can only be run by people who want it, not by a Minister who publicly promises to make it squeal.

“We will create an atmosphere in which enterprise and hard work will pay off, and where initiative will be rewarded” (Fairlie, Ayrshire, 6th September 1975).

## **1. CONSERVATIVE ACTION**

**The Parliamentary Committee for Smaller Businesses** was set up in 1973 under the chairmanship of Mr David Mitchell, **MP**, to represent the interests of small businesses in Parliament. In 1975 a special watch-dog **Committee for the Self-employed** under Mr Paul Dean, **MP**, was established. These committees have been engaged in intensive studies of the problems faced by these groups, and of ways in which they can be helped.

**The Small Business Bureau** was set up in Spring 1976 by the Conservative Party. Its aims are:

1. To research, through local and central study groups, into all aspects of small businesses.
2. To give small business owners a direct link to Conservative spokesmen who are looking after their interests in the House of Commons.
3. To help constituency associations in their contacts with small businesses at local level by providing specialist speakers, briefs, campaign material etc.
4. To forge effective links with other small business organisations in the UK and in Europe.
5. To publish a series of booklets on small business topics.

**‘Small Business’ Newspaper.** In order to establish a direct two-way link between the Party and small businesses, the quarterly newspaper *Small Business* was launched nationally in September 1976. The paper enables owners of small businesses to be kept informed about current events and helps them to consult and discuss problems and ideas with those involved in the Party. Full reports are also given of the work of the Smaller Business Parliamentary Committee and the Committee for the Self-Employed, as well as explanations of relevant legislation.

The Small Business Bureau relies on feedback from constituencies so as to ensure that the views of the Small Business and Self-employed person are aired in Parliament, and that new policies to meet today's problems can be developed. In return the Bureau can support constituency efforts for the small businessman and can provide general tax advice in its newspaper.

**Other publications.** Among the first fruits of this Conservative involvement in the problems of small businesses and the self-employed were the booklet *Seedcorn*, by Mr David Mitchell, MP, and *A Study of the North West* (1976) written by Conservative members for the North West. A number of Conservatives interested in these problems have produced the book *Small Businesses, Strategy for Survival* by Rosemary Brown, Joe Hayton, Christopher Sandy and Peter Brown (CPC 1976). This contained many policy proposals for consideration, as part of a comprehensive programme for the revival of small businesses now being developed by the Party.

**Successes in Parliament.** Some of the main achievements of Conservative MPs are listed below:

**Corporation Tax.** In July 1974 an amendment was passed defeating the Government which increased the upper limit of profits for defining a company eligible for the reduced small firms' rate of Corporation Tax from £15,000 to £25,000 (with tapering relief up to £40,000).

**Capital Transfer Tax.** In 1975 the Government, under Conservative pressure, introduced some concessions on the tax rates on life-time gifts up to £250,000. In addition, payment could be spread over 8 years.

In 1976 concessions won on CTT included:

- Eligibility of full-time farmers to a 30 per cent relief on assets used in farming, including land.
- Raising of the limit on allowable annual tax-exempt transfers from £1,000 to £2,000.
- Assessment at only 70 per cent of open market value of a sole proprietorship, partnership or controlling shareholding in an unquoted company which is transferred (whether inter vivos or on death).

In addition, during the passage of the 1976 Finance Bill, Conservative MPs proposed some important tax amendments for small firms which were, however, unsuccessful. These included:

*Corporation Tax*—to reduce the rate of tax paid by small businesses to three quarters of that paid by large companies.

*VAT*—to increase the exemption level from £5,000 set in 1972 to the equivalent inflation adjusted sum. (This would take a quarter of a million firms out of the VAT net).

—to simplify Mr Healey's multi-rate system by returning to a single rate.

*Capital Taxation*—to ensure that where an asset is liable to Capital Transfer Tax *and* Capital Gains Tax, the total liability does not exceed the liability of the greater of CGT or CTT.

—where the transferor, together with up to four others, has control of the business, to extend the 30 per cent relief from CTT to the transfer of shares in an unquoted trading company.

Other amendments proposed included:

*Investigatory Powers of Inland Revenue*

- To set up a Tax Complaints Board to which complaints could be taken, and which could award damages.
- To allow those investigated the right to have an independent witness present.
- To prevent investigations for sums below £100.
- To ensure adequate recording and swift return of all documents taken.

*Fringe Benefits*

- To ensure that directors are not made liable to tax on payments in kind where no tax is payable by employees.

*Self-Employed Pension Rights*

After sustained Conservative pressure the tax relief limit on premiums for deferred annuities for the self-employed was raised to £2·250.

**Employment Protection Act 1975.** This was amended in two respects (see p. 194).

**Self-Employed National Insurance Contributions.** Conservative pressure helped obtain a fairer deal for the self-employed in the measures of April 1976. The Party voted against the measures due to be introduced in April 1977 (see p. 194).

## 2. CONSERVATIVE POLICY

The Conservative attitude to small firms was summed up in *The Right Approach*:

“Much of our present and future prosperity and expansion depends on the health and growth of smaller businesses. They provide a vital element in the free enterprise system. They ensure a wide range of choice for consumers, employ many millions of people, and are a major source of inventions and new products.

“Small businesses have faced exceptionally difficult conditions recently. They have had to grapple not only with the recession and inflation but also with a hostile government....

“... We shall therefore be announcing in a few months a detailed programme for the revival of smaller businesses. One element in it will be a proposal for a new legal

status for small firms—the ‘proprietary company’—which will assist them to start and grow. The purpose of the proposal is to shield firms from legislation which leans unduly harshly on them (given their modest resources) or is quite irrelevant to them. Another important element in a programme to help the development of small businesses is a replacement for the damaging and unfair Capital Transfer Tax. We shall be proposing urgent action to ‘draw its teeth’ in the context of a wider review of the whole complicated field of capital taxation”.

## 8. EMPLOYMENT AND INDUSTRIAL RELATIONS

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### Speaking Note

#### Unemployment

- Unemployment stands at record post-war levels. The position is worst for young people (particularly school leavers), coloured immigrants and the disabled. The outlook for everyone is bad.
- Labour bear the primary responsibility for the lengthening dole queues. Other countries are extricating themselves from the effects of the oil-price recession, but Britain is still suffering from the economic mismanagement and pay explosion of 1974–5.
- Labour have continued to protect and create jobs in the public services which can only be maintained at a cost to wealth creating activities. This means fewer jobs in industry and commerce.
- The last Conservative Government established the Manpower Services Commission to provide industry with the skills it needs and to give individuals the opportunity to train. We have consistently argued that the problems the nation now faces are substantial and require action over a period of years. As *The Right Approach* has stressed, the emphasis should be on training, and on reviving wealth creating private industry.
- But the Labour Government has consistently failed to recognise the gravity of our national plight, has been consistently over-optimistic, and has relied on a series of short-term, expensive job subsidies.



## **Employment Law**

- The Conservative Industrial Relations Act 1971 has been replaced by much longer legislation heavily biased in favour of the trade unions.
- Conservatives will seek to make the new law work fairly: we will not disrupt industrial relations by wholesale repeal, but will amend it in the light of experience.
- The Trade Union and Labour Relations Acts make legal the negotiation of 'closed shop' agreements which can lead to individuals losing their jobs. A Conservative Government will protect the right of the individual not to be forced into union membership against the dictates of his conscience.
- The Employment Protection Act imposes considerable financial burdens on industry (particularly small firms) at a time when it is already hard pressed. Conservatives will review the Act in operation with a view to amending it, particularly where its provisions actually jeopardise jobs and where it gives rights to trade unionists rather than all employees.
- The Dock Work Regulation Act was devised as a 'pay off' to Jack Jones to give dockers priority rights to virtually every job connected with cargo-handling. Its potentially damaging impact on jobs and food prices was reduced as a result of a Conservative Peers amendment to restrict its scope to certain jobs within half a mile of harbours.
- Labour's proposals for industrial democracy through trade unionists on company boards will mean virtual control by union bureaucrats. It will further hinder national recovery by sapping investors' confidence and disrupting decision making.
- Employee participation should start at shop-floor level, involve all employees and be flexible.
- Conservatives have shown a wider concern about conditions of employment by passing the Health and Safety at Work Act to improve standards at local level and by introducing the first comprehensive occupational pension scheme.

## **Pay and the Social Contract**

- Labour permitted a wage explosion to follow the miners' settlement in 1974. The wage limits of the Social Contract which have operated since 1975 are crude and distort differentials. They have in any event been purchased at an intolerable cost.
- Conservatives reject the Social Contract approach but would seek to establish simple machinery based on existing institutions to provide a generally agreed basis for responsible wage bargaining—comparable to the German 'concerted action' model. There has been no support for those who have sought to breach the limits endorsed by Parliament—a sharp contrast with Labour's attitude in 1972–4.

## **Conservatives and the Unions**

- Millions of trade unionists vote Conservative and we wish to see their views and the views of others like them expressed in union elections. Government assistance for this will be provided.

- Conservatives will consult with the unions on matters that affect their members, but they will not hand government over to any sectional interest.

## (A) INDUSTRIAL RELATIONS IN BRITAIN

Industrial Relations in Britain have developed over the last 150 years or so in a haphazard manner. Some of our trade unions have grown out of mediaeval craft guilds, while others are rooted firmly in the industrialisation of the 19th century. Negotiating rights and the whole pattern of labour law have grown up gradually; and all this has been reflected in disorderly and sometimes ineffective collective bargaining.

There are over 400 trade unions operating in British industry and several may operate in any given enterprise: for example, there are 17 in British Leyland. This inevitably leads to arguments between unions and competitive sectional pay bargaining—‘leapfrogging’—as unions vie with each other in recruiting members and in seeking recognition. Formal agreements between employers and unions at industry level are frequently supplemented or replaced by arrangements concluded by negotiators operating at plant and company level which are difficult to trace and monitor. In some industries and companies unions do not operate at all: industrial relations may be handled through works councils or staff associations.

**Industrial Disputes.** This complicated web of competing and overlapping organisations is almost unique. (In other countries, work-force representation has been regulated by law and there may only be one union for each industry.) It has resulted in the growth of restrictive practices as unions seek priority protection for the employment of their members; and industry has found that it cannot train or deploy labour as it has wanted.

Britain's relatively poor industrial performance is frequently seen as stemming from its bad industrial relations. Recent well-publicised research by the Department of Employment has shown, at least during the period of the last Conservative Government, that the proportion of plants where strikes actually occurred was very small. On average 98 per cent of manufacturing plants were free of stoppages in each year from 1971 to 1973. A total of 81 per cent of manufacturing employees, in an average year, worked in plants where no strike occurred. These statistics, however, hide both the incidence of industrial action short of strikes (go-slows, working to rule, etc) and the extent to which the threat of strike action hampers efficient decision-making in industry. The actual figures for the number of stoppages, workers involved and working days lost have been disturbingly high in Britain over a long period.

There has been a welcome improvement since 1974, almost certainly due to the existence of massive unemployment caused by Labour policies.

<i>No. of Stoppages</i>	<i>No. of workers involved in stoppages</i>	<i>Working days lost</i>
-------------------------	---	--------------------------

	(000's)	(000's)	(000's)
1961	2,686	771	3,046
1962	2,449	4,420	5,798
1963	2,068	590	1,755
1964	2,524	872	2,277
1965	2,354	868	2,925
1966	1,937	530	2,398
1967	2,116	731	2,787
1968	2,378	2,255	4,690
1969	3,116	1,654	6,846
1970	3,906	1,793	10,980
1971	2,228	1,171	13,551
1972	2,497	1,722	23,909
1973	2,873	1,513	7,197
1974	2,922	1,622	14,750
1975	2,282	789	6,012

(Source: *Department of Employment Gazette*)

*Note:* The statistics relate to stoppages of work due to disputes connected with terms and conditions of employment. They exclude stoppages involving fewer than 10 workers, and those which lasted less than one day, except any in which the aggregate number of working days lost exceeded 100.

**Benefits for Strikers.** Supplementary benefit is not generally available for men on strike, but it can be paid for their wives and children, and in the case of single men, on grounds of urgent need. When the Conservatives were in office, they tightened up the rules under which such payments were made. The Social Security Act 1971 established firmer provisions. For example, since April 1972, a man returning to work after being on strike has had to pay back any supplementary benefit received to tide him over during the first 15 days at work before he gets his pay. In February 1973, the rules about help in urgent cases were made more stringent. During 1975 supplementary benefit payments to strikers' families averaged £10 a week, after taking into account other funds available such as income tax refunds and payments by unions to their members. The amount paid in that year to strikers was £2,080 and to strikers' families £778,521 (Supplementary Benefits Commission: Annual Report, Cmnd. 6615).

Nevertheless, there is still considerable public concern about cases where families of strikers apparently obtain substantial incomes from the State. The tax rebates which are paid when work is stopped, and later the supplementary benefit they may receive, can lead to substantial sums being paid to men on strike for a short period. While there is no desire to impose unnecessary hardship on the families of strikers, the Conservatives are committed to ensuring that this burden on the State is eased. As Mr James Prior, chief Conservative spokesman on Employment, has said:

“When the strike weapon is used I think it is right this should be used at the expense of the trade union and not of the rest of society, and so I agree that this change should

be made. It is not a change designed to 'bash' the unions, union members and their families. It is a step which I think is now universally recognised as one which would give strength to the democrats and moderates in our trade union movement and is fair to the rest of society" (Blackpool, 9th October 1975).

## **(B) UNEMPLOYMENT AND MANPOWER**

### **1. CONSERVATIVE RECORD**

**Unemployment.** Since the 1944 Employment White Paper, successive governments have been committed to a policy of trying to ensure that the pre-war days of high, prolonged unemployment do not return. Conservative administrations have had considerable success: unemployment exceeded 500,000 in only 7 months during the 1951–64 period. During the last period of Conservative Government from June 1970 to February 1974, the numbers out of work in Great Britain (on a seasonally adjusted basis) never rose above the peak of 876,000 (3·9 per cent) which occurred briefly during the recession in the winter of 1972–3. The total declined steadily throughout 1973 and was lower overall in February 1974 at 554,300 (2·4 per cent) than it had been when the Conservatives came to office in June 1970 at 567,600 (2·5 per cent).

**Manpower Services Commission.** An advance was made by the Conservative Government towards overcoming the inflexibility, and realising the under-utilised potential, of our labour force. Under the Employment and Training Act 1973, the Manpower Services Commission was established to provide policy advice and to draw together the various activities in the manpower field within the framework of the Employment Services Agency and the Training Services Agency.

The Commission, which is independent of the Department of Employment, comprises representatives of the unions (TUC) and employers (CBI), local authorities and education interests and brings together in a non-political organisation the disparate and widely dispersed bodies with a vital interest in this field. It has had some success in the creation of a modern employment service, equipped to match people to jobs and to offer the widest range of choice and career advice through the development of attractive, well-equipped Job Centres replacing depressing back-street employment offices; computerisation of vacancies; codification of jobs; and the establishment of Professional and Executive Recruitment (replacing the old Professional and Executive Register).

**Training.** There was also an improvement in the organisation of training. The Training Service Agency took over responsibility for (a) the Industrial Training Boards (ITBs); (b) the Government's own training scheme, renamed the Training Opportunities Scheme (TOPS); (c) the financing of grants to key training activities; and (d) providing training in areas not covered by the 28 ITBs.

The levy/grant system for financing the Industrial Training Boards was overhauled, allowing the Boards to exempt smaller firms and those carrying out sufficient training

to meet their own needs, and imposing a ceiling on the levy of 1 per cent of the pay roll. The new TOPS scheme, designed to meet the needs of those adults who had failed to acquire skills early in their career as well as the growing number needing to acquire new skills, was established to raise the numbers so trained (which had been only 14,000 in 1970) to around 70,000 in 1975, and eventually to more than 100,000.

The Conservative Government concentrated particularly on assistance for disabled people. Reviews were carried out on the specialised resettlement service, the quota system for employment of the disabled, and sheltered employment policy. The number of disabled undergoing training rose from 1,600 in 1970 to 2,200 in 1973, and the TOPS scheme was opened to the disabled, including those under 19. Job places in sheltered employment and Remploy were increased, and local authorities were encouraged to provide purpose-built factories.

The terms of the Employment and Training Act also permitted the Secretary of State for Employment to give assistance to Community Industry, a voluntary scheme which sponsors projects directed at bringing disadvantaged young people into the labour market.

The overall effect of the new strategy was to provide a sensible, comprehensive system which would ensure that in future both the manpower needs of the nation and the career aspirations of greater numbers of people could be met.

## **2. LABOUR'S PROMISES AND PERFORMANCE**

**Unemployment.** Since the February 1974 election, unemployment in Great Britain has risen steadily to record post-war levels. Those registered as unemployed by the Department of Employment increased—on a seasonally adjusted basis—from 552,500 (2.4 per cent) in March 1974 to 1,291,900 (5.6 per cent) in January 1977.

Nor is there much prospect of a decline in the unemployment level under present policies. The authoritative independent National Institute for Economic and Social Research has forecast that unemployment will still be above 1 million at the end of 1977 (NIESR Review, May 1976), while the Treasury has been reported as estimating that it will rise to 1.5 million during 1977 (*Financial Times*, 6th November 1976).

In part, the rise in unemployment over the last two years is a result of the world recession which began with the massive oil price increases in winter 1973. But in large measure it is a direct result of Labour's mismanagement of the economy. The wage explosion which occurred following the miners' settlement in March 1974 (see Chapter 2, p. 32) has led to many people being priced out of work, and the massive increase in state spending has placed intolerable burdens on the private sector and its ability to create jobs. As Mr Prior warned at the beginning of 1976:

“Unemployment will be higher and last longer as a result of what has happened in the last two years” (*Hansard*, 29th January 1976, Col. 794)

**Labour's Promises.** The extent of Labour's failure must be matched against the claims they have made over the last three years. Time and again the Government has

underestimated the extent of the problem, assuming that the steep rise in unemployment was a temporary occurrence which would surely pass in the wake of the world recovery which it has constantly expected for over two years.

*In February 1974*, when unemployment in Great Britain, seasonally adjusted, totalled 554,300, Labour's election campaign was based on the slogan, "Back to Work with Labour".

*In September 1974*, when 597,800 were unemployed, Mr Healey asserted:

"I am certain that we can get through the whole of next year with well under a million unemployed" (*ITV, People and Politics*, 24th September 1974).

*Immediately before the October election*, when 607,100 were unemployed, Sir Harold Wilson, then Prime Minister, said:

"We will not have our own people out of work."

In attacking Conservatives who asserted that public spending must be brought down before there could be any real recovery, he said:

"Unemployment represents the difference between our two parties. So again I must ask the Conservative leadership ... this question. 'How many more unemployed men and women are you prepared to see on the register in Britain?'"

'For a party which put over a million out of work when they were last in office, they seem rather coy about answering this question.'

'I have seen authoritative estimates that Sir Keith Joseph's policies based on the figures he actually used could mean a million and a half out of work.'

*"A party which contemplates unemployment on that scale is no party to govern and unite Britain"* (Preston, 2nd October 1974).

*In April 1975*, when unemployment had risen to 763,900, Mr Healey said in his Budget speech:

"I think it sensible to work on the assumption that the recovery will be under way by around the turn of the year (1975-6) ... We may well be close to the bottom of the trough. If so trade will begin to recover in the second half of this year. After the turn of the year, there is reason to hope that growth will be fairly rapid" (*Hansard*, 15th April 1975, Col. 278).

*In October 1975*, when unemployment had risen to 1,043,500, Mr Michael Foot, then Secretary of State for Employment, claimed:

"If the present trends persist the calculation is that unemployment will be something under 1.2 million, seasonally adjusted at the end of the year, and that it will then begin to level off" (*Hansard*, 28th October 1975, Col. 1271).

*In December 1975*, when unemployment was 1,128,800, Mr Healey said:

“There are ... many signs that the recession is bottoming out in Britain ...” (*Hansard*, 17th December 1975, Col. 1402).

*In April 1976* when unemployment had risen to 1,185,700, Mr Healey maintained:

“The target the Government have set themselves is to get unemployment down to 3 per cent (700,000) in 1979 ... It is too soon to say whether we have already reached the peak of unemployment” (*Hansard*, 6th April 1976, Col. 240).

*In July 1976*, when unemployment had risen to 1,242,800, Mr Healey claimed:

“On current prospects I would expect unemployment to start falling before the end of the year” (*Hansard*, 22nd July 1976, Col. 2010).

*In September 1976*, when unemployment had risen to 1,265,000, the Chancellor was forecasting:

“There should be a substantial decline in the unemployment rate in the next few months ... after that there will probably be a slower decline in the unemployment rate” (*Barron's Magazine* (USA), 27th September 1976).

*In October 1976* Mr Albert Booth, Secretary of State for Employment, said of the September figures:

“The rate of increase ... is lower than it was some months ago, and there are signs of an improvement in the employment situation ... I am glad to be able to say that last month's statistics show that total unemployment has fallen in every region in the country and that overall the number of vacancies has risen” (*Hansard*, 19th October 1976, Col. 1094).

It was the same story when the October figures came out showing a slight fall—for the first time in seven months—to 1,253,000. Mr Booth said:

“The figure has now brightened ... overall we are entitled to take some comfort from this improvement” (*The Times*, 27th October 1976).

“I do not want to raise false hopes, but if we can maintain this pace Britain is on its way” (*Financial Times*, 27th October 1976).

*On 15th December 1976*, when unemployment had risen again to 1,277,000, Mr Healey admitted that the numbers would continue to rise:

“I do not see the prospect of a fall in unemployment; indeed, I fear that there is likely to be some further rise” (*Hansard*, 15th December 1976, Col. 1536).

**Palliatives.** Time and again, as the forecasts failed to come true and unemployment has risen relentlessly, the Government has sought to stem the tide by a series of

palliative measures. Mr Healey has claimed that unemployment would be significantly worse had not those steps been taken:

“We estimate that the measures we have so far introduced will help about half a million people through this period of abnormally high unemployment” (*Hansard*, 11th October 1976, Col. 39).

But it is more likely that the various proposals were announced to reduce criticism from Labour back benchers, many of whom fear that the Labour Party's finance and economic sub-committee may be nearer the truth—with its predictions of 2,500,000 out of work by 1980 (*Observer*, 21st November 1976)—than over-optimistic Cabinet Ministers.

*On the training side*, an additional £45 million was made available in the April 1975 Budget mainly for apprentice training with a view to helping 30,000 people. In September 1975 a further £20 million was granted and £5 million allocated for the uprating of adult retraining allowances. A further £55 million was advanced in February 1976 to keep up the level of training places, and in May it was announced that £5 million would be available to train 2,000 more people under the Training Opportunities Scheme, and £4.25 million to speed up the building of skill centres. £6.5 million more for assisting young people was provided in September 1976.

As the Government assumed that demand for workers would soon revive, it introduced in August 1975, a *temporary employment subsidy* paid to employers in respect of workers whom they would otherwise have made redundant. Its scope was extended in September 1975 from coverage of assisted areas to the whole country, and in December 1975 the qualifying limit for the subsidy was reduced from 50 to 25 workers. In February 1976 the qualifying limit was further reduced to 10 workers and the maximum period for assistance was increased from 6 to 12 months. The subsidy was doubled to £20 per head per week in April 1976 and extended to December 1976. Up to 20th August 1976 the cumulative cost of the scheme was nearly £104 million. A further £60 million was made available in December 1976 to allow the subsidy to continue until April 1977.

Because the increase in unemployment has been especially large among young people (see p. 209), a *recruitment subsidy* for school-leavers was introduced in September 1975 to provide £5 per week for 26 weeks for each school leaver taken on by employers. The scheme was extended in February 1976 to provide assistance for more of the 1975 school leavers. £5 million was allocated for this purpose. The subsidy was removed in September 1976 and replaced by a more general *youth employment subsidy*. Under this scheme employers will be paid up to £10 a week for 26 weeks for recruiting any person under 20 who has been unemployed for 6 months. It will cost £5.4 million and run until August 1977.

Another measure directed in the main at alleviating unemployment among young people is the *job creation programme*. This was initially introduced to provide temporary employment schemes for 6–9 months. The allocation of £30 million at the outset in September 1975 to create 15,000 jobs was increased by £10 million in December 1975 which was expected to bring it up to 30,000 jobs. A further £30 million was granted for 20–25,000 jobs in February 1976, and £5 million more for



5,000 extra jobs was provided in May 1976. In September a further £15 million to provide 11,000 jobs was added. £60 million more was provided in December to allow new applications to be made up to April 1977, a deadline later extended to August.

Allied to this is the new *work experience programme*. This is aimed at giving unemployed youngsters in the 16–18 age group a realistic introduction to industrial work. £19 million has been set aside to assist 30,000 youngsters who will obtain £16 per week each.

*The Community Industry Scheme*, which helps disadvantaged youngsters to obtain employment, had its capacity of 2,000 expanded to 3,000 places in August 1975 and to 4,000 in December 1975. In March 1977 the scheme was further extended to provide an additional 1,500 places, making 5,500 in all. The cost of the scheme is £3.2 million, rising to £7 million in 1976–7, of which it is hoped £1.5 million will come from the European Social Fund.

In September 1976 the *job release scheme* was announced, to apply from 1st January 1977 for 6 months in assisted areas. It offers 64-year old men and 59-year old women a tax free £23-a-week allowance until they reach normal retirement age provided that they are replaced by a registered unemployed person.

**Investment Schemes.** Apart from these attempts to tackle specific problems, the Government has also attempted to encourage industrial investment by special measures. £80 million was provided for the Accelerated Projects selective investment under Section 8 of the Industry Act 1972 (see Chapter 6, p. 147); £20 million was made available for the building of advance factories and the modernisation of existing ones on industrial estates; and £30 million was allocated to the construction industry. In February 1976, £55 million more for industrial investment was granted and £50 million more for the construction industry. In December 1975, £70 million was loaned to the British Steel Corporation for stockpiling, and in the 1976 spring Budget, an additional £40 million for industry schemes was announced. In December 1976 a further £100 million for more selective investment, and £80 million for various sectoral schemes was made available.

**The Wrong Balance.** Labour's insistence on viewing unemployment as a transitory phenomenon means that too much of the Government's attention has been devoted to expensive, short-term programmes which in the event have made little impact. Britain's underlying manpower problem stems from insufficient people with appropriate skills being available in the right places. There should therefore be greater emphasis on training. Part of the problem is that some training facilities are over-stretched: the Government admitted in December 1975 that existing training facilities were operating at the high rate of 85 per cent capacity. New training centres cannot be provided overnight, but nor will the need for them disappear immediately. In any case, there is, as Mr Prior pointed out (*Hansard*, 29th January 1976, Col. 797) much unused space in industry in the recession which could be used for training purposes. His proposal of 'training contracts' between the Manpower Services Commission and private firms with proven training records as a means both of helping to increase the skilled workforce and of fulfilling individual ambitions was only taken up belatedly in July 1976. Even when the Government has assisted with funds for training, too often the assistance has been essentially short-term, and a number of the first-year

apprentices starting training as a result of the special measures have found difficulty in obtaining industrial sponsorship to finish their courses in the current climate.

The ‘make-work’ schemes and programmes have made little real impact. Some are too indiscriminate: it is unknown, for example, how many of the 147,000 people who, it is claimed, are being assisted by the temporary employment subsidy would have kept their jobs anyway, or how many school leavers would have been recruited without the assistance of the subsidy. Others are too restricted: the 6 month ‘probation’ period which youngsters now have to spend on the dole before they qualify for assistance under the youth employment subsidy positively discriminates against 1976 school leavers; and the terms of the job creation programme are so worded that setting up schemes is more attractive to local authorities where fewer long-term employment opportunities can be created, and less attractive to profit making industry where it is vital to encourage jobs. In the end, real job opportunities will only arise when the Government creates the right atmosphere for the wealth creating sector to thrive and expand.

### 3. STATISTICS OF UNEMPLOYMENT

The measure of the long-term problem can only be appreciated by examining the unemployment position in detail. The numbers unemployed are much higher than has been the case in previous trade cycles.

Unemployment, Vacancies and the Trade Cycles

<i>Period</i>	<i>Highest Figure</i>	<i>Date</i>	<i>Vacancies at Same Date</i>
1961–4	559,900	March 1963	129,600
1965–9	553,200	August 1968	186,200
1970–73	876,200	March 1972	126,800
1974–?	1,291,900	January 1977	126,700*

*Notes:* 1. The unemployment figures are seasonally adjusted and cover Great Britain only.

2. The vacancy figures are seasonally adjusted and refer to vacancies notified to employment offices and remaining unfilled.

\*The vacancies figure for January 1977 was not collected owing to industrial action. The figure published relates to October 1976.

(Sources: British Labour Statistics Historical Abstract 1886–1968. *Department of Employment Gazette*, January 1977).



As can be seen from the graph, dates cannot easily be distinguished for the commencement and conclusion of cyclical rises. Both the graph and the table, however, indicate clearly that the position under the present Government is very much worse than during the last cycle (when there was a Conservative Government) and indeed than in any other period recently.

This explosion in unemployment is not merely a result of population growth. There are now fewer jobs available overall. This is reflected in the longer periods many are now spending without work. The tables below show that the number of jobs overall has declined, and that more people are unemployed for more than 6 months, both in terms of numbers and as a percentage of the total.

Employed Labour Force	
March 1974	24,345,000
March 1975	24,337,000
March 1976	24,085,000

*Notes:* 1. Figures include men and women in employment, employers and the self-employed and H.M. Forces.

2. Statistics are published quarterly.

3. Figures are seasonally adjusted and refer to Great Britain.

(Source: *Department of Employment Gazette*.)

Duration of Unemployment					
<i>(a) Numbers unemployed, males and females in thousands</i>					
	<i>Under 4 weeks</i>	<i>Over 4 and up to 26 weeks</i>	<i>Over 26 and up to 52 weeks</i>	<i>Over 52 weeks</i>	<i>Total</i>
April 1974	215.3	234.9	71.5	131.9	653.8
April 1975	282.8	388.7	113.3	135.6	920.4
April 1976	210.6	552.9	256.7	211.0	1231.2
<i>(b) Percentage of total number unemployed</i>					
	<i>Under 4 weeks</i>	<i>Over 4 and up to 26 weeks</i>	<i>Over 26 and up to 52 weeks</i>	<i>Over 52 weeks</i>	<i>Total</i>
April 1974	32.9	35.9	10.9	20.2	100
April 1975	30.7	42.3	12.3	14.7	100
April 1976	17.2	45.0	20.9	17.1	100

*Notes:* Figures are gathered quarterly. Due to the energy crisis and industrial action respectively, they were not gathered in January 1974 or January 1975. Thus April figures are indicated for comparative purposes.

(Source: *Department of Employment Gazette*.)

**Youth Unemployment.** Most noticeable is the growing number of young people without work. The position for school leavers is unprecedented since records were started. Where there were just over 20,000 school leavers without work in the summer of 1973, there were more than 200,000 in the summer of 1976. Normally those without a job to go to when they leave school could hope to find work before the end of the year. The figures for school leavers without work in December 1975 show that

this is no longer true, and the fivefold growth in unemployment amongst teenagers suggests that many who do get a job (thereby removing themselves from the ranks of the unemployed school-leavers) quickly find themselves back in the dole queue.

Youth Unemployment—Great Britain

*Under 20 year olds unemployed male and female*

July 1973	70,000
July 1974	81,500
July 1975	232,900
July 1976	390,200

*School leavers unemployed*

December 1973	1,800
August 1974	56,000
December 1974*	8,000
August 1975	158,200
December 1975	32,100
August 1976	203,417

\*The estimate for December 1974 is based on November 1974 and January 1975 figures: no count was made in December 1974 owing to industrial action.

*Note:* School leaver statistics are published monthly: those for the under 20 year olds are published every 6 months; as figures for January 1974 and January 1975 are not available owing to the energy crisis and industrial action respectively, only July statistics are given.

(Source: *Department of Employment Gazette*)

**Unemployment amongst Coloured Immigrants.** There has also been a particularly acute rise in the number of first and second generation Commonwealth immigrants without work. The total has more than trebled under the Labour Government.

Immigrant Unemployment

	<i>Males</i>	<i>Females</i>	<i>Total</i>
February 1974	11,440	2,106	13,546
February 1975	17,013	4,309	21,322
February 1976	35,852	11,090	46,942
August 1976	42,736	16,334	59,070

*Notes:*

1. These are derived from the *Department of Employment Gazette* statistics for unemployed minority group workers.

2. They represent the position for those born in, or whose parents were born in, Africa, the West Indies, India, Pakistan, Bangladesh and other Commonwealth countries.

**Unemployment amongst Disabled People.** Another group which is particularly vulnerable to unemployment is the disabled. There are now more than 14 per cent of disabled people registered for employment who cannot find work.

Disabled Unemployed			
	<i>Males</i>	<i>Females</i>	<i>Total Percentage of disabled workforce</i>
February 1974	58,257	7,212	65,469 11·4
February 1975	57,561	7,326	65,887 11·8
February 1976	68,032	9,260	77,292 14·2
July 1976	67,721	9,912	77,633 14·3

(Source: *Department of Employment Gazette*)

**International Comparisons.** In his April 1975 Budget statement, Mr Healey said:

“The measures I took last year should ensure that our levels of unemployment in Britain this year will be less severe than those in other countries affected by the world recession” (*Hansard*, 15th April 1975, Col. 283).

The Government has repeatedly claimed that unemployment in Britain is much lower than elsewhere. The truth, however, is that the Government's inflationary policies, particularly in 1974–5, have meant that unemployment has come later and will last longer in this country than in others. The table below indicates how unemployment was by 1976 falling in other countries which took firm action in 1974 to deal with inflation, whilst it continued to grow here. It is higher in Britain than in any other major European country.

Unemployment: International Comparisons							
<i>(Percentages)</i>							
	1973	1974	1975				1976
			Q1	Q2	Q3	Q4	Q1
Canada	5·6	5·4	6·7	7·1	7·1	7·0	6·8
U.S.A.	4·7	5·4	8·0	8·5	8·4	8·3	7·5
Japan	1·3	1·4	(1·8)	(1·9)	(2·0)	(2·3)	(2·1)
France	(2·6)	(2·7)	(3·7)	(4·0)	(4·0)	(4·1)	(4·2)
Germany	(0·9)	(1·5)	(3·3)	(3·6)	(3·7)	(3·8)	(3·9)
Italy	(3·7)	(3·1)	(3·0)	(3·9)	(3·6)	(3·8)	(3·6)
U.K.	(2·8)	(2·9)	(3·5)	(4·3)	(5·2)	(5·2)	(5·5)
Australia	1·9	2·2	3·7	4·3	4·7	4·3	..
Finland	2·3	1·7	1·5	2·0	2·4	3·0	3·0
Norway	1·5	1·5	1·8	2·3	2·3	2·6	2·0
Spain	(2·2)	(2·3)	(3·4)	(3·7)	(4·2)	(4·7)	(4·9)
Sweden	2·5	2·0	1·6	1·7	1·6	1·7	1·6
<i>Total</i>	(3·0)	(3·3)	(4·7)	(5·2)	(5·2)	(5·3)	5·0

*Notes:*

Unemployment: International Comparisons  
(Percentages)

1973	1974	1975				1976
		Q1	Q2	Q3	Q4	Q1

1. These figures published by the Organisation for Economic Co-operation and Development are estimates on a strictly comparable basis.

2. Figures in brackets have been adjusted to international definition by the OECD.

3. The 1976 Q1 figures for Italy and Spain refer to January.

(Source: OECD *Economic Outlook*, 19th July 1976)

## 4. CONSERVATIVE APPROACH

There can be no instant return to the levels of employment enjoyed under previous Conservative Governments. Indeed, the danger is that as a result of the Labour Government's actions we shall still have more than one million unemployed as we enter the next downturn in the trade cycle and that the fundamental measures which must be taken before industry can start to provide real jobs when the economic climate improves will still not have been adopted.

*The Right Approach* states:

“The Conservative approach entails living within our means, paying our way in the world, mastering inflation, reviving the wealth-creating part of the economy and encouraging all those on whom it depends.

“This approach means less bureaucracy and less legislation, lower taxes and borrowing, higher profits leading to more investment and more employment, and rewards for enterprise and hard work.”

As Mr Prior has said:

“There can be no real revival of employment prospects until the Government takes the necessary steps with its own spending to restore incentives for investment. That sadly will take time, and it will take much longer than it need have done because the Government refused to accept our advice earlier” (*Statement*, 24th August 1976).

## (C) EMPLOYMENT LAW AND THE CLOSED SHOP

### 1. POWER TO THE UNIONS

Employment law in Great Britain has undergone major upheavals in the last decade. The Conservative Government's Industrial Relations Act 1971 and subsequently the Labour Government's Trade Union and Labour Relations Acts and Employment Protection Act have had wide-ranging effects. There are more similarities between

both sets of legislation than Labour has been willing to admit, but the key difference is that while the Conservative Industrial Relations Act was even-handed in its approach, establishing rights and duties for employers and trade unions alike, the new legislation significantly shifts the balance of power in industry towards the unions.

Of particular concern is the effect of the new law in making legal the negotiation of closed shop agreements that undermine the individual's right to work and potentially endanger press freedom. This problem is covered in detail in the sub-sections which follow on the Trade Union and Labour Relations Act 1974, the Amendment Act 1976 and Conservative policy on Employment law.

## 2. INDUSTRIAL RELATIONS ACT 1971

**Background.** The problem of our antiquated system of industrial relations was a subject of widespread concern in the 1960s. At its 1962 Congress, the TUC decided to examine the possibility of changing its structure 'to meet modern industrial conditions' (TUC Congress Report, 1962); in 1964, Mr Joseph Godber, Minister of Labour in the then Conservative Government, called on the TUC and the employers to co-operate with the Government in setting up an inquiry; and the Conservatives set up a working group to examine the prospects for reform when they went into Opposition in 1964. Its report, *Fair Deal at Work*, was published in March 1968. The Labour Government set up a Royal Commission on Trades Unions and Employers Associations under the Chairmanship of Lord Donovan which commenced its studies in 1965 and reported in June 1968 (Cmnd. 3623). Following its report, Labour then published its own legislative proposals in the White Paper *In Place of Strife* (Cmnd. 3888) in January 1969.

**Provisions of the Act.** The Industrial Relations Act was an attempt to resolve the problems by bringing order to relations between employers and employees; and many of its provisions followed closely the recommendations of the Donovan Commission. It encouraged the conclusion of binding agreements; it brought the law up to date, strengthened the industrial tribunals and increased their scope of operations, and established the National Industrial Relations Court; it established for the first time a legal right to strike, but also empowered the Secretary of State to seek a 'cooling off' period or a secret ballot before a strike in serious cases; it provided legal safeguards for individuals threatened with loss of employment by a closed shop; and it tightened up the registration of union rules. More effective collective bargaining was encouraged by those provisions of the Act relating to disclosure of information, by the strengthening of the Commission on Industrial Relations, and by the introduction with the Act of a Code of Industrial Relations Practice.

The Act was similar in many respects to the White Paper *In Place of Strife*. It had been Labour's original intention to introduce an Industrial Relations Bill. Indeed, Sir Harold Wilson, then Prime Minister, told the Parliamentary Labour Party on 17th April 1969:

"The Bill we are discussing tonight is an essential Bill. Essential to our economic recovery. Essential to the balance of payments. Essential to full employment. It is an essential component of ensuring the economic success that the recovery of the nation,

led by the Labour Government, depends. That is why I have to tell you that the passage of this Bill is essential to its continuance in office. There can be no going back on that ...” (Harold Wilson: *The Labour Government 1964–70*, Weidenfeld & Nicholson 1971)

In the event, Labour dropped their Bill on 18th June 1969 after TUC opposition was followed by a revolt in the Labour Party.

**Its Advantages.** It is clear from this background that the Conservative Act was in no way partisan, but the opposition of important sectors of the trade union movement, aided and abetted by the cynical opportunism of the Labour Party, seriously hampered its chances of bringing about the much-needed reform of our industrial relations. Its eventual abolition should not be allowed to detract from the considerable advances which the Act brought about. The Code of Industrial Relations Practice set out clearly and in layman's language ways of improving relations in the workplace at local level. It has been widely praised and is still in everyday use. Further, it has proved a useful precedent as a means whereby governments can encourage good practice without invoking the majesty of the law directly. Several other codes on specific subjects are now in preparation (see p. 216). In addition, the Act established the right of employees to redress where they had been dismissed unfairly by employers, and it improved the provisions on notice of termination of employment.

### **3. TRADE UNION AND LABOUR RELATIONS ACT 1974**

The Labour Government came into office committed to the wholesale abolition of the Industrial Relations Act. They wished to abolish the Register of Trade Unions and the National Industrial Relations Court; to give trade unions greater freedom in drawing up their own rules and procedures; to make easier the registration of ‘closed shop’ agreements; to broaden the legal immunity of unions in respect of the consequences of strike action; whilst keeping those sections of the Industrial Relations Act which gave assistance to employees.

In 1974, the Trade Union and Labour Relations Act was passed. This redefined the status of employers' associations and trade unions; made legal the negotiation of closed shops; and widened the immunity of unions from legal action to cover both strikes relating to matters outside Great Britain and secondary boycotts.

**The Closed Shop.** The problem of protecting the individual's right to work in an industrial relations system where the ‘closed shop’ exists has been a recurrent cause for Conservative concern. Closed shops arise where employers and employees or their representatives decide that a particular job is only to be obtained or retained by union members. The precise extent of its operation is unknown, but in 1964 there were some 4 million employees in closed shops, representing 40 per cent of trade unionists and 31 per cent of the manual labour force (W. E. J. McCarthy: *The Closed Shop in Britain*, Blackwell 1964). Only a variant of the closed shop—the ‘agency shop’—was permitted under the Industrial Relations Act, but it is likely that there was little diminution of what are often tacit understandings rather than specified agreements, and since then several old agreements have been revived and new ones concluded.



Problems for individual freedom, which can lead to people losing their jobs, may arise in closed shops:

- i. Where employees, many of whom may have worked for the employer for many years, do not feel that in conscience they can join a union;
- ii. Where employees, though willing to belong to a union are unreasonably excluded or expelled from it;
- iii. Where professional people feel that to join a union could lead them to be required to take action in contravention of professional codes;
- iv. Where the union takes action short of expulsion which is irregular.

The Royal Commission on Trade Unions and Employers' Associations 1965–8, looking at this problem, found that unions were frequently liberal in their interpretation of closed shops. Its report commented:

“Our impression from the evidence we have heard is that trade unions in the main respect genuine conscientious objections, and are usually content if the objectors agree to pay to some charitable body the equivalent of union dues.”

But it found the closed shop was

“Liable from time to time to cause substantial injustice to individuals from which they may have no effective means of redress.”

**Conservative Safeguards.** The main changes to the Trade Union and Labour Relations Act secured by the Conservatives during the period of the minority Labour Government related to the closed shop. The effects of these changes were:

- i. Employees expelled or excluded unreasonably from unions had legal safeguards;
- ii. Employees could choose which union they joined;
- iii. Where employees objected to belonging to a union on reasonable grounds they could not be forced into membership.

## **4. TRADE UNION AND LABOUR RELATIONS (AMENDMENT) ACT 1976**

With the changes referred to above, the Conservatives were willing to accept the new Act as the basis of labour law. Mr Prior said:

“The Trade Union and Labour Relations Act as we have amended it can now stand as a solid foundation for our law on trade union organisation and on the legal framework in collective bargaining” (*London*, 1st August 1974).

But the Government was determined to force its original proposals through. Mr Foot, then Secretary of State for Employment, made it clear that the Government would remove the safeguards for individuals who did not wish to join unions in a closed shop. Following the October election, the Government introduced an Amendment Bill which set out:

- a. To remove legislative safeguards for employees unreasonably excluded or expelled from trade unions.
- b. To remove the protection for individuals in closed shops who objected on reasonable grounds to union membership, or who chose to belong to another appropriate union.
- c. To increase the legal immunities for unions taking strike action in disputes originating overseas.
- d. To give greater legal protection to unions inducing breach of commercial and other contracts.

This narrow, sectional and vindictive Bill met with widespread opposition, particularly over the questions of expulsion and exclusion from unions, and of press freedom.

Under the Bill there was no guarantee of protection, where a closed shop was negotiated, for individuals who did not want to join a union, or who were prevented from joining or expelled from a trade union. They could be forced to give up their jobs. Eventually, under pressure, the TUC agreed to set up an ‘independent’ appeals procedure chaired by Prof Wedderburn, but this will only deal with expulsion and exclusion cases and offers no assistance to those whose personal convictions forbid them to join a union. As the TUC has nominated the members and laid down the procedure which it will follow, its claims to independence are weak: it looks rather like the unions acting as judge and jury in their own cause.

The only legal protection remaining in the Bill was for those who objected on religious grounds to belonging to any union at all.

**Press Freedom.** When the Amendment Bill was first introduced in the 1975–6 session, concern concentrated above all on the threat posed to press freedom. The danger foreseen was that if a closed shop arose in the press, then there would be a possibility that the unions involved could restrict the right of access of non-union members, or those with non-approved views, to a public hearing. The freedom of editors to select contributions and writers might be damaged.

Originally, the Government scoffed at this concern. Sir Harold Wilson claimed to “get a little nauseated” at “the phrase ‘freedom of the press’” (*Hansard*, 5th December 1974). But it soon became clear that the fears were well founded. Several editors, notably Mr Alastair Hetherington, then Editor of *The Guardian*, took up the issue:

“Why is there such a flurry in Fleet Street? Because as the Bill stands an editor or senior editorial executive can be dismissed without compensation if his staff secure a closed shop and he refuses to join. Also because he will be unable to recruit people, however talented, except by the consent of the union and that will apply both to staff and to regular contributors. And because the union and its branches and chapels will be in a position to give instructions to editors and their deputies which they could not do before. Thus editorial independence may be gravely jeopardised” (*Guardian*, 9th December 1974).

Some Labour MPs also began to show concern. For example, Mr Bryan Magee, **MP** for Waltham Forest, wrote:

“I am no friend of editors, still less of proprietors, but their multiplicity, diversity and freedom are worth going to the barricades for. Not for two centuries have we had in this country a single body of people with the power to decide who can and who cannot write for newspapers” (*Times*, 5th February 1975).

The Government's eventual compromise was to accept the idea of a press charter which would set out the rights of access for contributors and the freedom to choose by editors. But its provisions were not legally enforceable.

It was on the key question of enforceability of rights that the House of Lords, led by Lord Goodman and Lord Hailsham, rejected the Bill. Lord Goodman accepted that the danger of a union negotiating a closed shop in the press and operating it in a restrictive manner might be slight, but he pointed out:

“If the risk were one per cent or one per cent of one per cent, if it were a one-millionth chance of a possibility, we would have no right to take it. We have no right, in regard to either our history or our future, to endanger the right of free men to say what they want to say and to publish what they want to publish” (*Hansard*, House of Lords, 24th March 1975, Cols. 1023–4).

Thus, exceptionally, the House of Lords exercised its power to reject legislation under the provisions of the Parliament Act 1949.

**Government Intransigence.** Despite widespread support for the points of view expressed in the Lords, the Government reintroduced the measure in the 1975–6 session. By this time, it had become clear that the concern over press freedom was not exaggerated. The National Union of Journalists at their annual Conference had voted in favour of a 100 per cent closed shop including editors, although this was later reversed in a national ballot of members. Moreover, an NUJ branch at Barnsley had been encouraging various news sources to give information only to TUC-affiliated union members—an action which Mr Prior described as

“a particularly sinister variant of denying access to the press to outside contributors” (Letter to Mr Michael Foot, 8th March 1976).

When the Bill was reintroduced in Autumn 1975, the Lords endeavoured to insert wider provisions to protect the rights of the dissenting individual generally, but the Government rushed the Bill through both Houses, without further amendment, and it became an Act on 25th March 1976.

## **5. EMPLOYMENT PROTECTION ACT 1975**

This Act, which received the Royal Assent on 12th November 1975:

- a. Establishes the Advisory, Conciliation and Arbitration Service on a statutory basis with the right to issue advice, conciliate, arbitrate and produce Codes of Practice for the purpose of promoting the improvement of industrial relations.

- b. Creates the office of Certification Officer to certify that unions are independent and to hold copies of their annual returns, copies of rules and other documents available for public inspection.
- c. Establishes the Central Arbitration Committee with powers to require that employers recognise unions and disclose information for bargaining purposes.
- d. Creates a general right for employees to guaranteed payments up to £6 per day.
- e. Creates rights for women to maternity leave, to be paid maternity pay from a central Maternity Pay Fund, and to return to their jobs within 29 weeks of confinement.
- f. Protects individuals at their place of work who wish to join a union.
- g. Requires employers to allow employees who are trade union officials time off for trade union duties and training; to allow employees who are public officials time off for their duties; and to allow employees who are serving notice by reason of redundancy to look for new employment and arrange training.
- h. Gives priority rights to certain debts to employees in the event of insolvency.
- i. Sets out compensation for unfair dismissal.
- j. Creates the right to a written statement of reasons for dismissal and to an itemised pay statement.
- k. Establishes the Employment Appeal Tribunal as an appeal body for Industrial Tribunal cases.
- l. Provides for the conversion of wages councils into joint industrial councils.
- m. Places a duty on employers to notify the Secretary of State and consult trade union representatives 90 days in advance of large-scale redundancies, and 30 days in advance of smaller redundancies.
- n. Amends the Health and Safety At Work Act to restrict the appointment of safety representatives to those appointed by trade unions.
- o. Allows trade unions to make pay claims in one establishment on the basis of terms and conditions for 'comparable' employment elsewhere.

**Conservative Opposition.** The Conservatives strenuously opposed particular provisions of the Act. On the question of union recognition, they urged that employers as well as unions should be able to refer disputes over union recognition to the ACAS. They sought exemption for small firms and seasonal employers such as builders from the requirement to give lengthy advance notice of redundancies. They sought to limit the potentially damaging effects of the provisions for disclosure of information on investment and future planning. They fought to retain the right of all employees and not merely trade unionists to appoint safety representatives. They opposed several sections including the right to guaranteed payments, the requirement to give time off to employees for trade union and public duties, and the provision for claims for 'comparable' rates, on the grounds that they would place further major costs on employers at a time of grave economic crisis which could only result in the employment and recruitment of fewer people.

The sole area where the Government gave ground was on the question of maternity pay. The Conservatives pointed out that this would place intolerable burdens on firms with only a few employees and on those who mainly employed young women, which could result in bankruptcies and would certainly lead to fewer women being employed. Eventually the Government agreed to amend the Bill in the House of Lords so that payment would come from a central fund rather than the individual employers.

## 6. DOCK WORK REGULATION ACT 1976

**Background.** The National Dock Labour Scheme was first set up in 1946 to guarantee regularity of employment and income to dockers after generations of uncertainty and casual labour. All dockers working in ports covered by the scheme are placed on a register administered by local dock labour boards, comprising equal numbers of management and unions. Those on the register are guaranteed a basic income whether or not work is available for them and they have first priority on any work which does become available in scheme ports.

In recent years, the demand for dock labour has gone down because of three factors. First, there has been an overall reduction in world trade which means that less cargo is passing through ports everywhere. Second, some cargo-handling previously carried out in Britain has moved to continental ports (e.g., Rotterdam), not least because of the higher costs of cargo-handling in this country. Third, new cargo-handling techniques, notably containerisation, have been developed and these require less manpower. This reduced demand has been reflected in the number of dockers who have opted for the favourable redundancy terms available: those on the register have declined over the last ten years from over 60,000 to around 30,000.

**A consultative document on Dock Work** was published by the Government in 1974 which proposed (a) the setting up of a new Dock Labour Scheme; (b) extension of the definition of dockwork, so that jobs previously handled by other people could in future become the preserve of dockers; and (c) permission for the Secretary of State for Employment, on the recommendation of the National Dock Labour Board, to extend the scheme to ports and other cargo handling facilities previously outside its scope. The changes were justified on the grounds that:

- i. Some work traditional to the docks was no longer available to dockers.
- ii. A new scheme was needed to remove the remnants of casual labour.
- iii. The Government needed new legislation to ratify the International Labour Organisation's Convention No. 137 on Dockwork.
- iv. Improved industrial relations would result.
- v. Some non-scheme ports had expanded at the expense of scheme ports.

The real reason for the introduction of the Dock Work Regulation Bill was unstated. The Transport and General Workers Union, of which the dockers are only one section, had demanded it, and the Government relied heavily on the continued support of Mr Jack Jones, General Secretary of the TGWU, for its economic policies. As Lord George-Brown, former Deputy Leader of the Labour Party, put it:

“In the first place—as I think every one of us who has been in the Labour movement for a long time well understands—this is an arrangement between the Government and one trade union leader who is powerful enough to be able to dominate. This has been called, and is, the Jack Jones special responsibility Bill. Yet as an official and a member of the union of which Mr Jack Jones is General Secretary I know that most of his members are against it” (*Hansard*, House of Lords, 8th November 1976, Col. 23).

**Opposition to the Bill.** As Mr Prior said of the Bill in its original form:

1. "It will result in every housewife paying more for her food.
2. "It will place in dockers' hands a stranglehold over the nation's food supplies. They could stop food reaching the shops at a stroke.
3. "It will result in people losing their jobs so that others can take their place.
4. "It will cause more unemployment, for trade through our ports will cost more and hence decline.
5. "It will stop expansion and investment and hence more jobs will be lost"  
(*Statement*, 8th February 1976).

The Government's justifications for the Bill were clearly inadequate. The Joint Special Committee on the Ports Industry in 1972 had established that if all the work being done in container depots near the docks not then in the hands of union labour was given to dockers, it would only provide 125 additional jobs; the National Ports Council Survey on 'Non-scheme Ports and Wharves' indicated that only some 357 labourers were casually employed, and making many of them full time would increase costs and jeopardise employment; ratification of ILO conventions is voluntary and it was debatable whether No. 137 could be ratified without new legislation; industrial relations in the ports covered by the original scheme were among the worst in the country and extension of the scheme could only result in demarcation disputes; and transferring non-scheme ports into the scheme could easily result in more traffic going abroad rather than to scheme ports.

Opposition to the Bill was widespread. Many trade unionists—including members of the T & GWU—in cold stores, warehouses and transport work throughout the country feared that they could lose their jobs to dockers if the Bill went through.

In the event, the Bill was passed and received the Royal Assent on 23rd November 1976. But only after a major amendment made by the House of Lords with all-party support had been upheld by the House of Commons. The Lords severely restricted the potential extension of the Dock Labour Scheme by reducing the 'dockers corridor', within which work could be classified as dock work, from 5 miles round the coast, major inland waterways and tidal rivers, to half a mile from a harbour or harbour land.

The Government was defeated in its attempt to remove this amendment by the combined vote of the Opposition parties and the abstention of two Labour MPs, Mr John Mackintosh and Mr Brian Walden.

## **7. EMPLOYMENT AGENCIES ACT 1973**

One further piece of legislation in the employment field has come into force since the advent of the Labour Government. The Regulations drawn up under the Employment Agencies Act 1973 came into force during the course of 1976. The Act was originally introduced as a Private Member's Bill by Mr Kenneth Lewis, Conservative MP for Rutland and Stamford in 1973, and received all party support. It was intended to end the practice whereby some employment agencies charged people for finding or attempting to get them jobs and to stop abuses carried out by a small number of rogue agencies. It should stop unscrupulous agencies who deceive people into thinking that they have jobs to offer when the employer has given them no authority to offer such jobs. The Act requires agencies to be registered, and to advertise their application to

register. Registration, which under the Employment Protection Act must be with the Secretary of State rather than with local authorities as previously, may be refused for various reasons: e.g., unsuitability of the applicant because of misconduct, or improper conduct of the business.

The regulations under the Act are intended *inter alia*, to stop the activities of some people who advertise abroad and take large fees from workers for lists of 'job opportunities' which they have not been retained to fill; to end the offering of financial inducements, gifts or benefits to persuade workers to use their services; to require agencies to tell people abroad seeking jobs in this country of the need for work permits; and to require agencies to keep records, meet advertising standards, and notify clients of their business terms.

## 8. CONSERVATIVE POLICY

**Industrial Relations Law.** It has been repeatedly stated that the next Conservative Government will not embark upon a whole new round of industrial relations legislation. This would be welcomed neither by industry nor by employees. As **Mrs Thatcher** noted in a speech to Conservative Trade Unionists:

"The Labour Government of 1966–70 and ours of 1970–4 learned that such major changes can lead to more disharmony than they are worth" (Manchester, 28th February 1976).

Neither the Trade Union and Labour Relations Acts nor the Employment Protection Act will be repealed. As Mr Prior noted at the same Conference:

"A lot of it looks very familiar. Protection against unfair dismissals, disclosure of information, the reformation of collective bargaining, Codes of Practice—those are our ideas: and the Employment Appeals Tribunal seems to bear a striking resemblance to the National Industrial Relations Court" (Manchester, 28th February 1976).

Amendments to the Acts will, however, be considered in the light of experience and to assist higher participation rates in trade union elections (see p. 228).

**Closed Shop.** The negotiation of the most restrictive forms of closed shop with no protection for dissenting individuals is now possible. Indeed, the decision of the Industrial Tribunal in the case of the six men dismissed in September 1975 by the Central Electricity Generating Board at Ferrybridge Power Station for refusing to join one of four unions means that trade unions must operate closed shops tightly if they are to be recognised by the Courts as union membership agreements within the terms of the Acts. The tribunal found that as the four unions were turning a blind eye to workers who were members of another union not specified in the agreement, a union membership agreement could not be held to exist.

There is also considerable evidence that illiberal closed shops are now being agreed and enforced. Particularly disturbing is the negotiation of such agreements in the nationalised industries

Mr Prior has said:

“It is intolerable that British Rail—a Government run monopoly—should be telling men who have given a lifetime's service to the railways that they must join a union. It is wholly unacceptable that the only appeal for someone who feels that he cannot in conscience join a union is to a trumped up tribunal, comprising British Rail management and railway union officials, held behind locked doors. (Scottish Conservative Conference, Perth, 15th May 1976).

The next Conservative Government is committed to protect the right to work of those who feel that they cannot join a union. **Mrs Thatcher** has stressed that the provision for exemption on religious grounds is too narrow.

“I find it difficult to believe that those who run our trade unions really want to deny to individuals the freedom which appears to be theirs under the European Convention of Human Rights. (*Manchester*, 28th February 1976).

Mr Prior, pledged that the next Conservative Government would protect the right of the individual to work profitably and productively without fear of being dragooned into a union against the dictates of his conscience. But he rejected any proposals to ban the closed shop:

“The agreements will continue. The sackings will continue. The injustice will continue. The only difference will be that we won't hear about it. Those who say we should ban the closed shop are really saying that we should sweep the problem under the carpet” (Brighton 6th, October 1976).

Rather the rights of individuals where unions organise will be clearly established, preferably by agreement, but by amending legislation if necessary.

1. “Closed shops should only be agreed with the consent of the workforce involved.
2. “Existing employees should not be forced to join a union against their will.
3. “Individuals who have strong personal convictions which make it impossible for them to join a union should be exempt.
4. “Any closed shop agreement should protect the rights of members of professions whose codes of conduct forbid them to take part in industrial action.
5. “There should be an independent tribunal available to consider cases of people who have strong personal convictions against trade union membership or who are arbitrarily excluded or expelled from particular unions” (Southwold, 21st January 1977).

Following the disturbing events within the NUJ and at Barnsley (see p. 216), Mr Prior also pledged that the Conservatives would secure freedom of access to the Press.

**Employment Protection Act.** Conservatives will be examining closely the operation of this Act, which does not come fully into force until 1977, to see whether the objections raised during its passage prove justified. Detailed points that will be watched carefully will be the wording and operation of codes of practice published by



the ACAS; recognition disputes and the procedure for examining whether recognition of a union should be recommended; maternity leave, its costs and the difficulty of holding open jobs for women who go away from work to have children; the effects of the new redundancy provisions, particularly on smaller and seasonal employers; the inflationary effects of Schedule 11 (permitting claims for higher pay to be submitted in the name of meeting comparable terms and conditions). Overall, Conservatives are concerned that a number of provisions in the Act will combine to deter employers from expanding and taking on labour and that this will make the task of reducing unemployment more difficult.

## **(D) EMPLOYEE PARTICIPATION**

### **1. INDUSTRIAL DEMOCRACY PROPOSALS**

Labour came into office committed to undertaking a further major piece of industrial relations legislation; an Industrial Democracy Act. It was clearly the original intention that this should enact the proposals in the TUC 'White Paper' *Industrial Democracy*, issued in July 1974. These were that all enterprises with more than 2,000 employees should establish a supervisory board of management above the normal management board to look at major investment decisions, mergers, takeovers, and closures; and that 50 per cent of the members of the supervisory board should be trade union representatives selected through union machinery. These proposals, which could fatally hinder decision-making, wreak havoc with the operation of the Stock Exchange, and leave the vast majority of workers without any say, ran into considerable opposition. The Government, which had shown no intention of bringing forward a Bill, was forced to set up a Committee of Inquiry under Lord Bullock in August 1975, in order to stop the progress of a Private Member's Bill put forward by Mr Giles Radice, Labour MP for Chester-le-Street.

The terms of reference of the Bullock Committee, which started with the words below, virtually obliged it to endorse the TUC proposals:

“Accepting the need for a radical extension of industrial democracy in the control of companies by means of representation on boards of directors and accepting the essential role of trade unions in this process ...”

The Committee's Report published on 26th January 1977, confirms this view. Its main proposals are:

- Changes in company law to reduce the power of the shareholders' Annual General Meeting and to bring all major matters to the board of directors.
- Unions in an enterprise employing more than 2,000 people to have the right to call for a ballot of the workforce on proposals for trade union directors.
- Where a ballot with a minimum of 50 per cent of the workforce voting showed a majority (and not in any case less than 30 per cent) in favour, the unions involved to form a Joint Representation Committee (JRC).
- Where a ballot was favourable, the board to be reconstituted to comprise three elements: an equal number of directors appointed by the shareholders and the

JRC, plus a smaller third group co-opted with the agreement of each of the other two groups. This system is called 2X + Y.

- An Industrial Democracy Commission to be established to issue advice and to decide the composition of boards in the event of deadlock.

A minority report, signed by the only three members of the Committee with boardroom experience, rejected these proposals in favour of a formula for building participative structures below board level.

Introducing the report to the House, Mr Edmund Dell, Secretary of State for Trade, announced that the Government would consult the CBI, TUC and others,

“on the general basis of the recommendations contained in the majority report and we shall bring forward legislative proposals this session” (*Hansard*, 26th January 1977, Col. 1494).

The majority report has been widely condemned in industry and the press. Several union leaders, including Mr David Basnett of the GMWU, and Mr Hugh Scanlon of the Engineering Workers, have been amongst the critics.

## **2. CONSERVATIVE ATTITUDE**

Mr John Nott, Conservative spokesman on Trade, described the report as

“a political tract that makes a mockery of genuine democracy in British industry” (*Hansard*, 26th January 1977, Col. 1495).

He said that its implementation would further destroy the confidence of junior and middle management: nor could any progress be expected which did not carry widespread consent.

Mr Prior pledged the Conservatives to oppose any attempt to legislate on the basis of the Bullock majority report:

“It would severely disrupt not only the industrial investment essential to our recovery but also the position in industry of employees, management and trade unions. It would make our boardrooms the new frontier of the corporate state” (Sutton Coldfield, 3rd February 1977).

Conservatives are strongly in favour of promoting schemes which give greater satisfaction to employees at their place of work and which encourage greater co-operation in industry. Participation should start at the shop floor and build up, rather than come down from the board.

It was the Conservative Government that established, with TUC and CBI cooperation, the Tripartite Steering Group on Job Satisfaction in May 1973 to promote experimentation in task-level participation.

The following ground rules for employee participation policy have been established and were set out by Mr Prior in a speech to Conservative Trade Unionists (Swinton College, 8th August 1976).

- All employees should be involved and not merely trade unionists.
- No single model can be universally applied.
- Training of employee representatives will be needed.
- The rights of customers, suppliers and consumers as well as those of shareholders and employees should be borne in mind.

The Conservative attitude is neither dogmatic nor anti-trade union. It is summarised in *The Right Approach*:

“In companies with strong trade union involvement, it may make sense to develop existing methods of collective bargaining. In companies with a partly-unionised workforce and with different unions, it may initially be best to introduce consultation committees with both shop stewards and directly elected worker representatives. What is important to understand is that no single model can be universally applied; this would make nonsense of the whole question. A code of practice is much more likely to be helpful than legislative prescription.”

Mr Prior has stressed that any proposals must be compatible with improved industrial relations, efficient management and an increasing level of investment of risk capital.

## **(E) PAY AND CONDITIONS UNDER THE CONSERVATIVES**

### **1. PAY**

It is a reflection of our poor industrial performance that real take home pay has not grown since the war in this country to the same extent as it has in other advanced economies. But the record of the Conservative Government is markedly better than that of Labour. Average pay for male manual workers increased by 47·3 per cent under the last Conservative Government while prices increased by the significantly lower figure of 39·5 per cent (less than one per cent a month). The table below compares this with the Labour Government's performance.

<i>Period</i>	<i>Average Monthly Increase</i>	
	<i>Prices</i>	<i>Pay</i>
	<i>%</i>	<i>%</i>
June 1970–	0·9	1·08
February 1974		
February 1974	1·51	2·81
October 1974		

Pay and Prices: Average Monthly Movement

<i>Period</i>	<i>Average Monthly Increase</i>	
	<i>Prices</i>	<i>Pay</i>
	<i>%</i>	<i>%</i>
October 1974	1.86	1.56
December 1976		

*Note:* The changes refer to the Retail Price Index and the seasonally adjusted earnings index.

(Source: *Department of Employment Gazette*)

It will be seen that since the October 1974 election, pay has fallen behind prices on a monthly average basis. In fact when tax changes are taken into account, real income has declined significantly.

Real Take Home Pay (at Dec. 1976 prices)

	<i>£ per week</i>
December 1973	60.72
August 1976	56.92

*Notes:*

1. The figures refer to a married man on average earnings with two children not over 11 and no other tax allowances.
2. Take home pay is average earnings less tax and national insurance contributions. The calculations take account of tax on family allowance and the 'clawback', although the take home pay figures do not include family allowance.
3. It is assumed that the taxpayer was not contracted out of the graduated pension scheme in December 1973.
4. The price index used is the Retail Price Index, and December 1976 prices are assumed.

(Source: *Hansard*, 2nd March 1977, Written Answers, Col. 239).

## **2. HEALTH AND SAFETY AT WORK**

Each year around 1,000 people are killed and half a million suffer injury in the course of their work. It was clear by 1972 that our provisions for protecting people from hazards in the course of their employment were out of date and failed to cover many dangers. The regulation of health and safety had developed in a piecemeal manner over a hundred years and more. There was too much legislation, often outdated and difficult to understand, and too many enforcement agencies. Above all, there was too little encouragement for employers and employees to examine their immediate problems and set their own standards.

Following the report of the Committee, chaired by Lord Robens, on Health and Safety at Work 1970–2 (Cmnd. 5034), the Conservative Government carried out extensive consultations with the bodies concerned and introduced the Health and Safety at Work Act 1974. The Act set up a permanent Commission on Health and Safety independent

of Government and representing both sides of industry, with the responsibility for development and implementation of overall policy. In addition, it brought together the various existing inspectorates and began the task of unifying and extending the coverage of legislation on safety. It changed the direction of responsibility for safety standards away from haphazard Government legislation—which had usually followed particular disasters—towards the employer and the employee anticipating dangers on a systematic, local basis. Employers are obliged under the Act to safeguard their employees and the public at large against dangers from their processes, and must set up Health and Safety Committees comprising workers' representatives to examine and take decisions on appropriate matters.

This legislation forms the basis for improved conditions of work for all employees for generations ahead.

### **3. OCCUPATIONAL PENSIONS**

The desire to bring general practice up to the highest standard characterised the Conservative Government's intention that all people at work should be entitled to an occupational pension. For too many people, the only income available after a lifetime's work was the basic state pension. With a view to improving this position the Conservatives introduced the Social Security Act 1973 which provided for a universal occupational pension scheme. Subsequently, the Labour Government substituted its own scheme which, in the interest of stability, the Conservatives are pledged to maintain (see Chapter 17, p. 426).

## **(F) THE SOCIAL CONTRACT**

### **1. PAY EXPLOSION 1974–5**

Labour returned to office in 1974 committed to allowing the National Coal Board to settle the miners' pay dispute at a level beyond the pay controls then in operation. The Conservative Government had indicated that a settlement in excess of the limit laid down in Stage III of the pay and price controls would lead to many other claims at a similar level. This would entail higher costs and encourage inflation at levels far in excess of the prevailing rates in other, competing countries. In the event earnings increased in the 12 months after February 1974 by 34 per cent, reflecting the high pay deals following the miners' settlement of 22 per cent and the lifting of pay controls in July 1974. Price rises over the same period rose to 18·4 per cent per annum. The huge pay rises occurred in spite of the guidance aimed at holding pay settlements down to the movement in prices which the TUC issued to negotiators in June 1974:

“The scope for real increases in consumption at present is limited, and a central negotiating objective in the coming period will therefore be to ensure that real incomes are maintained ... the twelve month interval between major increases should continue to apply ...” (*Collective Bargaining and the Social Contract*, 26th June 1974).

## 2. THE £6 LIMIT, 1975–6

As settlements at 30 and even 40 per cent continued, the Government pressed the TUC to agree to tighter limits on pay. In June 1975 the TUC General Council issued a further document, *The Development of the Social Contract*, which advised negotiators that settlements in the coming 12 months should not exceed £6 a week. The Government and the unions presented this as a voluntary policy, but in fact two forms of legal enforcement lay behind it. First, the Government indicated that it had ready in draft form a Bill which would be introduced if the new advice did not succeed in moderating pay settlements. Second, the legislation actually introduced in July 1975, the Remuneration, Charges and Grants Act, carried tough, if indirect, sanctions. As Mr Prior noted:

“The effective penalty for breach of the policy by a group of workers is that some of these workers will then be made redundant. The sequence of events would be as follows:

- A pay settlement is reached in excess of the £6 limit.
- The employer later applies to the Price Commission to increase the price of his goods, basing the application in part on increased labour costs.
- The Price Commission notes that the latest pay restraint is in excess of the limit and sets aside the entire application.
- The employer is then faced with three options: he may meet the costs of the pay rise and all other increases in material and supply costs without any change in his price; he may attempt to re-negotiate the settlement; or he may lay off men to reduce his costs.
- The first of these options will be open to very few firms in present circumstances, which means that the negotiators are faced with a choice of settling for less or putting men on the dole” (*Financial Times Conference*, 28th January 1976).

The policy was endorsed by the full Trades Union Congress in September 1975 and Labour claimed that it was widely obeyed. Certainly the level of settlements fell during the £6 year (see p. 280), although how far this was due to the pay policy and how far it was accounted for by other factors such as increasing unemployment and the lagged effect of the 1973 monetary measures is unclear. But some doubts must be raised about whether all settlements between July 1975 and July 1976 were held to £6 a week in view of the fact that in the 12 months from April 1975, average pay for men went up by £11·40 per week and average pay for women by £9·80 per week.

## 3. THE 5 PER CENT LIMIT, 1976–7

Negotiations between the Government and TUC leaders over the development of pay in the 12 months after the £6 policy began with the Chancellor offering a 2 per cent reduction of income tax if the TUC would agree to a 3 per cent pay limit. In the event, the TUC agreed to a 5 per cent limit, but the Government still gave the 2 per cent tax concessions. The Government has claimed that the 5 per cent limit will add only 4½ per cent to labour costs. In fact, the limit is likely to be less successful. The rate of price increases began to rise again in autumn 1976 and this is likely to continue as the

effect of the falling £ comes through. The recovery of the economy seems little nearer and the action which the Government has been belatedly forced to take (see Chapter 2, p. 50) in response to the collapse of sterling will make the underlying trend in unemployment continue upward. Conservatives feared that there would be problems of obtaining compliance for further years of restraint in the face of mounting resentment amongst skilled manual workers and junior managers at the discriminatory nature of a policy which provided substantial improvements in living standards only for the unskilled.

Further, the policy appears to be much less tight than the previous policy. Seamen were able to get substantial increases in excess of the 5 per cent limit by improving fringe benefits. When it became clear that a settlement on this basis was being contemplated, Mr Terence Higgins, then Opposition spokesman on Trade, commented:

“Originally the seamen did not claim they were a special case ... If the Government approves the basis for settlement in the face of a strike threat, it will make them a special case. The dangers are obvious” (*Statement*, 22nd September 1976).

The Government ignored the Opposition warnings, however, and the result has been a flood of claims aimed at “getting round” the limit via other improvements. The miners put in a claim for retirement at 60 rather than 65 as part of negotiations for the 1976–7 round. The TUC originally stated that this was outside the limit, but the NUM executive's request for permission to take industrial action to back the claim was heavily endorsed by the membership.

An agreement between the NUM executive and the National Coal Board which allowed voluntary retirement at 62 from August 1977 for men with 20 years service underground, gradually reducing to 60 by 1979, was eventually endorsed by a pithead ballot of miners on 1st February 1977.

## **4. THE OTHER SIDE OF THE BARGAIN**

It is frequently forgotten that the Social Contract is about a great deal more than pay limits. It amounts to a bargain between the Labour Party, first in Opposition and then in government, and the unions. The Government has carried out policies agreed between the TUC and the Labour Party in their Liaison Committee, and in return the union leaders have undertaken to hold their members within pay limits. It should be stressed that the Government's side of the bargain has been a programme of unprecedented disruption and expense, involving matters as diverse as continuing price control, the establishment of the British National Oil Corporation, renegotiation of the terms of entry into the Common Market, and introduction of the 1975 Industry Act, (see Chapter 6, p. 149). Many of these actions have increased inflation and made more difficult industrial recovery and the creation of employment opportunities. A fuller account is set out in the Appendix to this Chapter.

## **5. CONSERVATIVE POLICY**

Conservatives have made it clear that restraint in wage bargaining is helpful to our national recovery, but they have warned of the dangers of incomes policies and

rejected the Social Contract approach. In his speech to the 1976 Party Conference, Sir Geoffrey Howe said:

“Restraint in pay bargaining is certainly important, indeed essential. It helps control the size of public spending; it helps to secure the recovery of profits on which jobs depend; and it is in the unions' own interests if they are not to price their members out of work. But we have all had enough experience of incomes policies, formal and informal, statutory or pseudo-statutory to know their disadvantages.

“The Socialists argue that the Social Contract has been a unique success. Let us consider that claim. What have been the results? First and foremost, dictation by a handful of union leaders of large parts of national policy: a dreadful diet of Socialism. And second, from the point of view of union members themselves, doubled government spending; doubled taxes; the destruction of differentials; and doubled unemployment” (Brighton, 5th October 1976).

But the Conservatives have offered no succour to those who have sought to breach the pay limit. Of the strike threatened over the seamen's pay dispute, **Mrs Thatcher** said:

“If they were to go on strike, I want to make it absolutely clear that they would receive no aid or comfort whatever from the Conservative Party. The pay policy was approved by Parliament” (New Zealand, 9th September 1976).

Equally, the Opposition has no desire to return to statutory pay controls. The position was spelled out in *The Right Approach*.

“Is there any alternative to statutory policies or social contracts? Other countries have found ways. Indeed the most successful Western economies of the same size as our own are those which manage to do without such policies. The West Germans, for example, without any elaborate machinery, establish each year a generally agreed basis for responsible wage bargaining. They do, however, make extensive use of consultative procedures—known as Concerted Action—for establishing this basis. However difficult it may be, we need to develop a comparable approach that would be compatible with existing British institutions.

But it would be foolish to pretend that this can be accomplished overnight. It will take time, and patient and painful adjustment to economic reality. We shall need to use every available means of making collective bargaining a more orderly and responsible process. Our purpose must be to exclude the need for any further resort to a formal incomes policy.”

**Mrs Thatcher** endorsed this approach when she spoke of the relationship between government and the unions.

“We worked very well together for 13 years when we were in power, and then we had the one major clash in February 1974, and we fought an election on it. Can we get clear what that clash was about?

It was about a statutory incomes policy. It was about pay having become a matter for the law. Now that was the only point on which we clashed ... Now, I do not want a



statutory incomes policy any more. I think ... you get a clash ... between the Unions and the law. And I think the danger of that is that it will bring the law into disrepute ... Also I think that one of the reasons we had that problem was that governments, even we sometimes, got into doing too much. They got involved in things they ought to leave to other people, and I think that with nationalised industries it would be far better to leave the negotiations to those concerned in running the nationalised industries with those who work in them ... Then the only thing you have got to watch is that they do not automatically put up prices where they might be more efficient and hold down prices a bit better” (Wrexham, 27th November 1976).

“I believe that we can work in the future with the unions as we worked with them for 13 years in government. And remember in the end, the clash only came over a statutory incomes policy, not over anything else, but a statutory incomes policy. And I do not intend to have a statutory incomes policy again” (Prestatyn, 27th November 1976).

**Mrs Thatcher** also told the Commons: “I do not believe in a statutory incomes policy but I believe in a voluntary incomes policy” (*Hansard*, 29th November 1976, Col. 610). To Mr Healey's allegation that she had pledged herself never to introduce a statutory incomes policy she replied, “The word ‘never’ was not used” (*Hansard*, 30th November 1976, Col. 720).

## **(G) CONSERVATIVES AND THE UNIONS**

Since the February 1974 election, there has been much interest in the question of relations between a future Conservative Government and the trade union movement. This has been combined with widespread public concern about the extent of trade union influence on the policies of the Labour Government. As *The Right Approach* states:

“We believe that a strong and responsible trade union movement has an important role in a free society; it should be widely consulted and its interests acknowledged and understood. But the trade unions are *not* the government of the country. We are not asking the electorate to return us to office so that we can hand over government to any group, however important, which has not been elected to run the affairs of this country in the best interests of all the people.”

**Democracy within the Unions.** In fact, there is no antagonism between the Conservative Party and the unions. Millions of trade unionists—it is estimated some 30 per cent of the union movement as a whole—vote Conservative; and as Mr Prior has pointed out, “When the union members speak they often speak with a Tory voice” (Brighton, 7th October 1976). Their voices, however, tend to be lost in the councils of the movement. As has been pointed out in *The Right Approach*:

“The main drive for improvement in the democratic procedures of trade unions must come from union members themselves. But we are ready to help. Public money should be made available for the conduct of postal ballots for union elections where

these are requested. Firms should also be encouraged to provide time and facilities for the conduct of union meetings; this should lead to greater participation in union affairs”.

And **Mrs Thatcher** has stated:

“I believe that many Trade Unionists will share ... (the) concern that we have ... that the democracy on which unions pride themselves is not always as much in evidence as we would wish. Sometimes it is due to apathy amongst union members; but whatever the cause it is right that they should have the maximum opportunity to exercise their voting rights.

“That is one reason why we support postal ballots delivered to all members' homes, or secret ballots held on employers' premises in employers' time” (Manchester, 28th February 1976).

This has been clearly demonstrated in the success of the Conservative Trade Unionists and the swing to moderation in union elections and policies. On the question of nationalisation of the banks and insurance companies, for example, the members of the unions affected have spoken clearly. They do not want their jobs threatened. Thus, at the Labour Party Conference in Blackpool in September 1976, Mr Clive Jenkins, Left-wing leader of ASTMS, abstained from voting for nationalisation (see also Chapter 6, p. 165).

**Role of the Unions.** **Mrs Thatcher** has made it clear that the Conservatives want a strong and responsible trade union movement:

“Strong to protect and represent the interests of people at work: responsible in the way it uses that power; concerned not only for today's pay and conditions of service, but to create a flourishing commerce that will provide jobs and prosperity for tomorrow” (ibid.).

She pointed out that the true aims of trade unionists can only be fulfilled in a free society and that Conservatives are dedicated to a belief in freedom.

But Conservatives have always stressed that too much reliance on union support means removing the democratic rights of other sectors of society, including trade unionists who have interests outside their union. Mr Prior has said;

“We shall encourage people to join unions, but we shall guard the legitimate interests of those who don't ... We shall seek the maximum co-operation and consult fully, but governments are entrusted by people to govern, and no group can be allowed to take away that responsibility” (Manchester, 28th February 1976).

Mr Prior has also pointed out that a relationship in which the responsibilities and duties of the unions and of government are more clearly defined than the present arrangement is in the long-term interests of unions themselves:

“The unions are being held responsible for something which they do not control (although they can and do influence it): namely our rate of inflation. Further, they are

being involved so closely in the determination—and indeed the implementation—of government policies day by day and month by month that their independence and their freedom to bargain on behalf of work people is in danger of being compromised ... I believe that in the end an ‘arms length’ relationship ... will stand a far better chance of long-term survival, and produce more lasting benefits than the present set-up under which so many responsibilities are fudged or misplaced in a way which operates against the interest of Parliament, the two party system of government, the unions and the nation as a whole” (*The Times*, 15th June 1976).

He returned to the subject at the 1976 Conservative Party Conference:

“So, when people say to us, ‘How can you hope to achieve the same kind of relationship as Labour has with the unions? Can you possibly hope to outbid the Socialists for union loyalty?’ We must reply that we do not want to; it is bad for Parliament; bad for the nation; and, in the end, bad for the unions too. We will not abdicate our responsibility to take the important decisions in the national interest, on public spending, money supply and on investment, nor will we pass the buck” (Brighton, 7th October 1976)

## **APPENDIX: LABOUR'S DEAL WITH THE UNIONS**

The Social Contract is a particular form of arrangement between the Government and the unions whereby unions have had an unprecedented say over the Government's policy and legislative programme. It has its origins in the TUC/Labour Party Liaison Committee set up in January 1972 to repair the broken bridges between the two arms of the Labour movement.

Its elements have been set out in the following documents:

1. *Economic Policy and the Cost of Living*, February 1973
2. *Labour's Programme 1973*
3. *Collective Bargaining and the Social Contract*, June 1974
4. *The Development of the Social Contract*, June 1975
5. *The Social Contract*, June 1976
6. *The Next Three Years and the Problem of Priorities*, July 1976

### **1974–75**

#### **The unions:**

Pay settlements should be at 12 month intervals and pitched at a level which would merely maintain living standards, although priority should be given to increased efficiency, assisting the low paid and achieving equal pay.

#### **The Government:**

- Abolition of Stage III and the Pay Board.

- Continuing price and rent control and food and fares subsidies.
- Abolition of the Industrial Relations Act and extended rights for trade unionists (The Trade Union and Labour Relations Act 1974).
- Greater public control of private companies (Industry Bill introduced).
- Development of new public enterprise (British Leyland accepted for national ownership).
- Renegotiation of the terms of entry into the Common Market.
- State pension increases (twice).
- More spending on training.

## **1975–76**

### **The unions:**

Pay settlements in the next 12 month period should be limited to £6 per week, with no increases for those earning above £8,500 p.a.

### **The Government:**

- Continued price controls and food subsidies.
- Public ownership of land (Community Land Bill introduced).
- New rights for workers (Employment Protection Bill and Trade Union and Labour Relations (Amendment) Bill).
- Sex Discrimination Act passed.
- Social Security Pensions Act passed.
- Housing Finance Act repealed.
- Greater public control of private companies (NEB set up).
- Development of new public enterprises (British National Oil Corporation established).
- State funds for job creation, the construction industry and stockpiling steel.
- Increased child allowances and pensions.

## **1976–77**

### **The unions:**

Pay settlements in the next 12 month period should be limited to 5%, with a £2·50 minimum and a £4 maximum.

### **The Government:**

- Continued price controls.
- Promise of ‘industrial democracy’ legislation.
- New rights for workers (implementation of Employment Protection Act).
- Import controls (very limited).
- More funds for job creation, training, etc.
- Further pension increases.

## **1977 and beyond**

**The unions:**

The possible shape of any future pay limit is unclear: but greater flexibility, a higher limit and a productivity element have all been canvassed.

**The Government:**

will be under pressure to implement the points in *The Next Three Years*.

- Continued price controls and food subsidies.
- Planning agreements with the top 100 companies.
- Import penetration ceilings.
- £1,000 million p.a. for the NEB.
- Further action on top salaries.
- 51% participation in offshore oil.
- Early introduction of the child benefit scheme.
- A new non-means tested benefit for one-parent families.
- The setting up of a National Transport Planning Authority.

# 9. ENERGY

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## Speaking Note

- Under the last Conservative Government the development of all Britain's energy resources proceeded rapidly until, in the winter of 1973–4, the oil crisis which followed the Middle East war led to a temporary cut-back in oil supplies, huge oil price increases and a radical change in the energy outlook. The crisis emphasised the importance of the rapid development of Britain's indigenous resources.

## Labour's Priorities

- The Labour approach to Energy, particularly under Mr Benn, has been unimaginative and doctrinaire.
- Labour set up the British National Oil Corporation (BNOC) to join in North Sea development, with the statutory right to borrow up to £900 million. Participation deals involving BNOC have virtually been forced on several oil companies. Government intervention has worsened unemployment in the platform construction industry.
- Labour's claim that BNOC is necessary to bring North Sea profits to the British people is absurd. Oil development in 1975 was seriously retarded by fears of nationalisation. Conservative proposals in the October 1974 manifesto would have taken a fair share of revenues through taxation and established a supervisory but non-interventionist authority.
- Labour's interference in the running of the nationalised energy industries has led to sharp criticisms from their chairmen.
- Labour's Energy Act 1976 introduced controls on the prices charged by private oil companies thus extending the State's control over their policies.

## Labour has failed:

- *To control inflation.* The huge pay increases conceded during Labour's first fifteen months caused energy prices to rise far higher than would have been necessary simply to restore the nationalised industries to profitability.
- *To co-operate internationally.* The Labour Government has exasperated Britain's European partners by its unwillingness to play a part in joint projects.
- *To take effective steps to promote energy conservation.* A Select Committee report in July 1975 criticised the Government's record.

### **Conservative Policy**

- The progress made in the North Sea, mainly by private enterprise, demonstrates that the ingenuity exists to meet our energy requirements. A Conservative government will establish the stable commercial conditions essential to reap the maximum benefits. The rewards to the nation are sufficiently guaranteed by taxation, royalties and the savings on our balance of payments.
- BNOG will be deprived of its financial privileges and required to conform to normal commercial disciplines.
- Profit and price offer indispensable guides on the use and conservation of energy. The nationalised industries must be given freedom in their commercial operations.

## **(A) ENERGY AND THE ECONOMY**

### **1. GROWTH IN CONSUMPTION**

Very great changes have taken place in energy demand and supply both in this country and in the Western world during the past twenty years. Not only did consumption increase far faster up to 1973 than at any time in the past, but there was also a major shift from coal to oil and, to a much lesser extent, to nuclear power. Energy consumption by the non-Communist countries doubled between 1960 and 1973. Oil and gas accounted for 90 per cent of the growth in demand—oil alone for 70 per cent. The Middle East provided some two-thirds of the increase in oil supplies. Coal and hydro-electric power meanwhile declined; from supplying 41 per cent of total energy in 1960, by 1973 they provided only 25 per cent—and nuclear power only 1 per cent.

This change in consumption has meant for many Western countries, including Britain, an increasing volume of imports and hence a burden on the balance of payments, as imported oil took the place of indigenous sources of power. The cost advantage was for a time greatly in oil's favour. There was pressure in this country to switch as far as possible to oil for the generation of electricity, in place of more expensive coal.

From about 1970 onwards the general outlook on energy, and opinions about it, have been to a considerable extent reversed. As the extent of the actual and projected growth in consumption came to be widely appreciated, there was increasing concern that a world-wide energy shortage could develop by the end of the century, if

consumption outran the pace of discovery, or newly discovered reserves could not be exploited at a reasonable cost.

At the same time, technological developments in mining offered the prospect of cheaper coal; it seemed likely that the cost advantage of oil would at least be reduced. In this country, the Conservative Government put into reverse the rundown in the mines that had been in progress since the war, and set in hand a major programme for the development of new and newly-modernised mines.

## 2. THE 1973 OIL CRISIS

These changes were given far greater urgency when, in 1973 after the Arab-Israeli war, the Middle East oil producers restricted supplies to the West and enormously increased their prices. The price of Arabian crude oil more than quadrupled between June 1973 and January 1974. In one month, December 1973—it more than doubled, from \$5.04 to \$11.65 per barrel. As a result, our balance of payments deficit on oil increased by £2 billion a year.

Other countries, particularly in the third world, suffered even more. There was, as a result of the price increase, a major shift in the balance of economic power and resources from the Western European, North American and other major oil importers towards the oil-producing states, in the Middle East in particular. Efforts were made to redress the imbalance by recycling oil revenues, notably through the oil facility negotiated by the International Monetary Fund, and by bilateral or multi-lateral aid agreements made by the oil producing states. The extensive development programmes that their new oil revenues enabled them to undertake created substantial demand for exports of equipment, and for development contracts from Western countries. Nevertheless, the effect of the oil price increase represented a serious weakening in the economic position of Western countries.

**Britain as an Oil Producer.** The United Kingdom, although in the short term very vulnerable to the change because of her weak balance of payments, was in a favourable position in the longer term because of the development of her own recently discovered oil resources in the North Sea. To a certain extent the price increase was to her long-term advantage: North Sea oil, though of high quality, is extremely expensive to extract. It becomes competitive only if the price charged by lower cost producers is kept high.

The enormous increase in our fuel import bill—it rose from £1.25 billion in 1972 to over £4.5 billion in 1974, and £5.1 billion in 1976—gave far greater urgency to the development of our own resources, not only of oil, but of coal and nuclear energy, and the investigation of other possible sources such as solar or tidal power. It also made fuel conservation a matter of major concern. The Labour Government's eagerness to tax and control rather than hasten North Sea development, and their failure to attempt adequate conservation measures, have been among their most glaring and short-sighted mistakes.

**The Opportunity and the Delusion of North Sea Oil.** By 1979 it is expected that Britain may achieve self-sufficiency in oil. This will enable us to make very



substantial savings on our balance of payments (see p. 235), and relieve one of the major handicaps that has constrained our economy for the past twenty years.

Under the Labour Government this unprecedented opportunity has come almost to represent a danger to our economy. Gambling on the prospect of a surplus on our balance of payments within a few years—and on the foreign confidence that that prospect may generate—the Government has unhesitatingly accumulated a burden of debt that will require a massive surplus over many years to repay. In order to postpone the cut in living standards that living within our own resources would initially entail, the Labour Government has largely mortgaged our future earnings from the North Sea (see p. 236). As Mr John Biffen, then Conservative spokesman on Energy, said:

“It is seductive nonsense to suppose that North Sea oil is going to produce largesse that can shortly be distributed by politicians. There is no easy prospect of oil revenue enabling either tax cuts or increased public spending. That cannot be said too soon, too loud or too often ... The commentators and politicians do the nation a profound disservice by imparting the impression that North Sea oil can promote some kind of economic miracle. Such talk makes headlines but hides realities” (Southborough, 17th July 1976).

## **(B) CONSERVATIVE RECORD, 1970– 4**

The structure and development of our energy industries under the Conservative Government brought new and real prospects of choice between new and old sources of energy.

**Natural gas** supplies were developed and brought ashore with great rapidity—North Sea gas production expanded sevenfold between 1969 and 1974, and was at an advanced stage by the early 1970's.

**North Sea Oil** exploration proceeded rapidly—ten proven commercial fields were discovered between 1970 and 1974.

**Nuclear power** programmes were continued, although teething troubles delayed the completion of the Advanced Gas Cooled Reactor stations announced in the Conservatives' 1964 White Paper. The UK retained a credible base for future development of reactor and reprocessing technologies, although the availability of North Sea oil and gas made an early commitment to build nuclear power stations less imperative for this country than for some of our neighbours.

**The coal industry's** decline, which had involved the shedding of 200,000 jobs under the 1964–70 Labour Government, was checked by the Coal Industry Act 1973, which committed an extra £1.1 billion in support for the industry. Proposals for a ten-year strategy to increase output in the coal mines were drawn up before the 1973 oil crisis. They were published in “Plan for Coal” in 1974 (see p. 245).

**The Oil Crisis 1973** (see p. 233). The immediate reaction of the Government to the shortage and the price increase was to make emergency energy savings (under the Fuel and Electricity (Control) Act 1973), and in December 1973 to cut public expenditure. (see Chapter 2, p. 25).

## (C) NORTH SEA OIL

### 1. EFFECT ON BALANCE OF PAYMENTS

During the early years of North Sea oil development imports of goods and services for the programme were greater in value than the savings made through the displacement of oil imports. In 1975, for example, the imports of goods and services amounted to £870 million. The following table sets out the potential effects for 1976–80:

#### POTENTIAL BALANCE OF PAYMENTS EFFECTS OF THE NORTH SEA OIL PROGRAMME

(£ million at Current Prices)

	1976	1977	1978	1979	1980
1. Oil Exports/Imports saved (incl. insurance and freight)	1,090	2,250	3,400	5,150	6,600
2. Imports of goods and services for North Sea Programme	1,130	–900	–850	–850	–800
3. Imports/exports displaced by North Sea programme	270	300	300	350	450
4. Interest, profits and dividends accruing to overseas	–200	–750	–750	–	–
5. Interest on extra reserves (as measured by the cumulative total of 1–4 and 8)	60	150	350	550	900
6. Net effect on current account	90	1,050	2,450	3,950	5,400
7. 6 as a percentage of GNP	0.1	0.8	1.8	2.5	3.1
8. Net effect on capital account	1,060	950	850	650	400
9. Net effect on overall balance of payments/reserves (6+8)	1,150	2,000	3,300	4,600	5,800
10. 9 as a percentage of GNP	1.1	1.6	2.4	2.9	3.3

(Source: Treasury Economic Progress Report, July 1976).

It is estimated that by 1985 the potential net saving on our current account will reach £15,900 million, or 5.2 per cent of GNP. With increased yields now expected from certain oil fields, results might be even better.

These potential figures tell us little about what the balance of payments results will actually be. In 1976, for example, the UK balance of payments deficit was about £1.4 billion, despite projected net savings of £1,150 million from North Sea oil, and £2,350 million for North Sea gas.

The savings on our balance of payments from North Sea oil might be running at around 3 per cent of Gross National Product by the 1980s. The effect of this will be reduced somewhat by the gain being taken “ahead of time”—that is, by maintaining an external debt in the intervening years, with future oil revenues guaranteeing our creditworthiness. The interest on this accumulated debt may reduce the benefit to near 2½ per cent of GNP. This compares with the income loss to the UK brought about by the quadrupling of oil prices in 1973–4, which amounted to 3–3½ per cent. Expressed as a proportion of the GNP, therefore, North Sea oil will not for some time compensate the UK for the loss sustained at the time of the oil crisis.

## **2. OTHER EFFECTS ON THE ECONOMY**

Labour Ministers have found it tempting to present North Sea oil as a solution for all our ills. There is a danger that it may be used to camouflage the inherent weaknesses in the economy which the Labour Government has failed to remedy.

Any assessment of North Sea oil's likely effects on the UK economy must take account of the following:

(1) The effect can only be short-term. Output from the North Sea basins will peak in the mid-1980s, and decline thereafter, with our reserves becoming totally exhausted perhaps in the 1990s. The period of self-sufficiency (annual production of 95–115 million tonnes or more) may not last beyond the late 1980s.

(2) North Sea oil will certainly not be cheap oil. To extract a barrel of oil from the North Sea costs between \$2 and \$7 per barrel, compared with \$0.15 to \$0.50 in the established on-shore fields in the Middle East (*Hansard*, 22nd July 1976, Col. 585). To enable companies operating in the North Sea to recoup their investment, and for the Exchequer to make substantial gains from oil revenues, the price of North Sea oil will need to rise in line with world prices, and would need to remain high even if OPEC were greatly to reduce its prices. Thus, although if the world price remains high, oil can enable us to make savings on our balance of payments, there can be no question of British industry gaining an edge in export markets through its access to a cheap energy source.

(3) The combined yield from royalties, petroleum revenue tax and corporation tax up to the end of 1980 is expected to be in the region of £3,500 million (*Hansard*, 18th October 1976, Col. 336). During the early 1980s the combined yield may amount to £3,000–£3,500 million a year in terms of 1975 prices. This compares very unfavourably with the estimated public sector debt interest payments during the same years, which will probably be running at about twice this figure annually.

Mr Biffen commented:

“Of course it is true that the Government gets a slice of taxation on the interest they pay on public sector debt; but on any reckoning the estimated North Sea revenues by 1980 can do no more than pay towards the cost of servicing the national debt. In plain words, the over-spending and heavy borrowing of the recent past have discounted the likely revenues from the North Sea” (*Southborough*, 17th July 1976).

### 3. EXPLORATION AND DEVELOPMENT

Oil was first discovered in the North Sea in 1967. The most significant discoveries followed in the period after 1969, including the largest commercial fields—Forties (November 1970), Brent (July 1971), Beryl (September 1972), Piper (January 1973), Dunlin (July 1973) and Ninian (January 1974). Proven and profitable reserves are estimated to be about 2,300 million tonnes (Department of Energy Brown Book, 1976).

Exploration has been costly and hazardous. Total expenditure to the end of 1975 is estimated as having amounted to £3.6 billion and is expected to amount to £5.5 billion by the end of 1976 (*Hansard*, 17th May 1976, W.A. Col. 320). A report published by the Department of Energy in July 1976 indicated that, taking all projects in the North Sea, the most recent cost estimates were 108 per cent above the initial budgeting. So far fourteen UK oil fields in the North Sea have been declared commercial and seven (Forties, Auk, Argyll, Beryl, Montrose, Brent and Piper) were already on stream at the end of 1976.

**Conservative Policy.** When the Conservative Government left office in March 1974, field development had only reached an intermediate stage. Sixteen months were to elapse before the first small field—Argyll—came on stream in June 1975. Mr Benn has alleged a “betrayal” of national interests by Conservatives in failing to introduce legislation for the taxation of North Sea oil (*Hansard*, 17th January 1977, Col. 15). However, Lord Barber, as Chancellor of the Exchequer in March 1973, indicated that the Conservatives intended to bring forward proposals to close tax loopholes and to increase the Exchequer's share of oil revenue. The October 1974 election manifesto, emphasising Conservative opposition to Labour's nationalisation policies, which were described as “inefficient, hugely expensive and totally unnecessary”, stated that

“the desirable results can be achieved just as effectively and far more cheaply, through taxation and regulation.”

As well as planning to introduce an Excess Revenue Tax on windfall profits, Conservatives proposed the establishment of a watchdog United Kingdom Oil Conservation Authority to supervise the industry's development and depletion of North Sea oil. This would have had no nationalisation powers.

### 4. LABOUR'S RECORD

The oil industry, now of central importance to Britain's economic prospects, has been acutely affected by the unhelpful attitude of a doctrinaire Socialist government. Labour's insistence on introducing the public sector into the North Sea programme, where 94 per cent of all the finance so far required for exploration and development has been contributed by the private sector (*Hansard*, 17th May 1976, W.A., Col. 320), has led to a loss of confidence and a retardation of exploration.

Soon after coming into office the Labour Government introduced a White Paper, *The United Kingdom Offshore Oil and Gas Policy* (Cmnd. 5696), on 11th July 1974. This

outlined proposals for new taxation and for majority state participation in oil developments.

**The Oil Taxation Act 1975** introduced the Petroleum Revenue Tax (PRT) as an addition to standard Corporation Tax on profits of companies operating on the UK Continental Shelf. Conservatives did not object in principle to the idea of a tax on windfall oil profits but secured various concessions which will have the effect of making the tax operate more equitably. Companies are now allowed to recoup investment costs, with certain further allowances, before paying PRT at 45 per cent. BNOC (see below) is not subject to PRT.

**The Petroleum and Submarine Pipelines Act 1975** came into force on 1st January 1976. Its chief purpose was to establish a new public corporation, the British National Oil Corporation (BNOC), which has powers to explore for, produce, and refine petroleum, to take a majority participation interest in UK oil-fields and to distribute and sell petroleum and petroleum products. BNOC has access to the National Oil Account which will siphon off royalties and rents from private sector fields on the Continental Shelf. This account will be under the direct control of the Secretary of State for Energy. BNOC's borrowing power under the Act amounts to a maximum £900 million. It will also be enabled to compete unfairly through its exemption from PRT, which all its competitors will be paying.

The Act gives the Secretary of State wide controls over the exploration and development of oilfields by licensees. His powers cover the rate of production of petroleum on the Continental Shelf and include the right to insist on a wide range of information from companies operating offshore on their commercial activities. Conservatives opposed many aspects of the Bill but few concessions were forthcoming from the Government. During the Committee stage of the Bill more than 500 Amendments were tabled, but the Government introduced a “guillotine” motion on 7th July 1975 to such effect that at Report only one-third of the Amendments could be discussed.

## **5. EFFECTS OF LABOUR'S LEGISLATION**

The long period of uncertainty between Labour's coming into office and the final passage of the Petroleum Act cast a shadow over the smooth progress of North Sea development. The unclear nature of BNOC intervention was undoubtedly the major cause of concern.

**Platform Yards.** The rundown in North Sea activity has been particularly felt in the yards constructing oil platforms. Britain has 8 platform construction yards capable of handling a total of 11 large platform orders each year. At the end of 1976 only 4 yards had orders stretching into 1977. In August 1974 the Government expected 80 such orders to be placed by 1980: that figure may prove to be only 30. Two State-backed yards—Hunterston, built with the help of loans of £11.5 million underwritten by the Government, and Portavadie, for which the Government contributed £14 million—had not received an order by the end of 1976. The chairman of the Howard Doris yard at Kishorn commented:

“At the time the Government decided to invest in Portavadie I felt that we had one too many sites. When Hunterston was announced I knew we had two too many.”  
(*Financial Times*, 28th May 1976).

In February 1976 Mr Benn established a special committee to find orders for the platform yards. This has been unsuccessful. At the Graythorpe yard 1,740 men have been made redundant, while at other yards thousands may be laid off unless fresh orders are placed.

Dr Dickson Mabon Minister of State, Department of Energy, admitted that he did not expect any further orders in 1976 to alleviate these difficulties (*Glasgow*, 25th June 1976).

Conservatives naturally hope that orders for British yards will be forthcoming and deplore the lapse in activity which has partly resulted from the doubts caused by Labour's policies. Mr Biffen said:

“The empty yards of Portavadie and Hunterston are recent monuments to flatfooted and costly political intervention that misreads the market using taxpayers' money”  
(*Perth*, 14th May 1976).

**Drilling Activity.** There have been other signs of the slowing down of North Sea operations. The average of 27.7 rigs operating in British waters during 1975, while an improvement on the 1974 figure, was well short of the Government's 1974 prediction that 40 rigs would be in operation. However, there are signs that the final definition of Labour's policies in the Petroleum Act has encouraged a mild return of confidence in 1976. New financing deals, the first for many months, were organised by City institutions for the Frigg, Ninian, Claymore, and Thistle fields in the first months of 1976.

## 6. BNOC AND FUTURE PROSPECTS

Doubt still remains as to the eventual scope of the activities of BNOC, which has played an active role in the fifth round of licensing, the first since 436 sectors for exploration (or “blocks”) went on offer in 1971–2. Lord Kearton, BNOC Chairman, is backed by a disparate board, none of whom has worked full-time in the oil industry (*Hansard*, 3rd March 1976, W.A., Col. 630). Originally, the Labour Government intended to insist on a 51 per cent acquisition of assets. However, in the face of worsening economic difficulties the Government appeared to realise that it would not be possible to acquire assets on a large scale.

**Early Participation Deals.** Nevertheless, BNOC has already taken over NCB (Exploration) Ltd's stake in the UK Statfjord field and is now in 51 per cent partnership with private firms.

Against the commercial judgement of BNOC, the Government has agreed to pay £103 million through the Corporation for the acquisition of a majority stake in Burmah Oil's share of the Thistle Field and other North Sea assets (*Financial Times*, 1st September 1976). BNOC has concluded a number of other participation agreements.

The title to at least 51 per cent of the oil produced by Tricentrol from the Thistle field has fallen to BNOC as well. But after the fifth round of licensing was announced, less than a third of the groups operating in the North Sea had accepted the principle of participation. It remained no more than the “political charade” condemned by the then Opposition Energy spokesman, Mr Patrick Jenkin, on 27th February 1976.

To placate Left-wing demands for state control, the Government has already assigned BNOC £450 million to spend by April 1977 in an area where the private sector had shown itself manifestly capable of financing operations. During August 1976 it became clear that there was a wide area of disagreement between BNOC and the Department of Energy on oil policy, particularly on the question of how much oil should be refined in Britain (*Guardian*, 26th August 1976).

**North Sea Licensing: Fifth Round.** From time to time oil companies are invited to apply for licences for specified “blocks”. In June 1976, six months later than expected, Mr Benn published a consultative document on the proposed arrangements for the fifth round of off-shore petroleum production licensing. Negotiations between the Government and the oil companies had been the responsibility of Mr Lever, Chancellor of the Duchy of Lancaster. The companies were given cause for concern when it was announced on 4th May that Mr Benn would take over this Ministerial responsibility. Mr Benn had already warned the companies that “it would stand them in good stead” to reach participation agreements with BNOC (*Daily Telegraph*, 14th February 1976).

The size of the round (with 71 blocks on offer) had been anticipated and BNOC was expected to take a majority interest in each licence. However, the announcement that the Corporation would pay its share of the costs of exploration and commercial assessment, came as a surprise. This will involve BNOC in at least £100 million of extra expenditure. Under the new terms, BNOC is empowered to take a seat on all development committees, even if the Corporation is not directly participating in a particular development. Originally, BNOC was to retain the right to take a “carried interest” in the fifth round developments, which would have enabled the Corporation to join in a project at a later stage, with its partners forced virtually to act as its “bankers”. However, the unenthusiastic response of the oil companies to these terms forced Mr Benn to announce on 16th September 1976 that BNOC would share fully in development costs from the outset (*Financial Times*, 17th September 1976). Licences were issued solely at the Secretary of State's discretion, and his criteria included “the record of companies in the voluntary participation negotiations” (“Fifth Round Consultative Document”). Mr C. C. Garvin, Chairman of Exxon, is on record as saying:

“When the Government said participation was voluntary, we took them at their word. We are not volunteering” (*Times*, 3rd February 1976).

Following publication of the consultative document on licensing, Shell/Esso entered into discussions with Mr Benn, and an agreement was eventually reached in January 1977. BP succumbed to heavy pressure to conclude a participation agreement with BNOC. This involves all BP's North Sea interests, including those in Forties and Ninian; BNOC has taken an option on 51 per cent of BP's oil and will co-operate in downstream activities in the longer term.

The result of the Fifth Round, announced in February 1977, was that 44 licences for exploration were granted. One of the operators in the North Sea, Amoco, felt unable to reach an agreement with BNOC, and was refused its applications for Fifth Round licences.

## 7. CONSERVATIVES AND THE OIL INDUSTRY

**Mrs Thatcher**, referring to Labour's policy, has said:

“It is absolutely absurd that a Government, which is not overflush with money, should make oil industry nationalisation a top priority in preference to using oil royalties to provide the housing, roads, schools, and hospitals which are needed” (Aberdeen, 9th September 1975).

Mr Biffen, as Conservative spokesman on Energy, later outlined the approach of a Conservative Government to the oil industry:

“The Conservative Party will dedicate itself to two aims. First, it will ensure that the taxation structure for the oil companies will provide benefits for the Treasury without deterring exploration and production. We recognise the desire of the oil companies for stability and continuity in fiscal measures. Second, we are determined to keep political interference in check; in particular, not to expose the oil companies to unfair and state-subsidised competition” (Perth, 14th May 1976).

*The Right Approach* states:

“The financial privileges of the British National Oil Corporation should be removed so that it is required from the first to conform to normal commercial disciplines, and where appropriate, to dispose of its assets to willing buyers at reasonable prices”.

## 8. SCOTLAND

*(See also Chapter 22)*

The discoveries of oil and gas in the northern North Sea have had a profound effect on employment and politics in Scotland. Some 55,000 Scottish jobs now depend on supplying the offshore industry and related activities (see p. 541), and the Scottish National Party has largely based its programme on the proposition that all future oil and gas revenues would accrue to an independent Scotland.

**Scottish Oil?** The SNP's aim to secure all the oil in the North Sea for Scotland is based on an accident of geography, and ignores the balance between the English and Scottish economies which has existed for decades. In fact, a line drawn over the North Sea on the equidistance principle delineating English and Scottish sectors would place the Auk, Argyll, Josephine, and possibly Montrose fields in English waters. Furthermore, if the Shetlands were to press for autonomy, as the former Chief Executive of the Islands Council, Mr Ian Clark, has said they would (*Scotsman*, 11th



November 1976), the most productive areas, including the Brent field, would be lost by Edinburgh. Mrs Margo MacDonald, SNP Vice Chairman, has said:

“If we follow the logical argument, any community that feels itself to be a distinctive community and wishes to exercise sovereignty over its own affairs, we wouldn't quarrel with that ...” (*BBC Radio 4*, 26th May 1976).

**SNP's Spending Programme.** The SNP has sought to “bribe” the electorate with its promises of a better life based on North Sea oil revenue. A 1974 election leaflet promised:

“Here are some of the things which a Scottish government could do with the revenue from Scottish oil, even if we take the minimum estimate: build an extra 20,000 new homes every year; modernise an extra 30,000 older houses every year, increase pensions; ... provide an extra 25,000 jobs every year; reduce the price of petrol to 25 pence a gallon; spend an extra 10% on education ... and ... health services.”

In fact the SNP, whilst talking of an “optimum” revenue from oil of only £1,000 million a year, proposes to fund all its extravagant promises from this source. All this takes no account of the extra money that would have to be found to finance the net budget deficit attributable wholly to Scotland (see p. 544).

**Depletion.** The SNP was committed to restricting the exploitation of North Sea oil to 50 million tons per year (compared with 95–115 million planned for the UK, and an annual Scottish consumption of 12 million tons). It has now realised that this figure is totally unrealistic, given its aspirations. Furthermore, such a depletion policy would create huge difficulties for the oil companies, who find themselves under pressure to amortize their capital investments as quickly as possible. Coupled with the SNP's demand for an increase in the Petroleum Revenue Tax rate from 45 per cent to 75 per cent (Mr Gordon Wilson, SNP MP for Dundee East, *Hansard*, 8th December 1975, Col. 91), there would be little attraction for the multinational oil companies to continue developing the North Sea resources under an SNP administration.

**A Single Resource Economy.** The SNP assumes that the world price of oil will remain high, and that England will be a major customer for Scotland's large oil exports. Were world prices to fall, the adverse impact on the economy of an independent Scotland would be enormous. The smaller North Sea oil fields would cease to be viable. England would in any case presumably look for alternative sources of crude oil and switch its energy raw material requirements towards coal and nuclear power, and the “benign” sources—solar, wave, tidal and wind energy. Scotland's heavy dependence on oil would leave it very vulnerable to economic dislocation.

## **(D) ENERGY PRICES**

### **1. PRICE RISES UNDER LABOUR**

During the period of the Conservative Government, the energy industries' losses were subsidised as a temporary measure to hold down prices. Nevertheless, between 1970

and 1974 coal and coke prices increased by 34 per cent, while gas and electricity prices rose by 17 and 27 per cent respectively.

The Labour Government's decision in 1974 to abandon subsidies was supported by the Conservatives, particularly in view of the greatly increased need to conserve energy. However, during the first fifteen months of this Labour Government the inflationary pay increases conceded, not least to workers in the nationalised energy industries, had a huge impact on prices to the consumer. The Labour Government's incompetent management of the economy has been one of the main reasons for the massive increases shown below in index terms:

	Domestic Fuel Prices (15th January 1974=100)			
	<i>Coal and Coke</i>	<i>Gas</i>	<i>Electricity</i>	<i>All Retail Prices</i>
Oct. 1974	105	104	126	113.2
Feb. 1975	126	112	135	121.9
May 1975	140	118	161	134.5
Dec. 1975	158	138	186	146.0
June 1976	175	145	213	156.0
Dec. 1976	192	158	220	168.0

(Source: Department of Employment)

**Social Effects of Price Increases.** The doubling of electricity prices under Labour, combined with the other rises in domestic fuel costs, has brought severe hardship to low income groups. For all households, the fuel bills make up an important part of the family budget.

A report from a group headed by Mr Gordon Oakes, Parliamentary Under-Secretary, Department of Energy, published on 10th June 1976, recommended that prepayment meters should be more readily available, and that the disconnection of non-payers should no longer be permitted.

The gas and electricity industries strongly objected to a scheme which, if implemented, would cost them £230 million and £200 million respectively, representing an increase of about 10 per cent on domestic tariffs. In August 1976 Mr Benn announced a £25 million Government subsidy to reduce the winter fuel bills of those receiving supplementary benefit payments by approximately 25 per cent. The subsidy applies to only one quarter's bill, and should result in an average payment of £7 to each qualified customer, although payments of £20–25 may be made to some, e.g., large families. Under a code of practice issued by the Department in December 1976, the boards retain the power to disconnect non-payers.

The Conservative view is that it must be a matter for the Social Services Department to ease the difficulties of pensioners and the handicapped through improved heating allowances. It would be wrong, as Mr John Biffen commented (*Hansard*, 14th June 1976, Col. 4), to increase the charges on regular payers to protect non-payers, some of whom defaulted through fecklessness rather than hardship. But Mr Biffen welcomed the idea of making prepayment meters more readily available.

# (E) GAS INDUSTRY

## 1. STRUCTURE

The Gas Act 1948 established twelve area boards to cover England, Scotland and Wales, with the Gas Council as a central co-ordinating body to oversee the new nationalised industry. The Gas Act 1965 strengthened the Gas Council's powers; it also increased its borrowing powers to enable it to meet the costs of natural gas. The Gas Council then embarked on a planned ten-year programme for the conversion of domestic appliances to natural gas.

In 1972 the Conservative Government introduced a further Gas Act, which abolished the Gas Council and Area Boards. A new body, the British Gas Corporation (BGC), was set up to manage the industry. The Corporation did, however, maintain a regional structure. Under the Conservative Act, the BGC did not have powers to explore for or refine oil (with certain exceptions for oil discovered during searches for gas). It also created the National Gas Consumers Council, independent of the industry, to safeguard consumer interests.

## 2. NORTH SEA GAS

Gas was first discovered in the North Sea in 1965 at a time when the Gas Council was maintaining a small but successful industry on the basis of gases manufactured from coal. During 1976, 14,000 million therms of natural gas from the North Sea were sold to the British Gas Corporation, representing some 98 per cent of total UK gas supplies.

Most of the gas now coming ashore is from fields in the Southern North Sea—West Sole, where production began in March 1967, Leman Bank (1968), Hewett (1969), Indefatigable (1971), Viking (1972) and Rough (1975). Proven reserves remaining in these fields on 31st December 1975 amounted to 552 billion cubic metres. Contracts with the developing companies were signed in the 1960s and British Gas is accordingly able to supply fuel from these fields at much lower prices than would have been possible had the fields been developed in the period since 1973.

**Future Supplies.** British Gas has taken steps to secure new gas supplies for the 1980s when some of the Southern North Sea fields will be nearing depletion. In June 1975 contracts were signed by British Gas for supplies of gas associated with the Brent and Forties oil fields developed by BP, Shell and Esso. Together with other Northern North Sea supplies from the large British-Norwegian Frigg gas field, for which contracts were signed in July 1973, this gas will be landed at St. Fergus in North-east Scotland. By the early 1980s, it will be supplying more than half the total volume of gas now coming from the Southern North Sea.

Proven Northern North Sea reserves are 263 billion cubic metres (Department of Energy Brown Book 1976). Probable and possible reserves in that sector amount to an extra 456 billion cubic metres. Whether all these resources will be usable depends partly on the suggested development of a network of pipelines to gather associated gas from oilfields.

In May 1976 the Government published proposals for a network of gas pipelines for the northern North Sea. Williams-Merz, the consulting engineers who carried out the study, hope that the pipelines network might bring ashore gas equivalent to 12 million tons of oil a year, commencing in 1981–2. However, costs are likely to be well in excess of the suggested £1.6 billion and further studies will have to be undertaken by a company formed initially by BGC, BNOC and private sector participants.

**Prices.** Despite the large increases in gas prices under Labour, the long-term nature of existing gas contracts and the lack of energy waste in transmitting it to the consumer have meant that the BGC has been able to market its gas at prices which are increasingly attractive when set against the alternative fuels. Leaders of the coal and electricity industries during 1976 urged the Government to introduce a tax on gas to raise prices closer to the levels of their fuels. Sir Arthur Hetherington, Chairman of the BGC (1972–6) commented:

“It is nonsense to talk of the possibility of taxing gas and imposing a totally unnecessary and unfair burden on gas customers, particularly at a time when the Government and everyone else is concerned with the effect of increased fuel prices on those in need” (*London*, 24th February 1976).

The industry needs to ensure that Britain's gas resources are not too quickly depleted, as has happened in the United States. Gas prices should be designed to provide the BGC with an adequate return on capital for investment and development. The depreciation of Sterling will in any case mean that gas supplied from the Norwegian Frigg field will be substantially more expensive than was expected.

Originally, the Labour Government intended to include gas in the Oil Taxation Act (see p. 237), which would have placed a very heavy burden on North Sea gas producers who cannot benefit from the “windfall” rise in energy prices. After strong Conservative opposition, Mr Edmund Dell, then Paymaster General, announced that natural gas producers would be exempt from Petroleum Revenue Tax (Standing Committee D, 30th January 1975, Col. 475).

Under the operation of the Price Code, the BGC has been unable to raise its prices to provide it with what it regards as the necessary return on turnover. However, following an increase of 12 per cent in October 1976, it was the BGC's stated intention to hold prices steady for a year. In December 1976 Mr Healey announced that gas prices would rise (probably by about 10 per cent) in April 1977. Mr Tom King, Opposition spokesman on Energy, called into question the desirability of allowing the Chancellor to fix gas prices, and drew attention to the fact that the BGC had not been consulted (*Hansard*, 17th January 1977, Col. 12).

#### Gas Industry Statistics

	<b>Employees</b>	<b>Profit/Loss</b>	<b>Net Return on Capital</b>	<b>Gas Sold and Used (m. therms)</b>	<b>Average Revenue Per Therm Sold</b>
1969– 70	119,475	+£13.7m	6.5%	5,266.9	9.48p
1970– 71	116,271	+£ 2.0m	6.2%	6,166.5	8.73p

### Gas Industry Statistics

	Employees	Profit/Loss	Net Return on Capital	Gas Sold and Used (m. therms)	Average Revenue Per Therm Sold
1971– 72	110,695	+£15.1m	7.2%	8,040.3	7.86p
1972– 73	105,670	+£ 5.6m	7.3%	10,237.2	7.25p
1973– 74	102,091	-£41.5m	5.4%	11,570.2	7.05p
1974– 75	103,053	-£42.3m	5.5%	13,018.9	7.88p
1975– 76	101,662	+£25.1m	8.6%	13,545.7	9.87p

(Source: British Gas Corporation)

## (F) COAL

From the end of the Second World War until 1973 the British coal industry, in common with those in most other western countries, was in decline, largely through its inability to compete with large-scale imports of cheap oil. The Labour Government of 1964–70 closed 249 pits with the loss of 200,000 jobs. Output fell from 195.2 million tons in 1963–4 to 142.4 million tons in 1970–1, despite Labour's 1964 election promise that an output of 200 million tons a year would be maintained. In 1975–6 it had fallen to under 124 million tons.

### 1. CONSERVATIVE RECORD 1970–4

**The Coal Industry Act 1970** extended provisions for helping redundant miners.

**The Coal Industry Act 1973** provided support of £1.1 billion to the coal industry. £450 million of capital debt and revenue deficits was written off. Regional grants of £210 million were granted to development areas and £240 million to cover social costs in connection with closures between 1973 and 1978. £60 million was made available for redundancy benefits. Furthermore, the Government agreed to provide financial assistance for all coal bought by the NCB's main customer, the Central Electricity Generating Board, amounting to over 67 million tons a year. Even before the oil crisis, the Conservative Government had concluded that the coal industry could play a vital part in supplying our future energy needs.

### 2. LABOUR'S RECORD

Building on discussions which had been started under the Conservatives, the Labour Government introduced in June 1974 the *Plan for Coal*, embodied in the first Coal Industry Examination Report. This mapped out developments in the industry for the period 1975–85. It proposed:

- i. A halt in declining output and a target of 150 million tons annual production by 1985. This would require 42 million tons of new capacity by 1985.
- ii. An investment of £600 million at 1974 prices on top of ordinary capital expenditure of £800 million to achieve these targets. Inflation has forced this figure up from £1,400 million to an estimated £3,000 million in 1976.
- iii. A £73 million coal and mining research programme.

Since the publication of the *Plan for Coal* the NCB has been working with mixed success towards its implementation.

**The Coal Industry Act 1975** granted up to £100 million to the Coal Board to meet expenditure under the pneumoconiosis compensation scheme, and reformed provisions governing opencast mining.

**The NCB (Finance) Act 1976** increased the NCB's borrowing powers to a maximum of £1.4 billion to aid in meeting the present capital investment programme. It also made available £250 million over 20 years towards the Mineworkers' Pension Scheme.

The Coal Industry Bill, presented in February 1977, would raise the borrowing limit to £2.6 billion.

**Plan 2000** is a strategy for the development of the coal industry until the end of the 20th century, agreed between the NCB and the industry's trade unions and submitted to the Government in October 1976. It envisages the commissioning of about 4 million tons of new capacity per year, at an estimated cost of £400 million per annum at March 1976 prices.

### **3. PRESENT POSITION AND CONSERVATIVE POLICY**

The substantial wage rises over the last few years have greatly increased the NCB's labour costs and have eroded the competitive edge that coal had over oil after the 1973 energy crisis. However, the existence of large deposits of coal near Selby (a potential 10 million tons a year), in the Vale of Belvoir, in Oxfordshire and in Staffordshire have confirmed that the coal industry has a viable and very long-term future. It may be of particular value in the 21st century when other fuels are scarcer, and with the development of new technologies for the gasification of coal. The plan to mine coal in the Vale of Belvoir has, however, caused considerable concern on environmental grounds. Mr Tom King has said:

“This is a major issue and not something that can be resolved merely by local planning application. It seems clear that this issue should be the subject of a wider planning inquiry at which the objectors would have a full opportunity to present their case and in which the Coal Board application would cover not merely the local planning aspects of the matter but also their fundamental case for wishing to extract the coal” (Speech to Coal Industry Society, 7th February 1977).

Conservatives recognise the long-term importance of the industry and have supported present investment plans. As mines cannot safely be “mothballed”, it is necessary that

production continues at the present rate or at slightly higher levels over the next decades to retain a productive capacity and skilled manpower for the next century, when demand is expected to increase.

Mr Patrick Jenkin, then Conservative Spokesman on Energy stated:

“We wholeheartedly support the commitment to “Plan for Coal”. I remain convinced that this is an industry which has an essential role to play in the energy strategy both of the UK and of Europe” (*Hansard*, 27th November 1975, col. 1070).

The industry must, however, make an operating profit. To meet investment targets, productivity levels will have to be improved. They have declined disappointingly in 1975–6. Output per man-shift in October 1975 was 46.24 cwt, and only 43.29 cwt a year later. (Industrial relations in the Coal Industry are referred to in Chapter 8, p. 226.)

Coal Industry Statistics				
Year (to end March)	Output (m. tons)	Overall Output per man shift (cwt)	Average Manpower (000s)	Surplus/Deficit at 1975 prices (£ million)
1947*	196.8	21.5	703.9	-92.2
1955*	221.6	24.7	698.7	-10.2
1963	197.7	31.7	544.3	3.3
1964	195.2	33.4	517.0	0.2
1967	173.0	36.6	419.4	0.6
1970	147.4	43.4	305.1	-47.2
1971	142.4	44.1	287.2	0.9
1972	120.4	41.9	281.5	-243.9
1973	138.3	45.8	268.0	-121.3
1974	107.1	42.3	252.0	-193.8
1975	125.2	45.0	246.0	-4.5
1976	123.8	44.8	247.1	-1.0**

Source: *NCB Statistics* and *Hansard*, 27th November 1975, W.A. col. 321.

\*Year to end December.

\*\*1976 price adjusted.

## (G) NUCLEAR POWER

Since 1956, when the first Magnox type reactor came on stream at Calder Hall, nuclear power has been added to the other primary energy sources in the UK. The ninth and last Magnox station was installed at Wylfa in 1971. The next design, the AGR, (Advance Gas-cooled Reactor) was announced in the Conservatives' 1964 White Paper, *Statement on the Second Nuclear Power Programme* (Cmnd. 2325). The first of the five ordered (Hinkley and Hunterston) are now on stream: the others

should be completed by 1978. By 1980, 20 per cent of the United Kingdom's electricity demand should be generated at nuclear power stations.

## 1. SGHWR AND FAST BREEDER REACTORS

By 1973 it was accepted that a new reactor design was required. The decision lay between the American pressurised water reactors (PWR) and the British SGHWR (Steam Generating Heavy Water Reactor) which existed in prototype at Winfrith. In July 1974 Mr Varley, then Energy Secretary, announced an initial four year 4,000 megawatt SGHWR programme. The fall in electricity consumption associated with higher energy costs has led to the postponement of this programme. During 1976 technical difficulties with the SGHWR and doubts as to its export potential led to speculation that the programme might be cancelled. It was announced on 16th July 1976 that a Parliamentary Select Committee would investigate the whole SGHWR episode. As part of the Chancellor's programme of cuts in public expenditure, Mr Benn announced that £40 million would be saved in 1977–8 by deferring expenditure on the SGHWR (*Hansard*, 27th July 1976, Col. 127).

In the long-term the viability of nuclear power is under question because of limited world uranium resources. Work is progressing in several countries, notably France and West Germany, on the development of the Fast Breeder Reactor which is capable of releasing 60 times more energy than existing reactors, from similar quantities of uranium. The Labour Government has decided against joining with our European partners in a fast breeder project announced in 1976, but Britain has maintained since 1962 a small experimental reactor at Dounreay. Conservatives regret the Government's decision not to co-operate with France and West Germany in an expensive but important project which Britain is unlikely to be able to afford on her own.

**The Flowers Report.** In October 1976 the Royal Commission on Environmental Pollution published its Report on *Nuclear Power and the Environment* (Cmnd 6618). Sir Brian Flowers, its Chairman, had already given an indication of the Commission's likely conclusions:

“We believe that nobody should rely for something as basic as energy on a process that produces in quantity a product as dangerous as plutonium, unless he is absolutely convinced that there is no reasonable alternative course of action. I am bound to say that we have not been convinced that this is the case by the evidence submitted to us” (National Energy Conference, 22nd June 1976).

The Report expressed grave misgivings about the consequences of government approval for the construction of *commercial* fast breeder reactors. It concluded that, since plutonium can be such a dangerous material (it is the substance used in the manufacture of nuclear weapons), the risks from an accident, sabotage, or military attack, and the possibility of blackmail by terrorists, were such “that fast reactors should be introduced only if demonstrably essential”.

Mr Biffen, welcoming the Flowers Report as a “dispassionate work of scholarship”, said:



“What is certain is that any Government will wish to equip itself with sufficient powers to exclude beyond reasonable doubt the possibility of either (theft or sabotage). Even then, there would remain anxiety. ‘Reasonable doubt’ is a nebulous concept. At whatever level of security precaution, there would be a clamour for greater stringency. The politician—and the public whom he serves—are only beginning to catch a glimmer of the military and civil liberty implications of an energy source involving the widespread production, storage and movement of plutonium” (*Speech to the Fuel Luncheon Club*, 16th November 1976).

Mr Biffen called for a national debate to consider these matters, and also the likely cost of the fast breeder programme.

## **2. NUCLEAR WASTE AND REPROCESSING**

Fears of the dangers from toxic nuclear materials were aroused by the news in October 1975 that British Nuclear Fuels Ltd. (BNFL) was considering a £400 million contract with the Japanese Government for the reprocessing of used nuclear fuel at Windscale, Cumbria. Mr Benn, responding to expressions of alarm, called for a “public debate”. In March 1976 the Government finally agreed to the contract, but part of the business had by then been lost overseas.

The revelation that seepage of radioactive liquid had occurred at British Nuclear Fuels Limited's establishment at Windscale in Cumbria, came at a time when BNFL was proposing a major expansion of the plant. The seepage was discovered on 10th October 1976 but was not reported to the Energy Secretary, Mr Benn, until 8th December (*Hansard*, 9th December 1976, Col. 310). Mr Tom King, drew attention to the fact that Mr Shore, Secretary of State for the Environment, had been informed on 17th October, although it is Mr Benn who is responsible for BNFL. Mr King noted that:

“It is events such as these that do more damage than anything else to public confidence” (*Hansard*, 13th December 1976, Col. 968).

The £600 million planned expansion includes a project for the construction of the thermal oxide reprocessing plant (THORP) for the extraction from spent fuel of uranium for re-use, and of plutonium. About half the cost of this plant would be met by the Japanese. Mr Shore announced that this project would be the subject of an inquiry (*Hansard*, 22nd December 1976, Col. 673). Mr Heseltine, Shadow spokesman on the Environment, welcomed Mr Shore's announcement. Conservatives recognise that the benefit to our balance of payments that the contract would bring is an important consideration, and Mr Heseltine stressed the urgency of making a decision and hoped that the inquiry would be a speedy one (*ibid.*).

## **3. EUROPEAN CO-OPERATION AND FUSION RESEARCH**

A further long-term energy source will be nuclear fusion, which can produce almost unlimited amounts of “clean” nuclear energy from sea-water. (All existing nuclear

technologies are based on the fission principle.) There is little hope of this technology being commercial in the next quarter of a century, but the British research establishment at Culham, Berkshire, has been the leading fusion centre in the world.

In October 1975 Mr Benn suddenly announced Britain's withdrawal from the European High Temperature Reactor "Dragon" research project at Winfrith in Dorset, much to the annoyance of his EEC colleagues. This immediately cast doubt over the siting in Britain of the £70 million JET fusion project which had been widely expected to come to Culham. The EEC recommended that the project should go to the vastly less qualified laboratory at Ispra in Italy, but in February 1977 discussions were still continuing. Mr Patrick Jenkin stated:

"A host country is always in a position to hold a pistol to its partners' heads by threatening to withdraw. By doing just this with Dragon, Mr Benn is making sure that we are not invited to be host again. Jobs for highly-trained British scientists will be lost: they will have no choice but to join the brain drain" (Essex University, 17th October 1975).

British Nuclear Fuels Ltd. has been involved since 1970 with German and Dutch partners in the development of the centrifuge, for the commercial enrichment of uranium. The BNFL factory at Capenhurst (Cheshire) went into production in September 1976.

## (H) ELECTRICITY

The Electricity Council supervises the production of Britain's electricity. Since nationalisation in 1947 it has been assisted by the Central Electricity Generating Board (CEGB) and 12 Area Boards responsible for the generation and distribution of electricity. Scotland is served by the North of Scotland Hydroelectric Board and the South of Scotland Electricity Board.

**Plowden Report.** In January 1976 a Committee of Inquiry into the electricity industry, chaired by Lord Plowden, presented a report (Cmnd. 6388) recommending the establishment of a Central Electricity Board to supersede the existing authorities. Provision was made for the devolution of authority within the industry. Mr Benn has been slow to take action on the Report.

The National Coal Board is anxious that the CEGB be made to burn more coal in order to sustain an expanding coal industry. In 1974-5 the CEGB burnt 70,837,000 tons of coal (70 per cent of its total burn) and was by far the largest NCB customer. The Conservative Party, while recognising the importance of a viable coal industry, believes that the CEGB must be permitted to evolve its fuel mix policy on commercial grounds.

**Power Stations.** Owing to the unforeseen fall in demand for electricity which has occurred since 1973-4, the CEGB in 1976 had a generating capacity of 56,000 megawatts, compared with a maximum predicted demand of 42,000 megawatts in "average cold spell conditions". As a result, the CEGB decided in October 1975 to initiate a programme of closures, to take some of the less efficient stations out of

commission. Closures in October 1976 and March 1977 will remove 3,500 megawatts of capacity.

The CEGB has now revised its estimates of future demand, and does not envisage any need to place further orders for fossil-fuelled stations in this decade. This would gravely injure the prospects of the turbine and boiler making industries, and result in redundancies. In view of this, it has been proposed that building of the Drax B coal-fired station be brought forward, to coincide with the production of coal from the Selby coalfield (see p. 245).

The CEGB considers that its present overcapacity is due to Government interference, and in particular to pressure put on the CEGB in the late 1960s to build power stations. Sir Arthur Hawkins, Chairman of the CEGB, has complained:

“We have been used as pawns in the power game in order to tie up the loose ends of the country's energy strategy” (National Energy Conference, 22nd June 1976).

Mr Biffen has said:

“The most successful planning framework for the energy industries and the community generally is one in which the politician sets out the general commercial and social obligations which must be observed by the energy producing and consuming industries” (ibid.).

The question of the future of the heavy power plant industries was the subject of a Central Policy Review Staff Report, *The Future of the UK Power Plant Manufacturing Industry*, presented to the Cabinet in November 1976 and published in December 1976.

The Report recommended that a series of power stations costing £900 million would have to be ordered by the CEGB if the heavy power industry was to be saved from collapse. The extra investment could mean an increase in electricity prices of 1¼ per cent each year from 1978 to 1984. The Report was highly critical of the CEGB's past performance, and its relations with its contractors. Sir Arthur Hawkins commented that the Board would refuse to implement an early ordering programme unless the Government would bear the cost (*Financial Times*, 17th December 1976).

Electricity Industry Statistics				
Year (End March)	No. of Employees	Output (giga-watt hrs <sup>†</sup> )	Surplus/Deficit (£ million)	% Return on assets employed
1964	210,403	132,091	70.4	—
1967	228,520	152,772	20.6	5.2
1970	196,962	180,719	64.5	6.4
1971	188,235	196,158	-55.8	4.1
1972	177,537	190,525	-23.3	5.1
1973	173,239	204,497	2.0	5.8
1974	171,224	201,763	-184.0*	2.9
1975	172,483	210,948	-265.0*	2.1

### Electricity Industry Statistics

Year (End March)	No. of Employees	Output (giga-watt hrs <sup>†</sup> )	Surplus/Deficit (£ million)	% Return on assets employed
1976	166,826	204,623	9.0	7.3

(Source: *Hansard*, 27th November 1975, W.A., Col. 321)

\*Amended to reflect new basis of accounting for costs of reprocessing nuclear fuel and the long-term storage of waste products.

†A gigawatt = 1 million kilowatts.

## (I) CONSERVATION

In July 1975 the Select Committee on Science and Technology produced a report severely critical of the Government's failure to take effective action to conserve energy. This echoed the comments of Mr Patrick Jenkin the previous autumn on Britain's "Department of Lethargy":

"Mr Varley's supine attitude on energy conservation ... is an utter disgrace. It is conservation of energy—not nationalisation—which should be his top priority" (*Woolacombe*, Devon, 30th November 1974).

The Government failed to reply to the Select Committee's report until July 1976, when in response to the 42 suggestions by the Committee it produced a modest ten-point programme, pleading that there were "limits on how active a part government can play" (*Financial Times*, July 29th 1976)—a strange contrast to the language usually heard from Mr Benn.

"**Save It**". The Government did launch a highly-publicised "Save It" campaign on 20th January 1975. This cost over £5 million by 31st March 1976, but the Government has admitted that it is impossible to quantify savings achieved. Energy consumption has continued to rise. A further £1 million has been allocated for the period November 1976 to March 1977. Such savings as have been achieved are largely due to the unprecedented rise in energy costs over the last three years.

**Research and Development.** Conservatives are alarmed at the Government's failure to take more constructive steps: efficient use of energy and energy savings not only produce a financial benefit but provide more time in which long-term energy policies can be reviewed. Further consideration might be given to the benefits which might accrue from "alternative" sources of energy—solar, wind, geothermal, tidal, and wave power. In the year 1976–7, £1.8 million is being spent by the Government on research into the alternative sources, compared with £186.3 million invested in research and development of nuclear power (*The Times*, 30th November 1976). Over the next twenty years solar, wave and wind power may make significant contributions. At present Research and Development is heavily weighted towards reactor development. Conservatives are concerned that attention should also be given to "advanced uses" of our fossil fuels, e.g., coal gasification.

# (J) OTHER ASPECTS OF LABOUR POLICY

**Lack of Co-operation in EEC.** The Labour Government has exuded complacency in response to Britain's good fortune in discovering large reserves of oil and gas in the North Sea. Sir Harold Wilson was fond of joking about the UK's eligibility to join OPEC. Ministers point to North Sea oil as though it were the remedy for all our problems. Referring to the value of the oil reserves, Mr Callaghan mused:

“Just think of all those noughts” (National Energy Conference, 22nd June 1976).

This complacency has led the Labour Government to neglect the need for international co-operation. Mr Callaghan, then Foreign Secretary, incensed our EEC partners by insisting on separate representation at the International Conference on Energy in December 1975, on the grounds that Britain was in a special position as an oil producer. The Foreign Secretary's statement of 7th October 1975, in which he indicated that the Government was not prepared to compromise, led to two months of tension before Sir Harold Wilson, as Prime Minister, announced in the House of Commons on 4th December 1975 that Britain would accept representation through the EEC's envoy to the conference. He claimed, unconvincingly, that Britain would have a “separate voice” though not a separate seat, having earlier admitted the extent of his failure when he said, “If you shoot for the moon, you might hit the top of Snowdon. That's what we've done” (*Guardian*, 3rd December 1975).

In December 1975 Mr Benn cancelled an EEC meeting in order to be able to attend a Labour Party Rally. He commented:

“Through me the energy policy of the whole Common Market is held up. Without opening old wounds, it pleases me no end” (*Times*, 13th December, 1975).

**The National Energy Conference** held on 22nd June 1976 and opened by the Prime Minister, marked Mr Benn's most publicised effort at “open government” to date. It followed the failure of the tripartite talks in February between the Government, unions and the NCB and CEGB. Mr Benn invited 120 organisations, including the major political parties, the chairmen of the energy industries, both nationalised and private, the unions, consumer associations and various pressure groups. Mr Biffen appealed to the Government to beware of issuing directives that could stifle the ingenuity required to make the most of our resources. He stressed the need for profitability in the nationalised industries and in the oil companies to sustain a vigorous programme of research and development. Noting the impossibility of forecasting either the extent or the time of a future “energy gap”, he urged politicians to:

“desist from making the unknowns of the future even more unpredictable and arbitrary by frequent and well orchestrated political intervention” (22nd June 1976).

**The Energy Act 1976.** Legislation had been promised in the 1975 Queen's Speech “to meet the United Kingdom's obligations, under the Agreement on an International

Energy Programme, to control energy supplies during any shortage; and to implement energy conservation policies” (*Hansard*, 19th November 1975, Col. 7).

To cover so wide a range of objectives in a single Act, the Government's original draft was a hotch-potch of largely unconnected clauses. The Conservative Opposition was successful in removing from the Bill certain extensions of governmental control which went beyond the powers required for meeting international obligations, or for dealing with an emergency. Nevertheless, against Conservative opposition, the Government was able to introduce powers for the control of petroleum and petroleum product prices. The suspicion remains that the Government has taken such powers on itself so as to be able to bring pressure to bear on the oil companies. On an earlier occasion, when the Conservative Government—in very different circumstances—introduced the Fuel and Electricity (Control) Bill as a purely emergency measure following the Arab-Israeli War, Mr Benn had said:

“It will enable a Labour Government to do all they want under Labour's Programme for Britain ... It will give us the powers to control all the oil companies, all the multinationals, to fix their prices and their distribution systems” (*Hansard*, 26th November 1973, Col. 141).

#### 10 TRADE

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## (A) BRITAIN'S DEPENDENCE ON TRADE

During the past thirty years Britain has been dogged by balance of payments crises, and the economic policies of successive governments have to a great extent been governed by balance of payments considerations. We depend on imports for the bulk of our raw materials and for 48 per cent of our food. Before 1939, these were to a great extent paid for by our income from overseas assets which were largely liquidated during the war years. Since then, despite the substantial success of our invisible trade, and the rebuilding of many of our overseas investments, we have had to depend far more than in the past on our earnings from the export of goods.

**Inadequate Export Performance.** Exports have increased substantially, but as a proportion of our national income (Gross Domestic Product) they were almost the same in 1975 (20·15 per cent) as in 1950 (19·79 per cent). Our share of world trade has declined very sharply, from a peak of 25 per cent in 1950 to a little over 9 per cent in 1975.

The rate of growth of our imports, meanwhile, has been much faster than that of exports—and the gap between the two has widened. Between 1966 and 1975, the

value of exports of manufactures (at current prices) rose at an average rate of 15·8 per cent a year, and imports by 19·8 per cent—a gap of 4 per cent. In volume terms the deterioration has also been marked—despite the massive depreciation of sterling and the consequent increase in the competitiveness of our exports. Our underlying performance has worsened still further since the energy crisis, the balance between exports and imports being prevented from reaching an impossible size only by the stagnation of output and latterly the growth of North Sea oil production.

**Worsening of Terms of Trade.** The problems caused by inadequate export performance have been very much worse at times when the terms of trade—the relative movements in prices of imports and exports—were against us. After remaining fairly constant for several years, they deteriorated rapidly between 1955 and 1961. Favourable trends from 1964 onwards were very sharply reversed when the commodity price explosion in 1972–3 resulted in a 25 per cent deterioration in our terms of trade in two years between 1972 and 1974.

The index of world commodity prices more than doubled between June 1972 and December 1973. Following the Arab-Israeli war of October 1973, oil prices increased fourfold (see Chapter 9, p. 233). During 1972, the last full year of ‘cheap’ oil, the UK's monthly trade deficit on petroleum products averaged £57 million. By the second quarter of 1974 it was over £300 million; and in 1975 the deficit on petrol and petroleum products alone amounted to £3,114 million.

**Oil.** The prospect of self-sufficiency in oil by 1980, as a result of the development of North Sea resources, offers the prospect of reducing our deficit on oil, and possibly even of the UK becoming a net exporter of oil after 1979 (see p. 235). This will not, however, reduce the need to boost our performance in export of manufactures. We shall still depend on overseas trade for our other basic materials and food. Commodity prices, after falling in 1974–5, began to rise sharply again in 1976, and the trend towards greater home food production during the 1960s has been reversed. The UK now depends on imports for about 48 per cent of agricultural products.

**Failure to Transfer Resources into Exports.** For three years the present Labour Government has paid lip-service to the need to transfer resources from consumption into exports and investment. Since mid-1976, no doubt under the influence of the IMF and other overseas creditors, they have acknowledged the need to curb public expenditure for this purpose. But the cuts they have made have been mostly in capital projects, not current consumption; and, far from boosting investment, they have damaged industry.

Experience over the years has shown that it is when industry in this country is expanding and confident that firms have the will and the means to seek and develop export markets. During 1975 and 1976, however, despite the unprecedented price advantage which the collapse of the sterling exchange rate should have given us, the expansion in exports was very small. It seems probable that firms, starved of profits by rising costs and rigid price control at home, preferred to recoup some profit on export prices rather than to expand sales. And inadequate investment prevents British industry from keeping abreast of new techniques, products and design.

As in many other areas of policy, the Labour Government has failed to achieve what it has acknowledged as a top priority because it has persisted in policies that work in the opposite direction. It has survived a series of balance of payments crises only by running further and further into debt.

**Borrowing from Overseas.** Massive overseas borrowing has been resorted to by the Labour Government (a) to cover the deficit on our balance of trade; (b) to offset the effects of the withdrawal of foreign funds; and (c) to make up for the disastrous fall in the exchange rate of sterling brought about by overseas alarm at the mismanagement of our economy. It means a heavy burden of interest and debt repayment for many years to come. The earnings of North Sea oil have been to a considerable extent already mortgaged (see p. 235), and the benefits to our whole economy that this immensely valuable new resource should have brought have been substantially offset.

## **(B) BALANCE OF PAYMENTS**

*The balance of payments and currency flow is a measure of Britain's trading and investment transactions with the rest of the world (see Table on p. 256).*

### **1. DEVELOPMENTS 1964–76**

**The Labour Government between 1964 and 1970** made the achievement of balance of payments surplus its top priority. In 1967 the Government virtually admitted the failure of policies when it devalued the pound. The eventual achievement of a surplus in 1969 and 1970 was achieved at the cost of £3 billion increased taxation, stagnation in the economy, mounting unemployment and inflation. Furthermore, the Government had relied heavily on borrowing from overseas (see Chapter 3, p. 000).

**Conservative Government 1970–4.** Under the Conservative Government there was a sharp growth in exports: in the first half of 1973 they were nearly 50 per cent up on the same period in 1970. At the same time, expansion required a high level of raw material and machinery imports, and the full effects on our balance of payments of our improved export performance were not felt until 1974.

During the last year of the Conservative Government the rises in commodity prices (which more than doubled between June 1972 and December 1973) and the huge rise in oil prices brought about a large deficit (see p. 233). The terms of trade which had been favourable between 1970 and 1972 deteriorated sharply throughout 1973.

**The present Labour Government** thus returned to power in March 1974 when raw material imports were at very high levels, but it enjoyed the full recovery in exports resulting from the growth achieved by the Conservative Government. The balance of payments deficit which, after taking account of invisible earnings, amounted to £3.4 billion in 1974, was entirely due to the deficit on oil and oil products. It was clear in 1974 that the price of oil was unlikely to fall again in the future. It was therefore, all the more important to increase exports sufficiently to restore the balance of payments to a position of surplus. But Labour have failed to achieve this. Britain's balance of payments problem remained acute in 1976 and has been a fundamental factor in the



weakness of sterling. It has also forced the Government into further overseas borrowing. Exports during the second half of 1976 were disappointing.

In these circumstances, the Labour Government has sought on the one hand to blame the disappointing figures during 1976 on the expensive imports of equipment necessary for the development of the North Sea oil and gas fields, and on the other has suggested that North Sea oil offers the solution to the balance of payments problem. Both arguments distort the picture. In fact, in 1976 the net effect of the North Sea programme on the balance of payments was already estimated to be a *surplus* of £1,150 million (Treasury Economic Progress Report, July 1976). Even so, the overall deficit amounted to about £1.4 billion (see following table) North Sea oil will be of enormous benefit to our balance of payments, but it will not of itself solve our underlying problem, namely that our goods have been made competitive only by massive devaluation of our currency.

#### BALANCE OF PAYMENTS AND CURRENCY FLOW 1967-76

	1967	1968	1969	1970	1971	1972	1973	1974†	1975†	1976
										£ million
VISIBLE TRADE										
Exports (f.o.b.)	5,139	6,282	7,075	7,907	8,810	9,141	11,772	15,899	18,768	25,294
Imports (f.o.b.)	5,693	5,949	7,231	7,932	8,530	9,843	14,106	21,119	21,972	28,886
Visible Balance	-554	-667	-156	-25	+280	-702	-2,334	-5,220	-3,204	-3,592
Invisible Balance	-256	+295	+616	+758	+804	+856	+1,598	+1,873	+1,531	+2,169
CURRENT BALANCE	-298	-272	+460	+733	+1,084	+154	-736	-3,347	-1,673	-1,423
Investment and other Capital Flows	-495	-755	-165	+573	+1,817	-714	-39	+1,614	+188	-1,938
Balancing item	+122*	-383*	+392	-19	+245	-705	+45	+136	+6	-267
Balance for Official Financing	-671	-1,410	+687	+1,287	+3,146	-1,265	-789	-1,672	-1,479	-3,628
Allocation of Special Drawing Rights				+171	+125	+124				
Gold Subscription to IMF				-38						

BALANCE OF PAYMENTS AND CURRENCY FLOW 1967–76

	£ million									
	1967	1968	1969	1970	1971	1972	1973	1974†	1975†	1976
TOTAL	-671	-1,410	+687	+1,420	+3,271	-1,141	-789	-1,672	-1,479	-3,628
Financed by:										
Net transactions with overseas monetary authorities	+352	+1,296	-699	-1,295	-1,817	+449	-	-	-	+984
Foreign currency borrowing			+56		+82		+999	+1,107	+387	+1,791
Transfer from dollar portfolio to reserves	+204									
Drawings on (+)/additions to (-) official reserves	+115	+114	-44	-125	-1,536	+692	-210	-79	+669	+853
TOTAL OFFICIAL FINANCING	+671	+1,410	-687	-1,420	-3,271	+1,141	+789	-1,672	+1,479	+3,628

(Source: Central Statistical Office)

\*Adjusted to include EEA loss on forward commitments.

†Revised figures of Current Balance are given in Chapter 11, p. 272.

**Export and Import Volumes.** The major slump in world trade during the period 1973–5 was bound to injure the performance of British exporters. But the prospects for a recovery in our exports have been further hampered by the Labour Government's general failure to manage the economy competently. The following table shows that our export volumes remained low during 1975 and grew only slowly during 1976, despite the competitive advantage resulting from the depreciation of sterling. During 1976 imports continued to grow steadily in volume terms.

Volume of Exports and Imports (1970=100)		
	<i>Exports</i>	<i>Imports</i>
1966	79.7	79.2
1970	100.0	100.0
1971	106.8	104.3
1972	106.6	116.3

Volume of Exports and Imports  
(1970=100)

	<i>Exports</i>	<i>Imports</i>
1973	119.2	131.4
1974	130.1	135.2
1975	124.9	125.6
1976	134.8	133.3
1975 Q1	128.1	127.0
Q2	122.0	121.2
Q3	120.0	127.5
Q4	128.3	126.5
1976 Q1	132.1	124.9
Q2	135.9	134.7
Q3	133.1	136.6
Q4	139.9	137.2

(Source: Department of Trade)

**Exporters' Difficulties.** Labour's failure to control inflation reduced the competitiveness of British goods in foreign markets. Markets once lost are not easily recovered, and even following the massive depreciation in the value of sterling, British exporters will find it difficult to increase their penetration of overseas markets. The squeeze on profits has added to exporters' difficulties, and from April 1977 they will have to contend with Labour's payroll tax. Moreover, it is not sufficient to produce goods cheaply; foreign buyers also demand punctual delivery. Under Labour, exporters have found it impossible to plan ahead and to invest consistently so as to guarantee their performance. A survey of 186 manufacturers conducted by the British Institute of Management and published in December 1976, revealed that only four could claim to have achieved 100 per cent delivery of customers' orders on time during 1975. Setting a target of 90 per cent delivery on time, only one in five companies performed satisfactorily (*Daily Telegraph*, 8th December 1976).

**Invisible Trade.** The invisible trade balance represents (i) the difference between our exports and imports of services such as air and sea transport, tourism, banking and insurance; (ii) the difference between payments and receipts of interest, profits and dividends; and (iii) the balance of government expenditure abroad.

Since 1947 the UK's invisible trade has always been in balance, and this has been crucial in helping to finance the normal deficit on visible trade.

**Tourism.** The number of overseas visitors to the UK rose sharply during 1976, largely owing to the depreciation of sterling which made Britain a popular destination for holidaymakers. Although the total was still lower than the figure for visits abroad by UK residents, the favourable balance on the travel account was unprecedentedly high. This was due to the disparity between average spending levels: e.g., in the third quarter of 1976 expenditure by British visitors abroad averaged £91, compared with the average expenditure by overseas visitors in the UK of £162

Statistics of Tourism

	<b>Overseas Visitors to UK</b>	<b>UK Visitors Aboard</b>	<b>Overseas Expenditure in UK</b>	<b>UK Visitors Expenditure Abroad</b>	<b>Balance</b>
	<b>000's</b>	<b>000's</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
1974	7,224	9,176	837	683	+154
1975	8,141	10,269	1,114	875	+239
1976	7,268	8,066	1,198	796	+402
Jan– Sept					

(Source: *International Passenger Survey* and Department of Trade)

## 2. COMMODITY PRICES

The following tables indicate the severity of the effect that the increases in commodity prices have had on the balance of payments, particularly between 1972 and 1974.

Reuters Commodity Index\*  
(1931 = 100)

1965	452.7
1970	559.9
1972	594.2
1973	1,037.9
1974	1,309.8
1975	1,117.7
1976	1,428.8

\*Based on the UK prices of 17 staple commodities.

Selected Commodity Prices (UK Imports)  
(Prices per ton unless otherwise stated)

	<b>June 1970</b>	<b>January 1974</b>	<b>% Increase</b>
Sugar	£42	£201	378
Cocoa	£254	£577	127
Coffee	£40	£53	32
Copra	£221	£785	225
Groundnuts (Nigerian)	£95	£230	142
Hard Wheat	£28	£107	282
Maize (No. 3 Yellow Am)	£28.50	£69.85	145
Copper (Cashwire bars)	£616	£963	56
Tin	£1,455	£3,090	112
Lead	£128	£267	108
Zinc	£121	£663	447
Rubber	21d	49p	133

Selected Commodity Prices (UK Imports)

(Prices per ton unless otherwise stated)

**June 1970 January 1974 % Increase**

(per lb.) (per Kilo)

Cotton ('A' Index Liverpool cent/lb) 28.50 87 205

(Source: *Financial Times*)

**Terms of Trade.** These represent the ratio between the level of export prices and import prices. As the table below shows, since 1972, with the increase in the price of raw materials, the terms of trade have moved sharply against the UK which means that exports need to be increased in volume to balance the higher import bill. The movements since 1966 are as follows:

Import and Export Prices

(Unit Values: 1970 = 100)

	Exports	Imports	Terms of Trade
1966	82.2	82.6	99.6
1970	100.0	100.0	100.0
1971	105.6	104.1	101.4
1972	111.1	109.7	101.3
1973	126.0	139.7	90.2
1974	162.7	218.0	74.6
1975	198.5	245.7	80.8
1976	240.6	301.3	79.9
1975 Q1	184.9	240.5	76.9
Q2	193.4	241.1	80.2
Q3	202.2	247.1	81.8
Q4	210.1	260.4	80.7
1976 Q1	219.0	270.0	81.1
Q2	234.2	293.0	79.9
Q3	247.4	309.3	80.0
Q4	261.7	332.1	78.8

(Source: Department of Trade)

## (C) DEVELOPMENT OF WORLD TRADE

The period from 1945–73 was one of liberalisation in world trade. 1947 saw the conclusion of the General Agreement on Tariffs and Trade (GATT), which was intended to be the foundation of an International Trade Organisation. Several successful GATT negotiations on tariffs and trade between 1947 and 1967 enabled world trade to grow faster than world output in the years concerned. Under the GATT,

world trade has grown from under 8 per cent of world production in 1947 to about 16 per cent in 1976.

In relative terms, trade is about twice as important to the world today as in 1947.

## 1. RECENT DOWNTURN

In the last few years international economic difficulties have been fully reflected in the movements of world trade. Strong growth until 1972–3 had changed by 1974–5 into a sharp downturn resulting from the rise in the price of oil and general inflation. IMF figures show that the dollar value of imports of industrial countries fell between the third quarter of 1974 and the corresponding period of 1975 by over 8 per cent. The world volume of trade declined by a percentage in excess of this. Expectations of a substantial upturn in world trade during 1976 have not been fulfilled. Mr Callaghan told the House of Commons:

“There is no doubt that the world economic climate has changed in the past few months since the summer ... The reality now is that world economic growth has slackened since the first quarter of (1976) and in most countries, including our own, inflation remains too high, although there are some important exceptions ... The continuing strength of upturn in world trade is still open to question, and our prospects on this score depend almost exclusively on the United States of America, Germany and Japan” (*Hansard*, 24th November 1976, Col. 36).

## 2. BRITAIN'S SHARE IN WORLD TRADE

Despite Britain's adverse balance of payments the Labour Government has claimed credit because, in Sir Harold Wilson's words,

“In a world of shrinking trade for the first time for many years we have been able to increase our share of world trade” (London, 10th November 1975).

“Share of world trade” is defined as the UK share of total exports of manufactures by the twelve major Western industrial countries. Britain's performance in this respect in 1974 was the worst on record. It is true that that share increased in 1975 for the first time since 1971, but only because the 1974 figures were so poor. The average for 1975 was still below the 1973 figure. The following table shows developments from 1972 to the middle of 1976.

	Shares of World Trade		UK share of exports of manufactures
	Percentage change over previous year/quarter: Manufactures	UK	
	Industrialised countries	UK	%
1972	18.2	-9.2	10.1
1973	37.2	-6.9	9.4
1974	33.6	-6.4	8.8
1975 Q1	3.1	13.2	9.4

Shares of World Trade			
	Percentage change over previous year/quarter: Manufactures		UK share of exports of manufactures
	Industrialised countries	UK	%
Q2	-3.9	-3.5	9.2
Q3	-3.6	-4.7	9.2
Q4	6.4	6.2	9.3
1976 Q1	2.5	3.5	9.2
Q2	3.5	1.1	8.9
Q3	4.7	-9.3	8.6

(Source: Department of Trade)

### 3. MULTILATERAL NEGOTIATIONS

At the GATT Ministerial meeting held in May 1963, an ambitious policy was formulated to bring about a worldwide reduction in tariff and non-tariff barriers. The Kennedy Round of Tariff Negotiations was held from 1963 to 1967, and a series of tariff reductions occurred between 1968 and 1972, by the end of which tariffs in all the major countries had been approximately halved compared with 1945. Substantial tariff cuts have been achieved since the formation of the GATT in 1947. But, as Mr Dent, US special trade representative, said on 23rd December 1975:

“unfortunately non-tariff measures have developed in many cases which tend to counter the trade-stimulating effect of reduced tariffs.”

Non-tariff barriers comprise all measures other than tariffs interfering with the free flow of international trade. In practice these usually involve import deposit schemes as introduced by the Labour Government between 1968 and 1970, or quotas, recently used by the UK against certain Spanish, Portuguese and COMECON goods. The international trading community is anxious that such unilateral measures, taken either in response to the severest economic difficulties or in cases where, amidst heavy political pressures, “dumping” is hard to prove, be kept to a minimum.

In September 1973, the GATT members opened the “Tokyo Round”, designed to cover agriculture, tariffs, non-tariff barriers, tropical products, safeguards against excessive imports and co-ordinated reduction of barriers to trade in certain sectors. Their aim is fourfold:

- a. To permit developing countries to expand their exports to the richer countries in an orderly manner.
- b. To assist in the rational organisation of agricultural markets.
- c. To integrate non-market economies more successfully into the world trading order.
- d. To solve the problems of commodity supplies and prices.

**Labour Record.** The Labour Government has signally failed to take advantage of the United Kingdom's unique position as a member of both the EEC and the

Commonwealth. Early in 1976, it was clear that the antipathy towards the EEC of the then Secretary of State for Trade, Mr Peter Shore, had resulted, as Mr Terence Higgins, then Opposition spokesman on Trade commented, in his

“not taking a lead in formulating any EEC trade position that we and hon. Members opposite would like him to do” (*Hansard*, 15th March 1976, Col. 928).

Conservatives expressed further dissatisfaction with the Government's failure to take a proper lead in the important UNCTAD IV negotiations of May–June 1976 in Nairobi (see also Chapter 27, p. 649).

## 4. EUROPEAN ECONOMIC COMMUNITY

By July 1968 customs duties on trade among the original six member states of the European Community had been abolished. Tariff barriers between the three members who joined on 1st January 1973, Britain, Denmark and Ireland, and between them and the original six members, have been reduced by 20 per cent a year and are to be eliminated by 1st July 1977. Quantitative restrictions on trade between themselves were removed by the original six on 31st December 1961, and by the new members on 1st January 1973, except for a few ‘sensitive’ products on which restrictions were removed by 1st January 1975.

By July 1968 the original six members had replaced their national tariffs on imports from the rest of the world by a common external tariff based on the arithmetical average of those it superseded. In two rounds of worldwide tariff negotiations, the common external tariff has been reduced to an average level of 6 per cent. The new members have moved their tariffs upwards or downwards, by 40 per cent, 20 per cent and 20 per cent in 1974, 1975 and 1976 respectively to achieve a common external tariff by 1st July 1977.

**The UK's accession to the EEC** on 1st January 1973 offered great opportunities to British exporters, by opening up an enormous free trade market for manufactured goods. It was unfortunate that a major slump in world trade should occur so shortly after the UK's accession to the EEC. Confidence in the export industries was shaken, and British exports have been insufficient to balance the increased penetration of the UK market by our EEC partners. The UK's visible trade deficit with the EEC in 1973, 1974, 1975 and the first half of 1976 taken together was £6,541 million (*Hansard*, 2nd December 1976, WA, Col. 198). During 1975 and 1976, the UK's trade was in surplus with the Netherlands, Belgium/Luxembourg, Denmark and Ireland, but our heavy deficits with the other three member countries, particularly West Germany, caused the UK's trade to be in deficit overall (*Hansard*, 7th December 1976, WA, Col. 155).

“CRUDE”\* BALANCE OF TRADE WITH EEC IN SELECTED COMMODITY GROUPS

£ million

*Overseas Trade Statistics Basis*

Food	Basic Materials and Oil	Manufactured Goods	Other
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“CRUDE”\* BALANCE OF TRADE WITH EEC IN SELECTED COMMODITY GROUPS

£ million

*Overseas Trade Statistics Basis*

	<b>Food</b>	<b>Basic Materials and Oil</b>	<b>Manufactured Goods</b>	<b>Other</b>
1971	-503	-67	+320	-5
1972	-498	-85	+27	-24
1973	-699	-116	-275	-83
1974	-	-273	-637	-66
1975	1,220	-328	-544	-39
January-October 1976 at an annual rate	1,474	-243	-455	-83

\*The crude trade balance is the difference between exports fob and imports cif.

*(Hansard, 3rd December 1976, WA, Col. 315)*

It may be seen from the table that, allowing for inflation, the increase in our deficit on trade in food is less significant than the change from surplus to deficit on our trade in manufactured goods, a trend which began before accession. The opportunities for British exporters offered by our membership of the EEC clearly remain. The competitive advantage gained from sterling's depreciation, and the trend towards self-sufficiency in oil, should enable the UK to achieve a favourable balance in our total trade with our EEC partners.

**The Lomé Convention**, a trading agreement concluded in 1975 between 46 ‘producing’ countries and the nine ‘consuming’ countries of the EEC, is aimed at stabilising the flow and prices of basic materials. Under the Convention, the EEC's ‘Stabex’ system allows for funds to be transferred to ACP (African, Caribbean and Pacific) countries in difficult years in order to stabilise their earnings over a period of time (see Chapter 27, p. 649). In the long term there is a pressing need to provide markets for the producer countries sufficiently stable for them to invest large sums to improve their production methods. In a number of minerals, particularly, there may well be shortages if producers lack the confidence and the capital to increase their output. A House of Lords Select Committee was set up in March 1975 to investigate commodity prices.

In agriculture there are great difficulties confronting progress in multilateral trade negotiations. The obvious imbalance of food supplies encourages developing countries to hope for an improvement in the international distribution of agricultural output. But the operation of the EEC's Common Agricultural Policy (see Chapter 12, p. 292) has made this difficult. As the EEC accounts for some 40 per cent of world trade in food it is important that Britain and her partners should continue to play a leading role in multilateral negotiations and trade in agriculture.

## 5. TRADE WITH THE EASTERN BLOC

The Labour Government has been notoriously indulgent in its trade relations with the Soviet Union and other COMECON countries. In February 1975 Sir Harold Wilson, then Prime Minister, agreed to provide a credit of £950 million to the USSR at an uncommercially low level of interest (never disclosed, but believed to be 7 to 7½ per cent—see also Chapter 27, p. 624). The export credit and repayment terms on capital goods offered to the Soviet Union mean that industrial investment there can be carried out on a far more favourable basis than that available to our own industry. Since the credits agreed specifically cover cheap finance for the Soviet textile industry, and our own textile industry has suffered badly from proven COMECON dumping, there has been understandable annoyance over Sir Harold Wilson's agreement. As Mr John Nott, Conservative Spokesman on Trade, has said:

“What is the purpose of financing Russian industry—which is, in effect, what this means—by giving it credit at about 7 per cent interest through money which costs the Government nearly 15 per cent to borrow? That money is then used to manufacture textile goods which come back to this country and destroy jobs in the North-West and throughout the North of England” (*Hansard*, 10th January 1977, Col. 1033).

In December 1976 Mr Callaghan summoned the Soviet Ambassador to express his concern at the fact that only £140 million of the credit had been taken up. In 1976 Soviet exports to Britain totalled £666 million compared with £408 million in 1975, while British exports to the USSR only increased from £210 million to £240 million (*Source*: Department of Trade).

## **(D) IMPORT CONTROLS**

### **1. LABOUR GOVERNMENT 1964–70**

The previous Labour Government resorted to import controls when they found themselves in economic difficulties. The manner in which they introduced them in 1964, without prior warning to our trading partners, was particularly maladroit. On 26th October 1964 Sir Harold Wilson announced a surcharge of 15 per cent on all imports except food and industrial raw materials, breaking nine international trading agreements in the process. In November 1968, two years after the surcharge had lapsed, Mr Roy Jenkins, as Chancellor, introduced the Import Deposit Scheme, a restriction which applied to one-third of our total imports.

### **2. RECENT PRESSURES**

The present Government has, since the summer of 1975 (when it introduced the £6 pay limit), been under strong pressure from Labour's Left wing to introduce large-scale import controls. But Mr Shore, then Secretary of State for Trade, said:

“The British Government see no attraction in the imposition of import controls” (Tokyo, 18th September 1975).

Mr Healey later appeared to rule out the use of widespread controls. He stated:

“No country would suffer more than Britain from an international trade war, since we depend more on world trade than any of our competitors. That is why we cannot accept the proposal made in some quarters that we should seek to solve our problems through imposing import controls for a long period over a whole range of manufactured consumer goods” (*Hansard*, 17th December 1975, Col. 1409).

**TUC-CBI Memorandum.** In October 1976 the TUC and the CBI produced a joint memorandum listing certain imports that they considered should be controlled: electronics, cutlery, footwear, motor cars, paper and board. They called for the UK's obligation under the Treaty of Rome and the GATT to be interpreted “realistically”. The memorandum accepted “that a large degree of international acceptance of UK policy will be necessary,” but called for “urgent action”. Mr Callaghan welcomed the document enthusiastically: “Coming as it does from those two stables harnessed together it clearly needs very careful consideration” (*Hansard*, 14th October 1976, Col. 823).

In fact, the Government has considerable discretion to control imports in various ways by order. Between 1974 and October 1976, 26 orders were made by the Treasury on the Department of Trade's recommendation imposing or increasing import duties: 13 quantitative restrictions were imposed by means of an appropriate amendment to the Open General Import Licenses; and 11 anti-dumping orders were made (*Hansard*, 15th October 1976, Col. 230). In addition, there were during the same period “exchanges” at government level with Eastern European countries and with Japan, aimed at voluntary restrictions on exports to the UK of a total of 13 items (*Hansard*, 14th October 1976, Col. 197). These measures have been aimed particularly at restricting imports of textiles, clothing, footwear and television sets. In addition, our EEC partners have undertaken to increase their share of Far Eastern imports relative to that of the UK in the years to come.

**Arguments for Import Controls.** The proponents of import controls argue that if Britain is to eliminate its balance of payments deficit, it will be easier in the short-term to reduce imports than to increase exports. They claim that imports of finished manufactured goods cannot be considered “essential” i.e., they could be produced by British industry. It is thus suggested that the balance of payments problem could be solved without the need to lower public expenditure. Labour's Left-wing argue strongly for wide-ranging controls as a means of saving jobs, by providing those industries faced with foreign competition with a “breathing space” in which to readjust. Certain Left-wingers argue for import controls as part of a “siege economy”. Mr Norman Atkinson, a leading member of the Tribune Group, has said:

“Import controls are not temporary expedients to effect protection. They are essentially instruments of planning. If the whole of the Socialist case is about planning the economy, how can we plan it in the absence of control on our external trade?” (*Hansard*, 3rd November 1975, Col. 10).

### **3. CONSERVATIVE POLICY**

Conservatives believe that British industries that are being injured by proven foreign “dumping”, i.e., unfair competition, must receive the fullest protection, but are

strongly opposed to Socialist demands for widespread controls which are designed to create a siege economy. *The Right Approach* states:

“There is always a case for taking effective action to prevent the unfair and damaging dumping of foreign goods within Britain. But we totally reject the wider argument. An absence or reduction of competition is the surest recipe for inefficiency, and for an accelerating decline in our standard of living compared with those of other countries.”

These objections to controls are based on the following considerations:

- i. They restrict consumer choice.
- ii. They are inflationary—cheaper foreign goods were one of the few factors during 1975 exerting a downward pressure on price increases.
- iii. They run the risk of provoking a trade war through large-scale international retaliation.
- iv. In the long term they destroy rather than create jobs. By reducing competition and freezing patterns of employment, they delay that necessary evolution of the economy and of industry which alone can provide secure jobs in industries that are providing goods which consumers want to buy.
- v. They can be made instruments of Socialist planning.
- vi. They would constitute a direct breach of our international obligations. Articles 9–11 of the Treaty of Rome prohibit duties on imports from member states of the EEC; and Articles 30–37 prohibit quantitative restrictions. Under Articles 108 and 109 it is possible to take general protective measures only in consultation with the Commission and with the approval of the Council of Ministers (*Hansard*, 18th October 1976, Cols. 357–8).
- vii. Their effects would be harmful also to other trading nations, not least the developing countries.
- viii. A shortage of imported goods might result in the diversion of potential exports to the home market.
- ix. The devaluation of the pound has already had the effect of “protecting” the British economy. Its weighted depreciation between December 1971 and December 1976 was about 40 per cent. (See Chapter 11, p. 277). Imports are now higher priced in terms of sterling, and consequently less attractive. At the same time, the pound's depreciation has caused our exports to be more competitively priced abroad. Whereas import controls would only affect employment in the “import competing” industries, the effect of the pound's depreciation should also increase employment in the export industries.

## **4. PROBLEM OF DUMPING**

Under the articles of the GATT, trading nations can take unilateral action to protect themselves against unfair competition or dumping, which is defined as the sale of goods in an export market at a price lower than that which obtains in the home market. Article 19 of the GATT treaty permits “emergency action on certain imports” on condition that:

- a. Actual or threatened injury is shown to domestic industries, due to unforeseen developments and to the effect of obligations under the GATT.

- b. The countries concerned consult each other.
- c. Import restraints are imposed in a non-discriminatory fashion.

As Mr Higgins said:

“The crucial thing is to distinguish ‘fair’ from ‘unfair’ import competition, cheap goods from dumped goods. (We) must not adopt protectionist controls on imports but it is essential to take fast and effective action against dumping. The two things go together” (Abingdon, 1st November 1975).

During the recession which began after the increase in oil prices, many British industries have felt that they are being injured by foreign imports at artificially low prices and have consequently made representations to the Department of Trade. Since February 1975, the Department has announced formal investigations into a number of complaints of foreign dumping made by British industries. These formal investigations usually take at least five or six months to resolve.

These procedures are cumbersome and Conservatives have often urged that legitimate action against dumping under the GATT treaty should be taken more speedily. The British Government should be active in negotiations on the EEC Anti-Dumping Committee and under the GATT to revise and reform the machinery for combating dumping, especially where COMECON countries are concerned.

**Subsidised Shipping.** The Government has failed notably to take effective action to combat dumping in the form of subsidised shipping, particularly by Eastern bloc or COMECON countries. British shipping has been badly affected by state-supported competition from the Soviet Union. At present about 15 per cent of UK exports to Russia are carried in British vessels and some 82 per cent in Soviet ones. About 5 per cent of British imports from the USSR are carried in British vessels while the Russian merchant fleet carries just under 80 per cent. Eastern bloc slashing of freight rates is also eroding the profitability of British shipping on other routes.

Mr Higgins has urged the Government to check these developments, “which may endanger both the contribution that British shipping makes to the balance of payments, and the future size of our merchant marine” (*Hansard*, 15th March 1976, Col. 920).

## **(E) COMPANY LAW REFORM**

### **1. BACKGROUND**

After the 1959 General Election, the then Conservative Government set up a Committee under the Chairmanship of Lord Jenkins to review and report on the working of the law affecting companies. The Committee's Report, published in June 1962, received the Government's general support, but its intention of legislating in accordance with the Report's findings was frustrated by the result of the October 1964 General Election.

The Labour Government's Companies Act 1967 concentrated on measures compelling companies to give more information in their reports and accounts than previously about turnover, directors' emoluments, export sales, trade investments, information about subsidiary or parent companies, and particulars of asset valuation. The Act also abolished the status of exempt private companies; such companies had either to publish much more information, or to re-register as unlimited companies. Although many of the provisions of the Act were based on the proposals of the Jenkins Committee, there remained several aspects of company law discussed by the Committee which were not dealt with by the Act and it was recognised that this would have to be remedied by subsequent legislation.

## 2. CONSERVATIVE POLICY

The June 1970 Conservative Election Manifesto expressed the Party's determination to go further than the 1967 Act, promising that a Conservative government would:

“Sharpen the disclosure requirements in the accounts of public companies subject to an exemption procedure and reduce them for most private companies, and ... institute an inquiry into other aspects of company law.”

One of the Conservative Government's first actions was to reduce the disclosure requirements for small companies, in so far as such information could be commercially harmful. The Government's next step was to put forward its recommendations in a White Paper, *Company Law Reform* (Cmnd. 5391, July 1973) and subsequently in the Companies Bill, published in December 1973.

The main provisions of the Bill were:

1. “Insider Dealing”, i.e., the improper use of confidential price-sensitive information by a certain category of people (e.g., company directors, employees and major shareholders) in share dealings for financial gain at the expense of “outsiders”, was to be made illegal.
2. Auditors were to be given greater powers and obligations.
3. Companies would have the right reasonably to demand the identities of the “real owners” of shares held in nominee accounts.
4. An investor would be required to notify a company when his equity stake in that company reached 5 per cent of the total, and there were other provisions to prevent “warehousing”—the secret build-up of shares by a number of parties in order to acquire by stealth a dominant position in a company.
5. The time-lag in the filing of accounts with Companies House was to be reduced.

The Bill, which embodied many of the recommendations of the Jenkins Report which were not included in the Companies Act 1967, lapsed because of the February 1974 General Election.

**Insurance Companies.** Early in 1971, when the Vehicle and General Insurance company collapsed, there was widespread concern that control should be strengthened over potentially unsound companies. A review of existing standards was instituted by

the Department of Trade and Industry and the result was the Insurance Companies Amendment Act 1973, which came into force on 25th July 1973. The Act made important changes in, and additions to, the Insurance Companies Acts 1958 to 1967. It improved certain of the existing safeguards for the protection of the policy-holder and introduced new requirements to facilitate his understanding of the policies offered.

### 3. RECENT DEVELOPMENTS

**Companies Act 1976.** In March 1976, the Labour Government introduced the Companies (No. 2) Bill, the main purpose of which was to amend the law relating to the filing of company accounts, and make new provision with respect to the qualifications and powers of auditors. Mr Higgins called on the Government to go further “by legislating against ‘warehousing’ (see above) and other abuses. There is no good reason for delay” (Hillingdon, 23rd June 1976). The Government was eventually persuaded to accept a number of important Conservative amendments on ‘warehousing’.

**Critical Reports.** In July 1976 the Department of Trade published the Inspectors' Report ordered in May 1973 into the affairs of Lonrho Ltd. This Report was critical of the Chairman and other members of the Lonrho Board. The Department also published critical reports on London and County Securities in January 1976 and Ralph Hilton Transport Services in September 1976 (see also Chapter 29, p. 706), Mr Higgins made clear that:

“Conservatives in no way support abuses of the capitalist system; on the contrary, wholehearted support for free enterprise must be matched by a determination to establish a framework of law within which abuses are prevented. Those who wish to attack and destroy the mixed economy gain if Company Law fails to achieve this” (Statement, 10th September 1976).

Following these developments, the Prime Minister promised an inquiry into “insider dealings” to be followed by legislation (Blackpool, 24th September 1976). Mr Higgins commented:

“Instead of taking up the Conservative Company Law Reform Bill, priority has been given to damaging and irrelevant partisan legislation ... there is no need for Mr Callaghan to set up an inquiry before legislating on ‘insider dealing’ ” (Statement, 24th September 1976).

**Review of Financial Institutions.** The Prime Minister announced at the Labour Party Conference in September 1976 the setting up of a Committee with the following terms of reference:

“To inquire into the role and functioning, at home and abroad of financial institutions in the UK and their value to the economy; to review in particular the provision of funds for industry and trade; to consider what changes are required in the existing arrangements for the supervision of these institutions, including the possible extension of the public sector, and to make recommendations.”

In his speech announcing the Review, Mr Callaghan described the Labour Party's proposals for the nationalisation of the banks and insurance companies (see Chapter 6, p. 164), as “an electoral albatross” (Blackpool, 24th September 1976). The announcement of the Review was obviously intended as a ‘sop’ to Labour's disappointed Left wing. Nevertheless, Conservatives were prepared to give the Review a cautious welcome. Mr Higgins said:

“Time and again ... I have urged the Government to speed up reform” (Statement 24th September 1976).

In October 1976 it was announced that Sir Harold Wilson was to chair the Review. As the *Financial Times* commented:

“By inviting Sir Harold Wilson to chair the Committee of Inquiry into the country's financial institutions, the Prime Minister has turned what might have been a serious study into a political knockabout. It is a straightforward sop to the left” (8th October 1976).

The full membership of the Committee was announced on 5th January 1977.

**Insurance Companies.** The Policyholders Protection Act 1975 makes provision for indemnifying policyholders who have lost money when an insurance company is unable to meet its liabilities. It established the Policyholders Protection Board and imposed levies on the insurance industry to meet indemnity claims.

**Bankruptcy.** The Insolvency Act 1976 makes provision for increasing the monetary links relating to bankruptcy, and for an automatic review of bankruptcy adjudications after five years.

## 11. ECONOMIC STATISTICS

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This chapter sets out basic economic data and the main economic statistics, in particular concerning prices, unemployment, vacancies, balance of payments and the



value of the pound. For an account of Labour actions in various fields, e.g. Social Contract, budgets or industrial relations please see the appropriate subject chapters. For an explanation of some of the terms used in this Chapter please see the Glossary in Appendix III, p. 740.

For further references to the subjects covered in this Chapter, see as follows:

*National Output*—Chapter 2

*Balance of Payments*—Chapter 10

*Unemployment*—Chapter 8

*Prices and Standard of Living*—Chapter 5

*External Value of the Pound*—Chapter 2

*Industrial Production and Productivity*—Chapter 6

*Wages and Earnings*—Chapters 2 and 8

*Money Supply*—Chapters 2 and 3

*Public Sector Borrowing Requirement*—Chapter 3

## (A) NATIONAL OUTPUT

### 1. GROSS NATIONAL PRODUCT

	(at current prices—£million)					
	1970	1971	1972	1973	1974	1975
Consumers' expenditure	31,644	35,165	39,716	45,044	51,832	63,373
Public authorities' current expenditure on goods and services	9,095	10,344	11,772	13,403	16,578	22,907
Gross domestic fixed capital formation	9,453	10,515	11,680	14,148	16,633	20,510
Value of physical increase in stocks and work in progress	442	118	57	1,163	1,144	-1,349
Total domestic expenditure at market prices	50,634	56,142	63,225	73,758	86,187	105,441
Exports of goods and services	11,275	12,667	13,278	16,888	22,390	26,093
Less imports of goods and services	—	—	—	—	—	-28,248
	10,887	11,865	13,408	18,557	26,718	
Less taxes on expenditure	-8,412	-8,788	-9,262	—	—	-14,046
	10,092	11,342				
Subsidies	879	915	1,135	1,450	2,994	3,906

**(at current prices—£million)**

	1970	1971	1972	1973	1974	1975
Gross domestic product at factor cost*	43,489	49,071	54,968	63,447	73,511	93,146
Plus net property income from abroad	556	500	551	1,383	1,392	949
Gross National Product	44,045	49,571	55,519	64,830	74,903	94,095
Less capital consumption	-4,445	-5,092	-5,823	-6,897	-8,391	-10,907
National Income	39,600	44,479	49,696	57,933	66,512	83,188
Public authorities current expenditure on goods and services as a percentage of Gross National Product	20.6	20.8	21.2	20.7	22.1	24.3

\* After adjusting for taxes on expenditure and subsidies

(Source: *National Income and Expenditure* (Blue Book) 1965–1975)

Note:

*Gross Domestic Product* (GDP) is the measure of a country's total output of goods and services. When we talk of economic growth we are talking of changes in GDP in real terms, i.e., after making allowance for the effects of inflation.

*Gross National Product* (GNP) is GDP plus net property income from abroad.

*National Income* is GNP after deducting 'capital consumption' (i.e., the wear and tear on the nation's assets).

## 2. ECONOMIC GROWTH

The following table shows the percentage increase on the previous year, from 1950 to 1975 (the latest date for which figures are available) of Gross Domestic Product at constant 1970 prices and at factor cost.

Labour	Conservative	
1950: +3.1	1952: -0.3	1960: +5.7
1951: +2.9	1953: +4.0	1961: +2.5
1965: +2.8	1954: +4.0	1962: +1.3
1966: +1.9	1955: +3.7	1963: +3.7
1967: +2.1	1956: +1.3	1964: +5.9
1968: +4.0	1957: +1.6	1971: +1.7
1969: +2.1	1958: -0.1	1972: +2.6
1970: +1.9	1959: +3.9	1973: +5.7
1974: -0.1		
1975: -1.9		

### Average Annual Rates of Growth

1950–51: +3.0 per cent

1951–64: +2.9 per cent

**Labour**                      **Conservative**

1964–70: +2.9 per cent

1970–73: +3.0 per cent

1974–75: –1.0 per cent

(Source: *National Income and Expenditure Blue Books*)

### 3. CONSUMERS' EXPENDITURE AT 1970 PRICES

	(£ million)							
	1970		1971		1972		1973	
	Amount	% of Total consumers' Expenditure	Amount	% of Total consumers' Expenditure	Amount	% of Total consumers' Expenditure	Amount	% of Total consumers' Expenditure
Food								
(Household expenditure)	6,375	20.1	6,374	19.6	6,342	18.4	6,397	17.8
Alcoholic drink	2,299	7.3	2,454	7.5	2,641	7.7	2,989	8.3
Tobacco	1,720	5.4	1,658	5.2	1,748	5.1	1,859	5.2
Housing	4,101	12.9	4,205	12.9	4,308	12.5	4,414	12.3
Fuel and Light	1,495	4.7	1,480	4.6	1,534	4.5	1,574	4.4
Clothing	2,757	8.7	2,806	8.6	2,975	8.6	3,129	8.6
Durable goods (including cars)	2,435	7.7	2,896	8.9	3,458	10.1	3,600	10.0
Other household goods*	927	2.9	958	2.9	1,039	3.0	1,068	3.0
Books, magazines and newspapers	460	1.5	467	1.4	484	1.4	495	1.4
Running costs of motor vehicles	1,692	5.4	1,753	5.4	1,920	5.6	2,025	5.6
Travel	1,010	3.3	1,015	3.2	1,080	3.1	1,152	3.2
Communication services	333	1.0	338	1.0	394	1.2	437	1.2
Entertainment and recreational services	547	1.7	576	1.8	626	1.8	703	2.0
Other items (goods and services)	5,493	17.4	5,525	17.0	5,853	17.0	6,093	17.0
TOTAL	31,644	100.0	32,505	100.0	34,402	100.0	35,935	100.0

\* Includes expenditure on household textiles, household hardware etc.

## (B) BALANCE OF PAYMENTS

(All figures refer to the Current Account of the United Kingdom Balance of Payments, are seasonally adjusted and are in £m)

	<i>Current Balance</i>	<i>Visible Balance Trade in Goods</i>	<i>Invisible Balance Services and other current transactions*</i>	<i>Exports (fob)</i>	<i>Imports (fob)</i>
<i>Yearly</i>					
1970	+733	-25	+758	+7,907	+7,932
1971	+1,084	+280	+804	+8,810	+8,530
1972	+154	-702	+856	+9,141	+9,843
1973	-736	-2,334	+1,598	+11,772	+14,106
1974	-3,380	-5,221	+1,841	+16,450	+21,671
1975	-1,635	-3,195	+1,560	+19,379	+22,574
1976	-1,423	-3,592	+2,169	+25,294	+28,886
<i>Monthly</i>					
<b>1974</b>					
Jan.	-226	-381	+155	1,033	1,414
Feb.	-288	-443	+155	1,198	1,641
March	-308	-464	+156	1,250	1,714
April	-253	-418	+165	1,306	1,724
May	-322	-488	+166	1,313	1,801
June	-283	-449	+166	1,389	1,838
July	-312	-472	+160	1,365	1,837
Aug.	-207	-367	+160	1,410	1,777
Sept.	-244	-403	+159	1,448	1,851
Oct.	-274	-417	+143	1,388	1,805
Nov.	-404	-548	+144	1,358	1,906
Dec.	-226	-370	+144	1,441	1,811
<b>1975</b>					
Jan.	-273	-406	+133	1,508	1,914
Feb.	-200	-333	+133	1,481	1,814
March	+21	-113	+134	1,542	1,655
April	-245	-350	+105	1,379	1,729
May	+23	-82	+105	1,611	1,693
June	-144	-249	+105	1,489	1,738
July	-234	-377	+143	1,566	1,943
Aug.	-258	-401	+143	1,485	1,886
Sept.	-69	-211	+142	1,581	1,792
Oct.	-88	-217	+129	1,729	1,946
Nov.	-150	-280	+130	1,637	1,917

(All figures refer to the Current Account of the United Kingdom Balance of Payments, are seasonally adjusted and are in £m)

	<i>Current Balance</i>	<i>Visible Balance Trade in Goods</i>	<i>Invisible Balance Services and other current transactions*</i>	<i>Exports (fob)</i>	<i>Imports (fob)</i>
Dec.	-56	-185	+129	1,760	1,945
<b>1976</b>					
Jan.	-48	-186	+144	1,777	1,974
Feb.	-109	-243	+145	1,751	2,004
March	+118	-19	+145	1,896	1,923
April	-153	-292	+162	1,922	2,237
May	-211	-351	+163	2,009	2,383
June	-189	-325	+162	2,061	2,412
July	-325	-515	+160	1,959	2,474
Aug.	-95	-284	+160	2,049	2,333
Sept.	-178	-368	+190	2,144	2,512
Oct.	-125	-325	+200	2,228	2,553
Nov.	-247	-447	+200	2,243	2,690
Dec.	-15	-215	+200	2,361	2,576

(Source: *Economic Trends* and Central Statistical Office)

It should be noted that all figures in this table from January 1975 onwards are likely to be revised by the Department of Trade.

\* Monthly figures for invisible earnings are not produced. The monthly figures given are one-third of the Department of Trade's estimate for the quarter.

## (C) UNEMPLOYMENT

(All figures are for Great Britain and exclude adult students registered for vacation employment)

	<b>Total Unemployed (percentage rate in brackets) 000's*</b>	<b>Seasonally adjusted unemployment (per cent in brackets) 000's†</b>
<b>1970</b>		
Jan.	611.8 (2.7)	549.8 (2.4)
Feb.	606.4 (2.6)	551.8 (2.4)
Mar.	601.8 (2.6)	557.8 (2.4)
Apr.	593.5 (2.6)	562.9 (2.5)
May	553.3 (2.4)	562.6 (2.5)
June	523.6 (2.3)	567.6 (2.5)
July	527.9 (2.3)	569.8 (2.5)
Aug.	571.6 (2.5)	571.7 (2.5)
Sept.	563.1 (2.4)	575.1 (2.5)
Oct.	576.3 (2.5)	577.1 (2.5)

(All figures are for Great Britain and exclude adult students registered for vacation employment)

	Total Unemployed (percentage rate in brackets) 000's*	Seasonally adjusted unemployment (per cent in brackets) 000's†
Nov.	588.3 (2.6)	579.5 (2.5)
Dec.	604.3 (2.6)	591.5 (2.6)
<b>1971</b>		
Jan.	674.8 (3.0)	611.4 (2.7)
Feb.	683.7 (3.0)	630.3 (2.8)
Mar.	700.0 (3.1)	654.6 (2.9)
Apr.	713.8 (3.2)	680.4 (3.0)
May	715.4 (3.3)	725.7 (3.2)
June	687.2 (3.2)	731.3 (3.3)
July	719.0 (3.2)	756.6 (3.4)
Aug.	793.1 (3.6)	772.0 (3.5)
Sept.	796.3 (3.6)	791.0 (3.5)
Oct.	818.5 (3.7)	808.5 (3.6)
Nov.	851.2 (3.8)	834.4 (3.7)
Dec.	867.6 (3.9)	847.7 (3.8)
<b>1972</b>		
Jan.	926.6 (4.1)	860.5 (3.8)
Feb.	925.1 (4.1)	870.7 (3.9)
Mar.	924.7 (4.1)	876.2 (3.9)
Apr.	911.8 (4.1)	868.1 (3.9)
May	831.8 (3.7)	838.0 (3.7)
June	765.5 (3.4)	808.1 (3.6)
July	775.1 (3.5)	804.6 (3.6)
Aug.	833.4 (3.7)	799.9 (3.6)
Sept.	823.0 (3.7)	803.3 (3.6)
Oct.	789.5 (3.5)	775.7 (3.5)
Nov.	770.4 (3.4)	755.6 (3.4)
Dec.	743.1 (3.3)	729.5 (3.3)
<b>1973</b>		
Jan.	769.4 (3.4)	707.6 (3.1)
Feb.	717.5 (3.2)	667.9 (2.9)
Mar.	682.6 (3.0)	640.2 (2.8)
Apr.	647.8 (2.9)	617.8 (2.7)
May	591.0 (2.6)	602.8 (2.7)
June	545.0 (2.4)	589.0 (2.6)
July	535.4 (2.4)	571.2 (2.5)
Aug.	551.6 (2.4)	548.5 (2.4)

(All figures are for Great Britain and exclude adult students registered for vacation employment)

	Total Unemployed (percentage rate in brackets) 000's*	Seasonally adjusted unemployment (per cent in brackets) 000's†
Sept.	526.9 (2.3)	529.1 (2.3)
Oct.	506.8 (2.2)	511.9 (2.3)
Nov.	493.6 (2.2)	495.2 (2.2)
Dec.	484.3 (2.1)	486.2 (2.1)
<b>1974</b>		
Jan.	597.7 (2.6)	541.6 (2.4)
Feb.	599.2 (2.6)	554.3 (2.4)
Mar.	590.1 (2.6)	552.5 (2.4)
Apr.	579.9 (2.5)	549.5 (2.4)
May	535.4 (2.3)	545.3 (2.4)
June	514.6 (2.3)	555.9 (2.4)
July	542.5 (2.4)	569.6 (2.5)
Aug.	628.7 (2.8)	586.9 (2.6)
Sept.	617.8 (2.7)	597.8 (2.6)
Oct.	610.3 (2.7)	607.1 (2.7)
Nov.	621.4 (2.7)	619.3 (2.7)
Dec.	‡	‡
<b>1975</b>		
Jan.	738.0 (3.2)	682.0 (3.0)
Feb.	757.1 (3.3)	707.7 (3.1)
Mar.	768.4 (3.4)	727.9 (3.2)
Apr.	808.2 (3.5)	763.9 (3.3)
May	813.1 (3.6)	813.8 (3.5)
June	828.5 (3.6)	856.0 (3.7)
July	944.4 (4.1)	929.5 (4.0)
Aug.	1,102.0 (4.8)	956.0 (4.1)
Sept.	1,096.9 (4.8)	991.6 (4.3)
Oct.	1,098.6 (4.8)	1,043.5 (4.5)
Nov.	1,120.1 (4.9)	1,087.2 (4.7)
Dec.	1,152.5 (5.0)	1,128.8 (4.9)
<b>1976</b>		
Jan.	1,251.8 (5.4)	1,163.5 (5.0)
Feb.	1,253.4 (5.4)	1,184.8 (5.1)
Mar.	1,234.6 (5.4)	1,178.6 (5.1)
Apr.	1,231.2 (5.3)	1,185.7 (5.1)
May	1,220.4 (5.3)	1,200.4 (5.2)
June	1,277.9 (5.5)	1,205.0 (5.2)

(All figures are for Great Britain and exclude adult students registered for vacation employment)

	Total Unemployed (percentage rate in brackets) 000's*	Seasonally adjusted unemployment (per cent in brackets) 000's†
July	1,402.5 (6.1)	1,242.8 (5.4)
Aug.	1,440.0 (6.2)	1,256.5 (5.5)
Sept.	1,395.1 (6.1)	1,265.0 (5.5)
Oct.	1,320.9 (5.7)	1,253.1 (5.4)
Nov.	‡	‡
Dec.	1,316.0 (5.7)	1,277.0 (5.5)

\* Excludes adult students.

† Excludes school leavers and adult students.

‡ Figures not available due to strikes in Department of Employment.

(Source: *Department of Employment Gazette*).

## (D) RETAIL PRICES

### (i) Retail Price Index 1947–1976

The table shows the five post-war Retail Price Indices based successively on June 1947=100 (discontinued in December 1952), January 1952=100 (discontinued in December 1956), January 1956=100 (discontinued in December 1962), January 1962=100 (discontinued in December 1973), and January 1974=100. The index's make-up and weighting (i.e. the relative importance attached to different terms) is designed to reflect monthly price changes of the items purchased by most households, including practically 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>
	<b>June 1947=100</b>											
1947						100.0	100.7	100.1	100.6	101.3	103.4	103.7
						—	—	—	—	—	—	—
1948	104.2	106.1	106.4	107.9	107.8	109.7	108.0	108.0	108.2	108.4	108.7	108.8
	—	—	—	—	—	9.7	7.2	7.8	7.6	7.0	5.1	4.9
1949	109.0	109.2	108.9	108.6	110.6	111.1	111.2	111.3	111.7	112.3	112.3	112.6
	4.6	2.9	2.3	0.6	2.5	1.3	2.9	3.1	3.2	3.6	3.3	3.4
1950	112.9	113.2	113.5	113.9	114.2	113.6	113.6	113.2	113.9	115.1	115.6	116.2
	3.6	3.6	4.2	4.9	3.3	2.3	2.2	1.7	2.0	2.4	2.9	3.2
1951	117.3	118.4	119.2	121.1	124.1	124.5	126.4	127.0	127.9	128.8	129.3	130.2
	3.9	4.6	5.0	6.3	8.6	9.5	11.3	12.2	12.3	11.9	11.8	12.0
	<b>January 1952=100</b>											
1952	100.0	100.1	100.6	102.2	102.2	103.9	103.8	103.2	103.0	103.9	103.8	104.5



*Year Jan. Feb. Mar. Apr. May June July Aug. Sept Oct. Nov. Dec.*

12.9 11.9 11.8 11.8 9.1 10.6 8.8 7.6 6.7 6.9 6.3 6.3  
1953 104.4 104.7 105.4 106.4 106.0 106.6 106.6 105.9 105.7 105.7 106.0 105.6  
4.4 4.6 4.8 4.1 3.7 2.6 2.7 2.6 2.6 1.7 2.1 1.1  
1954 105.8 105.6 106.6 107.0 106.7 107.3 109.1 108.4 108.2 108.7 109.2 109.8  
1.3 0.9 1.1 0.6 0.7 0.7 2.3 2.4 2.4 2.8 3.0 3.9  
1955 110.2 110.2 110.2 110.8 110.6 112.9 113.3 112.5 113.2 114.4 116.2 116.2  
4.2 4.3 3.4 3.6 3.7 5.2 3.8 3.8 4.6 5.2 6.4 5.8

**January 1956=100**

1956 100.0 100.0 101.3 102.7 102.5 102.4 102.0 102.3 102.1 102.7 103.1 103.4  
5.1 5.1 6.4 7.3 7.3 5.0 4.2 5.3 4.4 3.9 2.7 3.0  
1957 104.4 104.3 104.1 104.5 104.6 105.7 106.6 106.4 106.1 107.1 107.7 108.2  
4.4 4.3 2.7 1.7 2.0 3.2 4.5 4.0 3.9 4.3 4.5 4.6  
1958 108.1 107.6 108.4 109.6 109.2 110.2 108.5 108.3 108.4 109.4 109.8 110.2  
3.5 3.2 4.1 4.9 4.4 4.3 1.8 1.8 2.2 2.1 1.9 1.8  
1959 110.4 110.3 110.3 109.5 109.1 109.3 109.0 109.3 108.7 109.2 110.0 110.2  
2.1 2.5 1.7 -0.1 -0.1 -0.8 -0.4 0.9 0.3 -0.2 0.2 0.0  
1960 109.9 109.9 109.7 110.3 110.3 110.9 111.1 110.4 110.5 111.4 111.9 112.2  
-0.5 -0.4 -0.5 0.7 1.1 1.4 1.9 1.0 1.7 2.0 1.7 1.8  
1961 112.3 112.3 112.7 113.3 113.6 114.6 114.6 115.7 115.5 115.7 116.9 117.1  
2.2 2.2 2.7 2.7 2.9 3.3 3.2 4.8 4.5 3.8 4.5 4.3

**January 1962=100**

1962 100.0 100.1 100.5 101.9 102.2 102.9 102.5 101.6 101.5 101.4 101.8 102.3  
4.6 4.7 4.8 5.6 5.7 5.4 5.1 3.2 3.3 2.9 2.3 2.6  
1963 102.7 103.6 103.7 104.0 103.9 103.9 103.3 103.0 103.3 103.7 104.0 104.2  
2.7 3.4 3.2 2.1 1.7 1.0 0.8 1.4 1.8 2.3 2.2 1.9  
1964 104.7 104.8 105.2 106.1 107.0 107.4 107.4 107.8 107.8 107.9 108.8 109.2  
1.9 1.2 1.4 2.0 2.9 3.4 3.9 4.7 4.3 4.1 4.6 4.8  
1965 109.5 109.5 109.9 112.0 112.4 112.7 112.7 112.9 113.0 113.1 113.6 114.1  
4.4 4.5 4.5 5.6 5.0 4.9 4.9 4.7 4.8 4.8 4.4 4.5  
1966 114.3 114.4 114.6 116.0 116.8 117.1 116.6 117.3 117.1 117.4 118.1 118.3  
4.4 4.5 4.3 3.5 3.9 3.9 3.4 3.9 3.6 3.8 3.9 3.7  
1967 118.5 118.6 118.6 119.5 119.4 119.9 119.2 118.9 118.8 119.7 120.4 121.2  
3.7 3.7 3.5 3.0 2.2 2.4 2.2 1.4 1.5 2.0 1.9 2.5  
1968 121.6 122.2 122.6 124.8 124.9 125.4 125.5 125.7 125.8 126.4 126.7 128.4  
2.6 3.0 3.4 4.4 4.6 4.6 5.3 5.7 5.9 5.6 5.2 5.9  
1969 129.1 129.8 130.3 131.7 131.5 132.1 132.1 131.8 132.2 133.2 133.5 134.4  
6.2 6.2 6.3 5.5 5.3 5.3 5.3 4.8 5.1 5.4 5.4 4.7  
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

<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>
	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
<b>January 1974=100</b>												
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	21.1	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

(Source: *Department of Employment Gazette*)

**Linking the Indices:** The figures based on Jan. 1974=100 can be linked to the January 1962 index by multiplying them by 1.918. The figures based on January 1962=100 can be linked to the January 1956 index by multiplying them by 1.175. The figures based on January 1956=100 can be linked to the January 1952 index by multiplying them by 1.158. The figures based on January 1952=100 can be linked to the June 1947 index by multiplying them by 1.325.

**Purchasing Power of the Pound:** If the purchasing power of the pound is taken to be 100p in a particular month (or year) the calculation for finding the comparable purchasing power in a subsequent month (or year) is:—

$$100 \times \text{Earlier month Retail Price Index} \div \text{Later month Retail Price Index}$$

If using indices on different basis it is essential that before applying the formula given above the indices are linked using the technique described above.

Figures from January 1976 onwards are subject to revision.

(ii) Retail Prices\* and Value of Money (Jan. 1974–Dec. 1976)

(All figures derived from 15th Jan. 1974=100: based on All Items Index of Retail Prices)

	<i>Value of Index</i>	<i>% change over Previous Month</i>	<i>% change since February 1974</i>	<i>Value of 100p (£1) in Feb. 1974 in following months†</i>
<b>1974</b>				
Jan.	100.0	+1.9	—	—
Feb.	101.7	+1.7	—	100.0
March	102.6	+0.9	+0.9	99.1
April	106.1	+3.4	+4.3	95.8
May	107.6	+1.4	+5.8	94.5
June	108.7	+1.0	+6.9	93.6

## (ii) Retail Prices\* and Value of Money (Jan. 1974–Dec. 1976)

(All figures derived from 15th Jan. 1974=100: based on All Items Index of Retail Prices)

	<i>Value of Index</i>	<i>% change over Previous Month</i>	<i>% change since February 1974</i>	<i>Value of 100p (£1) in Feb. 1974 in following months†</i>
July	109.7	+0.9	+7.9	92.7
Aug.	109.8	+0.1	+8.0	92.6
Sept.	111.0	+1.1	+9.1	91.6
Oct.	113.2	+2.0	+11.3	89.8
Nov.	115.2	+1.8	+13.3	88.3
Dec.	116.9	+1.5	+14.9	86.9
<b>1975</b>				
Jan.	119.9	+2.6	+17.9	84.8
Feb.	121.9	+1.7	+19.9	83.4
March	124.3	+2.0	+22.2	81.8
April	129.1	+3.9	+26.9	78.8
May	134.5	+4.2	+32.2	75.6
June	137.1	+1.9	+34.8	74.2
July	138.5	+1.0	+36.2	73.4
Aug.	139.3	+0.6	+37.0	73.0
Sept.	140.5	+0.9	+38.2	72.4
Oct.	142.5	+1.4	+40.1	71.4
Nov.	144.2	+1.2	+41.8	70.5
Dec.	146.0	+1.2	+43.6	69.7
<b>1976</b>				
Jan.	147.9	+1.3	+45.4	68.8
Feb.	149.8	+1.3	+47.3	67.9
March	150.6	+0.5	+48.1	67.5
April	153.5	+1.9	+50.9	66.3
May	155.2	+1.1	+52.6	65.5
June	156.0	+0.5	+53.4	65.2
July	156.3	+0.2	+53.7	65.1
Aug.	158.5	+1.4	+55.8	64.2
Sept.	160.6	+1.3	+57.9	63.3
Oct.	163.5	+1.8	+60.7	62.2
Nov.	165.8	+1.4	+63.0	61.3
Dec.	168.0	+1.3	+65.2	60.5

\* Figures from January 1976 are subject to revision.

† Figures are derived from 15th January 1974=100 based All Items Index of Retail Prices.

*Note:* Percentage changes over previous 12 months are shown in previous table.

(ii) Retail Prices\* and Value of Money (Jan. 1974–Dec. 1976)

(All figures derived from 15th Jan. 1974=100: based on All Items Index of Retail Prices)

*Value of Index*    *% change over Previous Month*    *% change since February 1974*    *Value of 100p (£1) in Feb. 1974 in following months†*

(Source: *Department of Employment Gazette*).

## (E) INTERNAL VALUE OF THE POUND

(based on Index of Retail Prices)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
	p	p	p	p	p	p	p	p	p	p	p
1966	100	102½	107½	113	120½	131½	141	154	179	222	258½
1967	97½	100	104½	110½	117½	128½	137½	150½	174	216½	252
1968	93	95½	100	105½	112	122½	131½	143½	166½	207	241
1969	88½	90½	95	100	106½	116½	124½	136	158	196	228
1970	83	85	89	94	100	109½	117	128	148½	184½	215
1971	76	78	81½	86	91½	100	107	117	135½	168½	196
1972	71	72½	76	80	85½	93½	100	109	126½	157½	183½
1973	65	66½	69½	73½	78	85½	91½	100	116	144	168½
1974	56	57½	60	63½	67½	73½	79	86	100	124	144½
1975	45	46	48½	51	54	59	63½	69½	80½	100	116½
1976	38½	40	41½	44	46½	51	54½	59½	69	86	100

The above table shows the estimated purchasing power of the pound for each of the years 1966 to 1976, taking the value as 100p in each year in turn the figures given in the rows of the table can be used to express the changes in two slightly different, but equivalent, ways. For example, using the 1969 row, a pound in 1969 could purchase what it required only 88½p to purchase in 1966 or, using the 1966 row, it required 222p in 1975 to purchase what a pound could purchase in 1966.

(Source: Central Statistical Office. Conservative Research Department estimates for 1976).

## (F) STANDARD OF LIVING

PERSONAL DISPOSABLE INCOME PER CAPITA  
(seasonally adjusted)

	<b>Personal Disposable income per capita (1970 prices)</b>	<b>Percentage Increase/decrease on corresponding quarter in previous year (1970 prices)</b>	<b>Personal Disposable income per capita (current market prices)</b>	<b>Percentage Increase/decrease on corresponding quarter in previous year (current market prices)</b>
	<b>£</b>	<b>%</b>	<b>£</b>	<b>%</b>
1970 1st Quar	152	+0.7	148	+4.9
2nd Quar	158	+5.3	156	+10.6
3rd Quar	159	+5.3	160	+11.1
4th Quar	158	+3.3	162	+10.2
1971 1st Quar	157	+3.3	164	+10.8
2nd Quar	158	+0.0	170	+8.9
3rd Quar	161	+1.3	176	+10.0
4th Quar	163	+3.2	180	+11.1
1972 1st Quar	164	+4.5	184	+12.2
2nd Quar	174	+10.1	198	+16.4
3rd Quar	171	+6.2	200	+13.6
4th Quar	176	+7.9	209	+16.1
1973 1st Quar	177	+7.9	215	+16.8
2nd Quar	183	+5.2	226	+14.1
3rd Quar	182	+6.4	231	+15.5
4th Quar	183	+4.0	238	+13.9
1974 1st Quar	182	+2.8	247	+14.9
2nd Quar	180	-1.6	257	+13.7
3rd Quar	187	+2.7	277	+19.9
4th Quar	190	+3.8	295	+23.9
1975 1st Quar	189	+3.0	310	+25.5
2nd Quar	183	+1.7	321	+24.9
3rd Quar	182	-2.7	338	+22.1
4th Quar	180	-5.3	346	+17.3
1976 1st Quar	182	-3.7	360	+16.1
2nd Quar	181	-1.1	367	+14.3
3rd Quar	182	0.0	382	+13.0
4th Quar	n.a.	n.a.	n.a.	n.a.

(Source: *Economic Trends*)

n.a.=not available

## **(G) EXTERNAL VALUE OF THE POUND**

(Amount of foreign currency to £1)

	<i>U.S. dollars</i>	<i>Swiss Francs</i>	<i>Deutsche mark</i>	<i>Japanese Yen</i>	<i>Weighted fall in value of pound against other leading currencies<sup>†</sup></i>
1947	4.03	17.35	—	—	—
1950	2.80	12.25	—	—	—
1955	2.79	12.23	11.74	—	—
1960	2.81	12.13	11.71	—	—
1965	2.79	12.09	11.16	—	—
1970	2.39	10.33	8.74	857.84	—
<i>Last Working days</i>					
1971 Dec.	2.55	9.99	8.34	803.65	-1.2
1972 Jan.	2.59	10.05	8.32	805.00	-0.6
May	2.61	10.04	8.30	796.10	-0.6
Sept.	2.42	9.20	7.75	728.75	-7.3
1973 Jan.	2.38	8.63	7.52	717.25	-9.5
May	2.57	7.92	6.93	678.90	-10.8
Sept.	2.42	7.31	5.83	640.95	-19.7
1974 Jan.	2.28	7.44	6.29	682.18	-17.1
May	2.40	7.13	6.05	674.88	-17.0
Sept.	2.33	6.88	6.19	696.00	-17.7
1975 Jan.	2.38	5.94	5.57	709.25	-21.6
May	2.32	5.79	5.43	675.00	-24.7
Sept.	2.04	5.61	5.41	618.62	-28.7
1976 Jan.	2.03	5.28	5.25	616.25	-29.9
Feb.	2.02	5.20	5.21	612.00	-30.2
Mar.	1.92	4.87	4.87	573.75	-34.1
Apr.	1.84	4.63	4.67	550.50	-36.9
May	1.76	4.33	4.56	527.62	-39.6
June	1.78	4.40	4.59	531.87	-38.7
July	1.78	4.43	4.54	523.25	-38.8
Aug.	1.78	4.40	4.49	514.12	-39.4
Sept.	1.67	4.08	4.06	478.25	-44.5
Oct.	1.59	3.86	3.81	466.75	-48.0
Nov.	1.65	4.04	3.98	491.00	-45.3
Dec.	1.68	4.14	4.00	494.40	-44.2

(Source: Bank of England *Statistical Abstract & Quarterly Bulletin*).

<sup>†</sup>These figures show effective changes in exchange rates since 21st December 1971—immediately after the Smithsonian settlement (for definition, see Appendix III, p. 742).

# (H) INDUSTRIAL PRODUCTION

(Seasonally adjusted: average 1970 = 100)

(i) Yearly Figures 1970–1976

	<i>Index of Industrial Production (all industries)</i>	<i>Index of Industrial Production (Manufacturing only)</i>
1970	100.0	100.0
1971	100.5	99.6
1972	102.7	102.4
1973	110.3	110.8
1974	106.4	108.1
1975	101.3	101.4
1976	102.2	103.3

(Source: *Monthly Digest of Statistics*).

(ii) Monthly Figures 1974–1976\*

Figures in brackets show percentage change since Feb. 1974

		<i>Index of Industrial Production (all industries)</i>	<i>Index of Industrial Production (Manufacturing)</i>
1974	Jan.	101.2 ( - )	102.3 ( - )
	Feb.	103.3 ( - )	106.8 ( - )
	March	105.9 (+2.5)	107.9 (+1.0)
	April	107.3 (+3.9)	109.0 (+2.1)
	May	107.5 (+4.1)	108.7 (+1.8)
	June	108.6 (+5.1)	110.3 (+3.3)
	July	109.2 (+5.7)	110.7 (+3.7)
	Aug.	109.1 (+5.6)	111.2 (+4.1)
	Sept.	107.6 (+4.2)	108.8 (+1.9)
	Oct.	105.7 (+2.3)	106.3 (–0.5)
	Nov.	105.5 (+2.1)	106.7 (–0.1)
	Dec.	103.0 (–0.3)	104.1 (–2.5)
1975	Jan.	105.5 (+2.1)	107.7 (+0.8)
	Feb.	105.2 (+1.8)	106.9 (+0.1)
	March	103.6 (+0.3)	103.8 (–2.8)
	April	101.5 (–1.7)	101.7 (–4.8)
	May	99.4 (–3.8)	99.4 (–6.9)
	June	99.7 (–3.5)	100.0 (–6.4)
	July	100.0 (–3.2)	100.3 (–6.1)
	Aug.	98.5 (–4.6)	98.5 (–7.8)
	Sept.	100.3 (–2.9)	100.4 (–6.0)
	Oct.	100.6 (–2.6)	100.7 (–5.7)
	Nov.	100.8 (–2.4)	100.9 (–5.5)

(ii) Monthly Figures 1974–1976\*

Figures in brackets show percentage change since Feb. 1974

	<i>Index of Industrial Production (all industries)</i>	<i>Index of Industrial Production (Manufacturing)</i>
1976 Dec.	99.9 (–3.3)	99.6 (–6.7)
Jan.	101.4 (–1.8)	101.8 (–4.7)
Feb.	102.7 (–0.6)	101.2 (–4.3)
March	102.2 (–1.1)	102.1 (–4.4)
April	102.3 (–1.0)	103.2 (–3.4)
May	104.5 (+1.2)	106.4 (–0.4)
June	100.4 (–2.8)	100.9 (–5.5)
July	101.4 (–1.8)	103.6 (–3.0)
Aug.	100.6 (–2.6)	102.4 (–4.1)
Sept.	102.4 (–0.9)	104.2 (–2.4)
Oct.	102.8 (–0.5)	104.8 (–1.9)
Nov.	103.1 (–0.2)	104.5 (–2.2)
Dec.	102.8 (–0.5)	103.2 (–3.4)

(Source: *Monthly Digest of Statistics*)

\*Figures subject to revision.

## WAGES AND EARNINGS

(i) Average Earnings (GB)

(Wages and Salaries combined, January 1970 = 100, seasonally adjusted.)

	<i>All industries and services covered by Dept. of Employment Survey</i>	<i>Percentage increase on year earlier</i>	<i>Manufacturing industry</i>	<i>Percentage increase on year earlier</i>
<i>Yearly</i>				
1970	106.7	+12.1	107.0	+12.7
1971	118.7	+11.3	118.9	+11.2
1972	134.1*	†	134.3*	†
1973	152.1	†	151.6	†
1974	178.8	+17.5	177.1	+16.9
1975	226.5	+26.7	223.7	+26.3
1976				
<i>Quarterly</i>				
1970 1st	101.6	+10.2	101.4	+10.4
2nd	105.0	+11.6	105.0	+12.0
3rd	108.3	+13.0	108.9	+13.9
4th	111.9	+13.6	112.5	+14.5



## (i) Average Earnings (GB)

(Wages and Salaries combined, January 1970 = 100, seasonally adjusted.)

	<i>All industries and services covered by Dept. of Employment Survey</i>	<i>Percentage increase on year earlier</i>	<i>Manufacturing industry</i>	<i>Percentage increase on year earlier</i>
1971 1st	114.9	+13.0	115.1	+13.4
2nd	117.1	+11.6	117.4	+11.8
3rd	120.4	+11.1	120.4	+10.6
4th	122.5	+ 9.5	122.8	+ 9.1
1972 1st	126.4 <sup>†</sup>	†	126.8 <sup>†</sup>	†
2nd	130.5	+11.4	131.2	+11.7
3rd	135.0	+12.1	135.7	+12.7
4th	141.8	+15.8	140.9	+14.8
1973 1st	144.0	†	143.7	†
2nd	149.6	+14.6	148.9	+13.5
3rd	154.7	+14.6	153.7	+13.3
4th	159.8	+12.7	160.0	+13.5
1974 1st	159.1 <sup>‡</sup>	+10.2 <sup>‡</sup>	157.3 <sup>‡</sup>	+9.5 <sup>‡</sup>
2nd	170.1	+13.7	168.5	+13.2
3rd	185.5	+19.9	184.0	+19.7
4th	200.3	+25.4	198.7	+24.2
1975 1st	209.6	+31.7	207.3	+31.8
2nd	218.1	+28.2	214.6	+27.3
3rd	234.5	+26.4	230.7	+25.4
4th	243.9	+21.8	242.3	+21.8
1976 1st	250.8	+19.7	248.9	+20.0
2nd	257.3	+18.0	257.9	+19.8
3rd	§	§	§	§
4th				

\*Average of 11 months

†In the absence of earnings data for February 1972 due to the effects of the coalmining dispute no index of wages and salaries or index of average earnings has been calculated for this month.

‡The figures reflect temporary reductions in earnings while three day working and other restrictions were in operation.

§Not Available

(Source: *Economic Trends*)

## (ii) Wage Rates and Average Earnings\*

*Wage Rates*<sup>†</sup>*Average Earnings*<sup>‡</sup>

	<i>Value of index</i>	<i>% Change over Previous 12 Months</i>	<i>% Change since February 1974</i>	<i>Value of index</i>	<i>% Change over Previous 12 Months</i>
<b>1974</b>					
Jan.	123.0	+13.8	—	154.1	+ 7.7
Feb.	124.0	+14.2	—	156.6	+ 8.6
Mar.	125.9	+15.1	+ 1.5	164.4	+14.2
Apr.	127.3 <sup>  </sup>	+13.7	+ 2.7	164.8	+12.3
May	131.4	+16.3	+ 6.0	169.5	+13.5
June	136.2	+18.0	+ 9.8	176.2	+16.0
July	139.1	+20.2	+12.2	181.4	+18.1
Aug.	144.8	+21.3	+16.7	185.9	+20.5
Sept.	145.6	+21.7	+17.4	189.0	+21.0
Oct.	147.9	+23.5	+19.2	191.8	+21.3
Nov.	153.1	+27.0	+23.5	200.8	+25.4
Dec.	157.1	+29.4	+26.7	208.3	+29.4
<b>1975</b>					
Jan.	158.9	+29.1	+28.1	206.2	§
Feb.	161.1	+29.9	+29.9	209.9	§
Mar.	168.1	+33.5	+35.6	212.8	+27.9
Apr.	169.1	+32.8	+36.4	215.4	+30.7
May	175.4	+33.5	+41.5	217.7	+28.4
June	181.5	+33.3	+46.3	221.2	+25.6
July	183.6	+32.0	+48.1	231.6	+27.6
Aug.	184.4	+27.4	+48.7	234.0	+25.9
Sept.	184.9	+27.0	+49.1	237.9	+25.8
Oct.	186.3	+26.0	+50.2	239.5	+24.9
Nov.	194.4	+27.0	+56.8	243.5	+21.3
Dec.	197.0	+25.4	+58.9	248.6	+19.3
<b>1976</b>					
Jan.	200.9	+26.4	+62.0	248.8	+20.7
Feb.	205.1	+27.4	+65.4	249.7	+19.0
Mar.	206.7	+23.0	+66.6	254.0	+19.4
Apr.	208.8	+23.5	+68.4	253.8	+17.9
May	210.5	+20.0	+69.7	259.8	+19.3
June	215.3	+18.6	+73.6	258.3	+16.8
July	217.7	+18.5	+75.6	263.1	+13.9
Aug.	217.8	+18.1	+75.6	267.2	+14.2
Sept.	217.9	+17.8	+75.7	266.1	+12.2
Oct.	218.2	+17.1	+75.9	269.0	+12.4
Nov.	219.4	+12.8	+76.9	272.2	+12.9

## (ii) Wage Rates and Average Earnings\*

	<i>Wage Rates</i> <sup>†</sup>			<i>Average Earnings</i> <sup>‡</sup>	
	<i>Value of index</i>	<i>% Change over Previous 12 Months</i>	<i>% Change since February 1974</i>	<i>Value of index</i>	<i>% Change over Previous 12 Months</i>
Dec.	220.2	+11.7	+77.6	277.3	+11.8

\*Figures since August 1976 are subject to revision

<sup>†</sup>All figures are derived from the 31st July 1972 = 100 based index of Basic Weekly Rates for all manual workers in all industries and services.

<sup>‡</sup>All figures are derived from the January 1970 = 100 based index of Average Earnings (seasonally adjusted). The figures refer to all industries and services covered by the Department of Employment's monthly inquiry.

<sup>§</sup>It is estimated that if there had not been the three day week in the early part of 1974, the increase in earnings between January 1974 and January 1975 would have been in the region of 27 per cent and the increase between February 1974 and 1975 about 29 per cent.

<sup>||</sup>Includes the effect of an overtime ban in engineering April 1974.

## (iii) Average Earnings, Hours and Salaries: Male Manual Workers\*

	<i>Average Weekly Earnings</i>		<i>Average Hours Worked</i> <sup>†</sup>
	£	s	
Oct. 1946	6	9	47.6
Oct. 1951	8	6	47.8
Oct. 1959	13	11	48.5
Oct. 1964	18	2	47.7
Oct. 1965	19	12	47.0
Oct. 1966	20	6	46.0
Oct. 1967	21	8	46.2
Oct. 1968	23	0	46.4
Oct. 1969	24	16	46.5
<i>(Decimalisation)</i>			
	£		
Oct. 1970	28.05		45.7
Oct. 1971	30.95		44.7
Oct. 1972	35.82		45.0
Oct. 1973	40.92		45.6
Oct. 1974	48.63		45.1
Oct. 1975	59.58		43.6

\*All male manual workers employed in industry (21 years and over)

<sup>†</sup>Weekly

(Source: *Department of Employment Gazette*)

# (J) PRODUCTIVITY

## OUTPUT PER PERSON EMPLOYED

(Total Employed Labour Force)  
(Seasonally adjusted 1970 = 100)

	<i>Productivity Index</i>	<i>Percentage change since corresponding quarter in previous year</i>
1970 Q1	98.8	+1.9
2	99.7	+1.7
3	100.6	+2.5
4	100.9	+2.7
1971 Q1	101.6	+2.8
2	102.8	+3.1
3	104.1	+3.5
4	104.7	+3.8
1972 Q1	102.8	+1.2
2	106.1	+3.2
3	106.2	+2.0
4	107.2	+2.4
1973 Q1	109.5	+6.5
2	108.8	+2.5
3	109.4	+3.0
4	109.4	+2.1
1974 Q1	106.6	-2.6
2	108.5	-0.2
3	109.0	-0.4
4	107.8	-1.5
1975 Q1	108.3	+1.6
2	105.8	-2.6
3	105.3	-3.4
4	106.0	-1.7
1976 Q1	108.2	-0.1
2	107.7	+1.8
3	108.0	2.5
4	n.a.	n.a.

(Source: *Economic Trends*)

n.a. = not available.

# (K) MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

(All figures are seasonally adjusted)

	Total M1	M1* Percentage Increase/decrease since respective quarter in previous year	Total M3	M3 <sup>†</sup> Percentage Increase/decrease since respective quarter in previous year	Domestic Credit Expansion <sup>‡</sup>
	£ <i>million</i>		£ <i>million</i>		£ <i>million</i>
1970 Q1	8,640	+1.5	16,320	+2.1	-163
2	8,930	+7.2	16,970	+7.0	+436
3	9,040	+8.8	17,350	+8.5	+538
4	9,430	+9.5	17,800	+9.5	+230
1971 Q1	9,820	+13.7	18,330	+12.3	+141
2	9,890	+10.8	18,740	+10.4	+33
3	10,230	+13.2	19,180	+10.5	+357
4	10,740	+13.9	20,010	+12.4	+457
1972 Q1	11,190	+14.0	21,360	+16.5	+1,223
2	11,590	+17.2	23,010	+22.8	+2,110
3	11,790	+15.2	23,990	+25.1	+1,385
4	12,290	+14.4	25,670	+28.3	+2,147
1973 Q1	12,250	+9.5	27,330	+27.9	+1,755
2	13,000	+12.2	28,590	+24.3	+1,320
3	12,550	+6.4	30,830	+28.5	+2,771
4	13,100	+6.6	32,970	+28.4	+2,936
1974 Q1	12,660	+3.3	33,140	+21.3	+1,593
2	13,020	+0.2	34,810	+21.8	+1,459
3	13,520	+7.7	36,030	+16.9	+2,014
4	14,510	+10.8	37,140	+11.2	+2,523
1975 Q1	14,810	+16.9	37,810	+12.4	+832
2	15,930	+22.4	38,300	+10.1	+2,205
3	16,800	+24.3	39,840	+9.6	+1,193
4	17,270	+19.0	40,030	+7.8	+523
1976 Q1	17,890	+20.8	40,770	+7.3	+1,367
2	18,310	+14.9	42,320	+10.4	+325
3	19,260	+14.6	44,440	+11.5	n.a.
4	19,050	410.4	44,450	11.0	n.a.

\*M1—consists of notes and coins in circulation with the public plus sterling sight deposits.

(All figures are seasonally adjusted)

Total M1	M1* Percentage Increase/decrease since respective quarter in previous year	Total M3	M3 <sup>†</sup> Percentage Increase/decrease since respective quarter in previous year	Domestic Credit Expansion <sup>‡</sup>
£ million		£ million		£ million

<sup>†</sup>M3—consists of notes and coins in circulation with the public together with all deposits (including certificates of deposit) whether denominated in sterling or other currencies held by UK residents in both the public and private sectors.

<sup>‡</sup>Change in period. Figures are seasonally adjusted (for definition see Appendix III).

(Source: *Bank of England Quarterly Bulletin*)

## (L) PUBLIC SECTOR BORROWING REQUIREMENT

<i>Financial Years</i>	<i>Public Sector Borrowing requirement</i>	<i>Public Sector Borrowing requirement per household</i>
	£ million	£
1970–1	803	43.8
1971–2	1,014	55.4
1972–3	2,498	136.5
1973–4	4,432	242.2
1974–5	7,955	434.7
1975–6	10,603	579.4
1970 Q1	-1,238	–
2	114	6.2
3	251	13.7
4	856	46.8
1971 Q1	-418	–
2	256	13.9
3	567	30.9
4	968	52.9
1972 Q1	-777	–
2	715	39.1
3	740	40.4
4	1,362	74.4
1973 Q1	-319	–
2	1,384	75.6
3	1,536	83.9

		<i>Public Sector Borrowing requirement</i>	<i>Public Sector Borrowing requirement per household</i>
	4	1,581	86·4
1974	Q1	-69	-
	2	1,877	102·6
	3	1,607	87·8
	4	2,963	161·9
1975	Q1	1,508	82·4
	2	3,107	169·8
	3	2,493	136·2
	4	3,398	185·7
1976	Q1	1,605	87·7
	2	2,967	162·1
	3	2,303	125·8
	4	n.a.	n.a.

*Note:* A minus figure indicates a net overall repayment of government debt in the quarter.

n.a. = not available

(Source: *Economic Trends*).

## 12. AGRICULTURE

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### Speaking Note

**Agriculture will only expand if there is confidence in the industry.**

Confidence depends on the following factors:

- Realistic prices for food that is economically produced.
- Fair competition within the EEC context.

- A taxation system that enables farmers and growers to retain enough profit to reinvest and improve production which is the traditional method of expansion.
- A political climate and long term policies providing an incentive to build up a business and then to hand it on.

**But the Labour Government has destroyed confidence by:**

- Introducing the Capital Transfer Tax which cannot be met out of income and thus weakens farm businesses. This tax also turns productive assets into capital tax liabilities.
- Depressing producer prices by maintaining a disparity of up to 46 per cent between the Green and market rates of the £.
- Introducing political dogma to the countryside in the form of hereditary tenancies and tied cottage legislation.
- Failing to halt inflation which has added over £1 billion to farmers' costs since 1974, and not ensuring that producers' returns cover the costs.
- Weakening Britain's position in the European Community through the Labour Party's hostility to membership, and the renegotiations.
- Supporting, or not objecting to, policies proposed and devised by the Labour Party's National Executive Committee which threaten the very structure of the British agricultural industry which Europeans admit is the overall leader in performance and method in the Common Market.
- Appointing a new Minister of Agriculture (Mr John Silkin) who has no connection with the industry and is a leading member of the Tribune Group of the Labour Party.
- Following a policy of consumer preference even when conditions of production are controlled by outside influences such as drought.

## **(A) LABOUR'S RECORD 1964–70**

Agricultural production had been rising at 4 per cent a year during the previous thirteen years of Conservative government. It was a prosperous agricultural industry that the Labour Government inherited in 1964—as Mr (now Lord) Peart indirectly admitted when he wrote, shortly before the general election:

“The main objective of Labour's new Agriculture and Food Policy will be to maintain a prosperous industry and to ensure that the incomes of farmers and farmworkers move rapidly towards their industrial equivalents” (*Farmer and Stockbreeder*, 6th October 1964).

Three years later it was reported that:

“Average weekly earnings in agriculture are below weekly earnings in any other industry for which figures are available, and average hourly earnings are well below those of any other industry” (Prices and Incomes Board, Report No. 25 Cmnd. 3199, January 1967).

Lord Peart had earlier claimed:



“Unlike the Tories, Labour has never let down agriculture” (Nottingham, 30th September 1964).

During the following six years the Labour Government let down the industry severely—as the levels of production, expansion, and incomes, both of farmers and farmworkers, show. (see below).

**Expansion.** The record was summed up in a review of the industry's expansion plan published by the Agricultural Economic Development Council just after the 1970 Labour Government Review. The EDC concluded:

“Measured against the agricultural expansion programme, production so far has not come up to expectation ... There is a strongly held view in the industry that, despite the weather, production would have been more impressive if the incentives to expand had been greater ... The EDC is confident that home agriculture has the potential to reach these (import saving) objectives ... Nevertheless, the question of confidence ... remains crucial.”

**Farm Production and Incomes.** The following table illustrates the effect of Labour's policies on the performance of the industry as a whole, i.e. *very little growth*.

	<b>Net Income</b>	<b>Net Product</b>	<b>Labour Productivity</b>
	<b>£ million</b>	<b>Average of 1964–5 = 100</b>	
1966–7	485	100	105
1968–9	490	100	114

(Source: *Annual Review 1972*).

**Incomes of Farmworkers.** Basic minimum farmworkers' wages rose from £9·50 a week to £13·15, a 38 per cent increase in the years 1964–70, compared with an increase from £13·15 to £21·80—a 66 per cent rise in the first 3½ years of the 1970 Conservative Government.

## **(B) EXPANSION UNDER CONSERVATIVES**

### **1. EXPANSION OF PRODUCTION**

On taking office in 1970, the Conservative Government started to fulfil its manifesto pledge to expand agricultural production. First, there was an interim review in October 1970 which boosted farmers' returns by £54 million. Second, Mr Prior and Mr Godber introduced two major policy changes. The first of these was the announcement in the 1970 Price Review of the phased introduction of import levies, the effect of which was to raise home market prices and reduce dependence on deficiency payments. ‘Fall-back’ guarantees were retained in order to guard against the effects of a price slump. The rise in world commodity prices in 1973 distorted the intended plan by increasing arable farmers' returns (with a corresponding reduction in

deficiency payments), while imposing additional costs on livestock farmers who account for some two-thirds of total British agricultural production. Nevertheless, during the Conservative administration livestock numbers increased considerably between 1970–4: cattle by 19 per cent, pigs by 6½ per cent, and sheep by 10 per cent.

The second major change in agricultural policy came about as a result of UK membership of the EEC. UK Price Reviews have been largely superseded by Common Agricultural Policy (CAP) determinations. It was acknowledged at the time of our entry that food prices would rise as a result of membership. However, in the years following UK admission to the Community, soaring world prices, and world shortages of food proved that the security of supply provided by membership of the EEC is more important than the effect on food prices.

The February 1974 Review, announced by the Conservative Government, was the most comprehensive ever awarded. Mr Godber, Minister of Agriculture, stated that its effect would be to ensure continued supplies at a time of disturbance in world commodity markets.

## 2. SUCCESS OF CONSERVATIVE POLICY

The prosperity which resulted from these changes in policy and from realistic price reviews is reflected in the first paragraph of the 1973 White Paper (Cmnd. 5254):

“British Agriculture as a whole is thriving. There has been a dramatic increase in capital investment by the industry. Labour productivity continues to improve. Incomes have risen. Costs of production have, however, risen sharply, although returns from the market have helped producers meet extra costs. Production trends in most sections are good; in particular there have been substantial increases in the cattle breeding herd and a marked recovery of the sheep breeding flock. Continued expansion of efficient food production is farming's contribution to the economy, and this is of special importance just now. The industry is in a condition to develop the opportunities now becoming available and to maintain the impetus of expansion.”

The success of Conservative policy was indicated, above all, by the rise in farming net income from £574 million in 1969–70 to £1,283 million in 1973–4.

When the Conservatives left office in March 1974, British agriculture was geared to steady expansion. Farmers survived the period of cost explosion following the oil crisis of 1973, due to the improved structure of farming brought about by massively increased investment. Since 1974, however, that trend has been reversed, as the following table shows.

Net Product and Labour Productivity (All commercially significant holdings) <i>June/May years</i>		
Year	Net Product at constant prices 1968/69–1971/72=100	Labour Productivity 1968/69–1971/72=100
1965–6	..	76

Net Product and Labour Productivity  
(All commercially significant holdings)

*June/May years*

Year	Net Product at constant prices	
	1968/69–1971/72=100	Labour Productivity 1968/69–1971/72=100
1966–7	..	80
1967–8	..	88
1968–9	90	86
1969–70	96	95
1970–1	103	105
1971–2	110	115
1972–3	112	118
1973–4	118	126
1974–5	120	133
1975–6	108	123
1976–7	97	114
(forecast)		

(Source: *Annual Review of Agriculture 1977*).

## (C) DECLINE UNDER PRESENT GOVERNMENT

The present Labour Government's total failure to increase the home production of food is shown in the table below.

Output of the British Food Industry, 1970–5

*Year Percentage change on year earlier in the index of agricultural production*

1970	+0.5
1971	-0.1
1972	+4.1
1973	+2.2
1974	-1.7
1975	-3.4

(Source: *Hansard*, 16th November 1976, Col. 515)

### 1. ANNUAL REVIEW 1975

#### and EEC Price Determinations

The EEC in March 1974 determinations negotiated by Lord Peart failed to provide adequate returns for pig and beef producers. As a result, calf slaughterings in April

1974 were double the level of the same period in 1973, and the pig herd fell by 17 per cent between December 1973 and February 1975.

**The 1975 Review** announced both UK and EEC price determinations. This awarded average increases of 9–10 per cent; and at the same time there was a 3.75 per cent devaluation of the Green Pound (see p. 297).

The gulf between Socialist promises and Labour Government action has steadily widened. In April 1975 the Government produced, with acclaim, the White Paper, *Food from our own Resources* (Cmnd. 6020). This forecast a modest 2.5 per cent increase in production each year. But even this target has proved illusory. 1975–6 saw a fall of 14 per cent, the greatest decline in agricultural production since before the Second World War. Indeed, the picture is bleak throughout as the following figures show:

#### 1975–6 Performance compared with 1974–5

Farm incomes	:down by 24.0 per cent
Productivity	:down by 5.0 per cent
Fixed investment	:down by 10.0 per cent
Self sufficiency	:down by 0.3 per cent
The national cattle herd	:down by 3.7 per cent
The national sheep flock	:down by 1.4 per cent
The national pig herd	:down by 13.0 per cent
The national poultry flock	:down by 2.0 per cent

(Sources: *Annual Reviews of Agriculture*, 1975 and 1976.)

Meanwhile, farm costs rose by over £1 billion.

## 2. THE 1976 REVIEW

This was preceded by violent disagreement between Mrs Shirley Williams, then Secretary of State for Prices and Consumer Protection, and Lord Peart, then Minister of Agriculture. Mrs Williams claimed that the Review was a bad deal for the British housewife, thus demonstrating her failure to appreciate that UK farmers are unlikely to risk heavy investment in agriculture unless they are guaranteed returns to cover the costs of production. Without that guarantee, farmers cannot provide the security of supply essential for feeding the nation.

Lord Peart announced the following prices for 1976:

#### *EEC Price determinations*

Milk : + 6 per cent to 43p per gallon

Beef :+15 per cent to £26.60 per live cwt (average)

Pigmeat :+ 8 per cent to £5.48 per score

Cereals :Feed wheat :£56 per tonne (intervention Aug. 1976)

Breadmaking wheat :£64

Barley :£56·10

Sugar beet: + 5 per cent to £14·74 per tonne

*UK Price determinations (Increases)*

Sheepmeat: 6·5p per lb to 42p per lb (Hill subsidy 60p to £3·60 per ewe)

Wool :7p per lb to 38p per lb

Potatoes :£12 per ton to £40 per ton.

### **3. CAPITAL GRANTS**

New grants were announced in April and May 1976 for the Farm and Horticulture Development Scheme, the Farm Capital Grant Scheme, and the Horticulture Capital Grant Scheme. These belated awards are welcome, but two reservations to these schemes remain: first, grant schemes are meaningless if the returns offered to farmers are inadequate to service the investment; and second, capital taxes which make any farm improvement a liability rather than an asset contradict the initial policy of aiding farm investment.

Unfortunately, applications have been slow in coming forward because of the complicated methods required for assessment of viability.

### **4. CAPITAL TRANSFER TAX**

The Labour Party's failure to understand the structure of the agricultural industry, and their readiness to subject its interests—along with those of the rest of the country—to political dogma has been nowhere better illustrated than in the Government's introduction of the Capital Transfer Tax in 1975. In an industry where consolidation of holdings is increasingly important if farms are to be run economically, and where the heavy investment needed is only worthwhile when the farmer expects that he—or his successors—will reap the benefit, a tax which means the break up of farms and the discouragement of land improvement could not be more damaging.

Conservatives have succeeded in making modifications to the Government's original proposals for CTT (see Chapter 4, pp. 97–8). The Budget of April 1976 permitted valuation of land for owner-occupier farmers at 50 per cent of its market value. This was a considerable concession, but the tax remains highly damaging, and it further discourages any improvement of holdings which adds to their capital value. Where the tax cannot be paid out of other resources, or out of income over eight years, it will mean the selling off of land, and fragmentation of farms on the death or retirement of the owner. Furthermore, the lack of concessions to landholders who are not owner-

occupiers has halted the flow of land to let, as landholders reduce their tax liability by farming their land themselves.

## 5. AGRICULTURAL TIED HOUSES

It is estimated that there are 70,000 tied houses in Britain on 35,000 farms. These provide homes for farmworkers and their families and also accommodation for retired farmworkers.

In August 1975 the Labour Government published a consultative document entitled '*Abolition of the Tied Cottage System in Agriculture*'. This effectively precluded any discussion of the principle of abolition which, the document stated, was "not in question". The Government introduced in April 1976 the Rent (Agriculture) Bill (now an Act) the chief purpose of which is to give security of tenure to serving and retired farmworkers in England and Wales, who are housed by their employers. The main provisions of the Act are:

- i. Workers must have been employed in agriculture or forestry for at least two years, working full-time.
- ii. Workers will be protected occupiers of their houses.
- iii. A farmworker whose job ends is entitled to continue living in his tied house until the employer can show that suitable alternative accommodation is available.
- iv. This right can be passed on to one successor (normally the widow or widower, or a member of the family who lived in the house for at least six months before the occupant's death).
- v. The farmer may ask the local authority to provide alternative housing if he needs the house and has no alternative accommodation himself.
- vi. Local authorities have a duty to "use their best endeavours" to provide accommodation, to consult the local "agricultural dwelling house advisory committee" (drawn from the existing agricultural wages committees), and to "take account of the urgency of the case, competing claims on their accommodation, and the resources at their disposal".

The Conservative Opposition voted against the Second Reading of the Bill on 4th May 1976 for the following reasons:

- a. Few farmworkers wish to abolish the tied house system.
- b. The threat of legislation has already discouraged the building of new farmworkers' houses.
- c. Local authorities' "best endeavours" are ill-defined. Farmers do not have a guarantee that their ex-employees will be rehoused.
- d. The consequent delays in regaining possession threaten the efficiency of farms, particularly those with livestock dependent upon on-farm labour.
- e. The provision of housing on most farms has facilitated movement by farmworkers from one job to another. This has created a career structure within agriculture which can and does take them to managerial levels. The Bill jeopardizes this structure.

As Mr Francis Pym, then Conservative spokesman on agriculture, said:

“The agricultural and forestry industries have been singled out by the Government in the Bill not for the benefit of farmworkers or food production but to satisfy their own outdated political dogmas” (*Hansard*, 4th May 1976, Col. 1090).

In the Lords, the following amendments were made to the Bill to make it more workable for the farmer and the responsible local authority: (a) livestock farmworker cottages were to be excluded; (b) forestry was removed from the Bill completely; (c) the qualifying period of the farmworker was extended; (d) the responsibility of the local authority was increased; and (e) the farmer was allowed to put a caravan on the farm to temporarily house the new employee without having to apply for a site licence.

However, the Government refused to accept any of these amendments and used the guillotine to force the Bill through.

## **6. HEREDITARY AGRICULTURAL TENANCIES**

The Government created hereditary succession to tenancies by means of Committee Stage amendments to the Agriculture (Miscellaneous Provisions) Bill. These amendments were introduced after cursory consultation with agricultural interests, and they will be highly damaging to the agricultural industry. They were added to the Bill allegedly in an attempt to provide a solution to the fall in the number of tenancies. This has arisen as a result of the present system of capital and income taxation which discriminates against landholders who are not owner-occupiers. By ossifying the career structure of agriculture, the Socialists have denied entry to the industry to those of limited capital.

Conservatives opposed the new clauses on the grounds that:

- i. Landholders will no longer be able to select the best tenants to farm their land.
- ii. They will impose a heavy burden on the Agricultural Land Tribunals which may prove beyond their competence.
- iii. There will undoubtedly be hardship for landowners' children.
- iv. The main ladder into farming will be taken away from those with modest capital.

The new clauses will damage the whole of our land tenure system. Mr Pym said:

“Our position on the Opposition benches has been and still is that a review of the working of the agricultural holding legislation is necessary and, indeed, overdue” (*Hansard*, 8th March 1976, Col. 58).

The Agriculture (Miscellaneous Provisions) Bill 1976 is now an Act and has already taken effect. The number of tenancies available has been reduced to about half what it was five years ago and the chances of young skilled farmers entering the industry with limited capital are now virtually nil.

## **7. OTHER MEASURES AFFECTING AGRICULTURE**

**The Community Land Act** (see also Chapter 14, p. 338) takes away from farmers the right to expand their holdings by the most advantageous and economic use of land. Furthermore, there is an obligation on local authorities to acquire land, at existing use value, which may be developed in the next ten years. This particularly threatens those who farm on the fringe of towns.

**The Dock Work Act** (see Chapter 8, p. 217). This measure, as originally drafted, not only threatened to constrict the flow of half the nation's food, but also permitted dockers to control the flow of foodstuffs and materials used by farmers.

## **8. WEALTH TAX**

Although Labour have shelved the introduction of this tax for the present (see Chapter 4, p. 98), it remains a Sword of Damocles over agriculture. Farming is particularly vulnerable to any form of capital taxation due to its high capital intensity both in land and machinery. UK agriculture employs about £38,000 of capital per farmer/farmworker. This is over twice as much as that used by ICI, and over twelve times that used by the National Coal Board. But trading profit as a percentage of gross assets is less than half that of ICI. As with CTT, a Wealth Tax would fragment farms, as land is sold to pay taxes that cannot be met out of income.

## **9. RATING**

Farmland has been fully derated since 1929. The Layfield Report (see Chapter 20, p. 509) recommended that all farmland should be rated. It is estimated that this would raise £120 million each year. While there are logical reasons for this recommendation, Conservatives have pointed out that there are more important considerations. Farmers can only increase food production at economic prices if there is sufficient incentive to improve their holdings and methods of farming. If that incentive is not only diluted by taxes on the capital value of farms, but also reduced by further contraction of profits, then the proposed rating of land would be a grave disservice to both consumers and producers.

Conservative policy was stated by Mr Keith Speed, spokesman on local government matters, at the 1976 Party Conference:

“We also reject the proposal to rate agricultural land. We cannot contemplate the lengthy and costly process of valuations and appeals when we know they will put our farmers at a disadvantage compared with their competitors in the EEC, will lead to increases in food prices and provide a low net yield to local government revenue” (Brighton, 6th October 1976).

## **10. NATIONALISATION OF FARMLAND**



The Labour Party seeks to resolve the problems of the countryside by nationalising farmland. The National Executive Committee document, *The Public Ownership of Agricultural Land—Immediate Proposals for Action*, originally issued in November 1975, can only weaken confidence in the agricultural industry still more, and yet Lord Peart, then Minister of Agriculture, said that he found them “constructive” and would

“want to give careful study to possible Government options along these lines” (*Report to Labour Party Home Policy Committee*, February 1976).

The NEC document calls for nationalisation through

“voluntary handing over of ownership of freehold land to the state in payment of these taxes” (i.e., CTT and the proposed Wealth Tax).

Mr Pym remarked:

“Voluntary my foot! If farmers prove reluctant to hand over their land, then the screws of capital taxation are to be turned ... and turned to make ‘the advantages of selling land to a public body more apparent’. Enforced confiscation, dictatorship, intimidation—call it what you like—the land is to be taken from the people. The spirit and feeling behind this paper is to turn all those who gain their living on the land into serfs of the State” (*Letter to Cambridgeshire Conservative Association*, 23rd February 1976).

The NEC proposals are now embodied in *Labour's Programme 1976*, which referred to them as an “interim measure”, pending “the public ownership of all land.”

## **(D) THE COMMON AGRICULTURAL POLICY**

The EEC's Common Agricultural Policy (CAP) is often blamed for high food prices in the United Kingdom. This is not totally justified, since the prices of certain commodities such as lamb and sugar are higher outside the Community. The main causes of higher food prices at home are inflation and the fall in the exchange rate of the pound sterling over the last few years.

Britain's consumers are in fact being protected by the Government's refusal to accede to pressure from the Commission and farmers to devalue the Green Pound. They are benefiting through the payment of approximately £1.5 million a day in subsidies from the Community budget, to which the United Kingdom's contribution is some 16 per cent.

One of the main reasons for the many problems facing the Community today, such as the ‘butter mountains and wine lakes,’ can be identified in the complicated monetary system. With exchange rates fluctuating daily, the policy of price parity within the Community becomes harder to achieve. Another reason is the policy of supporting the inefficient producers. This automatically leads to higher food prices for consumers.

Until these problems in the CAP are resolved, Governments will continue to pursue individualistic policies to the detriment of a truly unified economic community.

## 1. OBJECTIVES

The objectives of the EEC's CAP as set out in Article 39 of the Treaty of Rome are:

- a. To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour.
- b. To ensure a fair standard of living for the agricultural community, in particular by increases in individual earnings of persons engaged in agriculture.
- c. To stabilise markets.
- d. To ensure the availability of supplies.
- e. To ensure that supplies reach consumers at reasonable prices.

The CAP is the cornerstone of the European Economic Community. As Mr Lardinois, then the EEC Commissioner for Agriculture, pointed out, international monetary problems in 1975–6 have placed it in jeopardy:

“The future of the CAP is in doubt unless there can soon be agreement on a common policy for European finance. If the Ministers of Finance do not sort out their problems within five years, the Common Agricultural Policy will no longer be able to exist” (London, 23rd March 1976).

This is even more important now when the differential between the Green (see p. 301) and market rates of the pound sterling has widened to over 40 per cent, making one of the main principles of the Common Market—price parity—more difficult to achieve. Mr Lardinois said: “We are in the midst of a very serious crisis” (*Daily Telegraph*, 20th October 1976).

## 2. INTERNAL PROBLEMS

There are three major internal problems facing the CAP:

- a. Parity of competition, which is essential to the fair and effective working of the CAP, has been undermined.
- b. The budgetary cost of the CAP is becoming prohibitive and politically unacceptable in many member states.

The *Financial Times* of 22nd October 1976 reported that the Commission had estimated that the extra budgetary costs in 1976 would be over one billion Units of Account (£417 million) and that the cost of present arrangements for Monetary Compensation Amounts (MCA) would need to be budgeted at 1.5 billion UA (£625 million) in 1977, amounting to 25 per cent of the EEC's total farm budget.

- c. There are structural imbalances in production which are particularly serious in the dairy sector where the surplus stock of skim milk powder in October 1976 exceeds one million tons.

### 3. THE COMMISSION'S PROPOSALS

**Dairy Sector.** In July 1976 the Commission announced plans to reduce the Community dairy herd by 1.5 million cows. These were:

- a. The introduction of a Community system of premiums for the non-marketing of milk and for the conversion of dairy herds to beef.
- b. Suspension of national and Community aid to the milk sector for three years.
- c. Introduction of a co-responsibility levy.
- d. Expansion of the Community markets by such measures as subsidising school milk.
- e. Taxes on non-dairy fats and proteins.

These proposals were debated in the House of Commons in October 1976, and are still to be considered by the Council of Ministers.

In the debate, it was made clear that Conservatives agreed with items (a) (c) and (d) but were totally opposed to the proposed suspension of national and Community aid, and to the proposed tax on non-dairy fats and proteins.

**Skim Milk Powder.** In the meantime, the Commission devised a most unsatisfactory scheme to utilise 400,000 tons of the skim milk powder mountain that had built up, by incorporation in animal compound rations. It has now been terminated, but aid is still available for the inclusion of skim milk powder in livestock feed mixes.

**The Commission's "Stocktaking" Document of the CAP,** published in February 1975, made recommendations which might have prevented this sort of problem recurring. The recommendations were:

- a. There should be an improved system for the payment of compensatory amounts (see p. 000). These should only serve to prevent the short-term distortions in competition caused by currency fluctuations.
- b. The (Community) Annual Price Review should reflect both the cost of effective production and the level of consumer demand. For products in surplus, price adjustments should be made twice yearly, depending on the level of surplus in the first half of the year. Furthermore, "co-responsibility" should be introduced, which would limit producer returns for over-production and enable consumers to buy such products more cheaply.

**The Green Pound.** After nearly two years, these two basic problems are at last being tackled by the Community. The dairy surplus scheme is awaiting approval and the problem of the payments of Monetary Compensatory Amounts and the imbalances in Green Currencies is being tackled by two proposals to be considered by the Council of Ministers in the near future. These are as follows:

- a. The introduction of a ceiling leading to the adjustment of the green rates by a simplified procedure.
- b. The proposals for a permanent system for adjusting the MCAs (see p. 301) by a continuous change at regular intervals when necessary.

The Labour Government correctly identifies the problems of the Common Agricultural Policy, but goes no further than suggesting they should be resolved. The disparity of the Green and Market rates of the pound sterling is an area where the Government could act, but the Minister of Agriculture has steadfastly refused to move towards devaluation of any kind and so has put the whole structure of the Common Agriculture Policy and the EEC at risk. The short-sighted determination that the consumer interest alone, and therefore votes, should be safeguarded at all costs, is not the correct way to resolve inherent problems in the Common Agricultural Policy.

Since Britain's entry to the EEC, the Green Pound and the pound sterling have been out of line by up to 46 per cent and there has been no adjustment for over a year. This has created unfair problems of competition between home producers and continental exporters to the United Kingdom, particularly in the pig sector.

## **4. BRITAIN'S ENTRY INTO EEC: TRANSITIONAL PERIOD**

The period of adjustment was an important issue in Britain's pre-entry negotiations because of the need to safeguard the consumer and also traditional Commonwealth suppliers and, in view of the cost of the CAP to the balance of payments, the position of sterling. It was accordingly agreed that there should be a five-year period of transition during which British prices would be harmonised with Community prices in six equal stages at the beginning of the crop year for the commodity in question. (The transitional period ends on 31st December 1977). In order that agricultural trade should flow freely in the enlarged Community *ab initio*, a system of compensatory amounts on UK imports from other EEC countries was agreed (see p. 301).

## **5. OTHER TOPICS**

There are a number of specific features of the Common Agricultural Policy which affect the UK:

**The Beef Premium Scheme.** This was introduced in August 1974, and restored confidence in this sector of the industry. The scheme sets target prices per live hundredweight which are guaranteed to the producer. When the market price falls below the target price a variable premium is applied which raises producers' returns to target levels. Mr Peart negotiated a modified scheme in March 1976 which introduced intervention purchasing in order to raise the market floor.

**Marketing Boards.** These have been challenged by Mr Lardinois as being monopolistic. Both the Labour Government and the Conservative Party are, however, pledged to maintain Marketing Boards, and will not support any changes which radically reduce their effectiveness.

**Poultry Meat Hygiene.** In 1976 the EEC issued two Directives (71/118 and 75/431) concerning the sale of fresh and uneviscerated poultry. The Directives will operate in two stages:

- i. In August 1977 hygiene regulations concerning slaughterhouse structure will be put in operation, and by August 1979 inspection of slaughterhouse throughput will be introduced.
- ii. After August 1981 uneviscerated (New York dressed) birds will only be available for purchase at the farm gate.

These directives were passed by the House of Commons after alterations by the Ministry of Agriculture to cater for the interests of the various professional bodies such as the Environmental Health Officers Association and the Veterinary Association.

**A Common Market Sheepmeat Regime.** Proposals are still being formulated as a result of the breakdown between the three member states concerned in the sheep industry, namely France, Ireland and the UK. The problem is that at the moment France opens and closes her frontier according to the degree of home supply, thus enabling her to protect her own producers from UK and Irish competition.

## **(E) HORTICULTURE**

**Effect of Entry to EEC.** The horticulture sector had feared that the entry of the UK to the European Community would mean hardship. But the Conservative Government negotiated with the Commission special transitional arrangements for horticulture, to mitigate the effects of entry. These included compensatory amounts in the form of levies on imports and refunds on exports of apples and pears.

The competitive position of UK horticulture (which accounts for over a tenth of total agricultural output) varies in different sectors. Field vegetable growers, whose products are heavy and bulky in relation to their value, are most favourably placed, but those with orchards of the highest quality fruit should be able to hold their own. Those with old and substandard orchards have found it difficult to compete within the EEC.

In June 1971 a two-year scheme of grubbing grants at full standard costs was introduced to help to eliminate orchards which were no longer economically viable. After entry into the EEC the Government brought in a scheme of special payments to commercial growers of apples and pears who were deciding to give up production under EEC conditions.

**Oil Prices.** Major problems have since arisen in the glasshouse sector. Oil prices have increased fourfold since 1971. In April 1974 Lord Peart introduced a temporary subsidy of 6p a gallon backdated for the period 1st January 1974—1st July 1974, and at a level of 4p a gallon between 1st July 1974 and 31st December 1974. The subsidy was worth a total of £7 million. The termination of the subsidy at the end of 1974, however, has placed the UK glasshouse industry at a severe competitive disadvantage compared with our EEC partners. Mr Pym, during a visit to Brussels on 17th March

1975, asked Mr Lardinois to request the British Government immediately to restore our growers to a realistic competitive position.

The Commission authorised member states to give state aid to glasshouse producers towards meeting the increase in the price of fuel oil. Lord Peart, even though he voted on 30th April 1975 in the EEC Council of Ministers meeting in Brussels to allow other European nations to continue their oil subsidies beyond 1st July 1975, obstinately refused to reintroduce subsidies for UK growers. Dutch growers enjoyed, until 30th June 1976, a gas subsidy which lowered heating costs to the equivalent of about 5·8p per therm, compared to costs of 10·9p per therm in Britain (*Hansard*, 6th April 1976, Written Answers, Col. 100).

## **(F) FORESTRY**

United Kingdom imports of timber and timber products totalled nearly £2,000 million in 1975. There is every reason to expand our forestry, both on balance of payments grounds, and because it provides employment in areas where there is no alternative work. The Labour Government has, however, crippled it by the introduction of Capital Transfer Tax. *Farmers Weekly* (19th December 1975) reported that plantings were 40 per cent down in England. The Scottish Woodland Owners' Association stated on 11th June 1976 that plantings had fallen to 34 per cent of pre-CTT levels.

CTT discourages any investment which raises the capital value of a holding. Forestry progressively increases in value and thus becomes a greater liability. The full effect of CTT's introduction has not yet been felt because the valuation of forestry for CTT purposes is on sales on disposal rather than death. As Mr Michael Jopling, a Conservative spokesman on Agriculture, has said:

“The Labour Party has created a one way flow out of forestry ... this decline has been accompanied by redundancies for forest workers, many of whom, in upland areas, have little opportunity for alternative employment” (*Liverpool*, 7th January 1976).

Labour have traditionally viewed private forestry with distrust. Thus the proposed EEC grants for afforestation (proposed Directive R/1131/75) were rejected by Mr Gavin Strang, Parliamentary Secretary, Ministry of Agriculture, as liable to cause a “one way flow of land out of agriculture” (*Times*, 5th November 1976). This myopic view is based on a misunderstanding of the need for a policy of integrated land use.

Moreover, *Labour's Programme 1976* proposes an expansion of the public sector in forestry, the involvement of the National Enterprise Board in the timber-based industry, and eventually the nationalisation of forestry land.

The Conservative approach to the problems of forestry was stated by Mr Francis Pym:

“Forestry is in a depressed state, and will be given a firm policy on which to re-build its future. A change in taxation is the key. There has been a disastrous 60 per cent fall in private plantings over the last two years, the result of unrealistic and confiscatory taxation. We shall see that the industry has the opportunity to expand once more,

because the need for home-grown timber has never been greater” (*Brighton*, 7th October 1976).

## **(G) FISHERIES**

### **1. RISING COSTS**

The past two years have been disastrous for fishermen. The tremendous and unforeseen rise in fuel prices which raised the cost of marine diesel oil from £14 per ton in 1972 to £67 per ton in 1976, reversed the fortunes of a previously buoyant industry. Other costs too have continued to rise as a result of uncontrolled inflation; these have not been offset by returns. First, catches have been restricted as a result of the Cod War (see p. 629). This has created pressures on inshore fleets off the south-west coast of England and off West Scotland. Second, the Labour Government have done little to protect UK fishermen from falling quayside returns. Initially this fall was caused by an increase in UK imports of North East Atlantic cod, and world oversupply of meat, which consequently also depressed fish prices. Much of this could be attributed to imported fish landed at low prices. Fortunately, the EEC Commission has since proposed a system of minimum import prices.

The failure of the Icelandic Government and the European Commission to reach agreement on the number of trawlers allowed into Icelandic waters has pushed up the price of cod which now averages £1 per lb. It is to be hoped that an agreement will soon be reached as Britain's distant trawler fleet is in real danger of having nowhere to fish. Furthermore, an agreement with Norway is still to be finalised, which is also aggravating the industry's problems.

### **2. EEC COMMON FISHERIES POLICY**

The fishing industry has also suffered from the uncertainties surrounding future fishing limits. The UN Law of the Sea Conference (UNCLOS III) has recommended the extension of states' Exclusive Economic Zones (EEZs) to 200 miles from the shore, or to a median line between states closer than 200 miles. This policy has been wholeheartedly supported by the Conservative Party. However, the introduction of 200-mile EEZs has wholly changed the circumstances of the UK fishing industry, and made renegotiation of the Common Fisheries Policy (CFP) essential. In a House of Commons debate on 30th June 1975, Mr Jopling said:

“We want from the Government an assurance that they will take urgent steps to modernise the Common Fisheries Policy” (*Hansard*, Col. 1029).

This demand was repeated in debates on 19th February and 5th April 1976. During the latter debate Mr Pym attacked the Government for its dilatory policy towards the fishing industry. Indeed, at Question Time on 25th March 1976 Mr Bishop, Minister of State for Agriculture, having recalled that in April 1975 Lord Peart had said that the renegotiation of the CFP “was an urgent matter”, could only say that talks were still under way.

The progress of the renegotiation of the CFP has been erratic and alarming. On 10th June Lord Peart let slip the fact that Mr Hattersley, Minister of State at the Foreign Office, was prepared to negotiate variable limits from 12 to 50 miles from the shore (*Hansard*, 10th June 1976, Col. 1655). This has been criticised by the Conservatives. Mr Pym said:

“The case for a big extension of limits for each country beyond 12 miles is very powerful and, indeed, overwhelming. The industry has nailed its flag firmly on the 100 mile marker, and in the last debate I said that there was a strong argument for it. I notice that the Under-Secretary of State for Scotland said at a meeting as long ago as April last year that the Common Fisheries Policy ... would be negotiated ... on the basis for the first 100 miles to be kept for the British fishing industry.

“I think that there again is support for this view. However, I do not want to give the Minister an impossible or unattainable task or to tie his hands specifically, so I press him for a zone far wider than 12 miles” (*Hansard*, 5th April 1976, Col. 35).

**Commission's Proposals.** The final proposals for a new Common Fisheries Policy were disclosed in Brussels on 23rd September 1976. They include plans for:

- a. An EEC 200 mile exclusive zone.
- b. A regime for the internal policy of the 200 mile limit.
- c. Proposals for negotiating agreements with third countries.

The 200 mile zone was finally agreed in early November 1976 but the internal regime is still being argued over by member states.

The Government has now changed its tune from an initial claim of a 50-mile exclusive belt around Britain to anything up to 50 miles. Unfortunately, for the Government, this came out in a reported statement by Mr Hugh Brown, Under Secretary for Scotland, at the Aberdeen International Fisheries Conference in October 1976, that we had no hope of getting a 50 mile limit.

Negotiations were started with Iceland and Norway in November 1976 by the Commission in Brussels, but the problems of the Common Fisheries Policy, particularly with the Icelandic agreement having ended on 1st December 1976, are not going to be solved overnight.

Under the Fisheries Limits Bill 1976, orders have been made allowing all EEC member states to continue fishing within the UK's 200-mile limit for one month, on the basis of 1976 catches. This is likely to be continued month by month until an internal agreement is reached between member states.

Third country fishing by such countries as the USSR has also been restricted by order, and in some cases a total ban has been imposed. Negotiations between Russia and the EEC began early in 1977.

### **3. LABOUR'S FAILURE TO SAFEGUARD THE FISHING INDUSTRY**



The Labour Government has meanwhile introduced no lasting measures to help the ailing industry. On 27th February 1975 it announced temporary aid in the form of flat rate daily payments based on class of vessels. All vessels of over 40 feet were eligible. The scheme awarded fishermen a total of £6¼ million, but it ended on 31st December 1975.

Even measures to protect fishermen from the disruption caused by low-priced imports from third countries were not lasting. Frozen fish imports in the period January to March 1976 were 46 per cent higher than during the same period of 1975.

The consequences of Labour's lack of action are already clear. The deep sea trawling fleet has declined from 494 in 1973 to 350 today, 40 of the vessels being laid up pending a decision on their future. Fishing companies have made losses; e.g. Associated Fisheries lost £133,000 net to 30th September 1975. Redundancies have inevitably followed. For example, Boston Deep Sea Trawlers announced on 20th June 1976 that they intended to halve their fleet and work-force. On the east coast of Scotland, fishermen have been made redundant with little hope of alternative employment.

Fishermen have finally recognised that as long as their livelihoods depend on the present Government they have little hope. As *Fishing News* commented after a visit by Lord Peart to Grimsby:

“He gave no hint of hope to an industry, which, as he was able to see for himself, is bleeding to death ... His bland approach often seemed as out of place as a comedian at a funeral” (5th March 1976).

The National Executive Committee of the Labour Party in their *Programme for Britain 1976* have now proposed the nationalisation of this previously vigorous industry, which the Labour Government, by incompetence and lack of foresight, has brought to its knees.

## 6. CONSERVATIVE ATTITUDE

Mr Pym stated:

“In our view, the situation has been allowed to deteriorate to such a point that, if we are to bring a British fleet of suitable and appropriate size through the present emergency, it will have to receive temporary financial assistance. I emphasise ‘temporary’ because we are convinced that there is no need for any system of continuing or long-term support. The industry is entirely capable of standing on its own feet, and it wants to do just that” (*Hansard*, 5th April 1976, Col. 38).

## (H) ANIMAL WELFARE

**Factory Farming.** In 1964, the Conservative Government set up a special committee under the Chairmanship of the late Professor Brambell to examine factory farming. The committee reported to the Labour Government that:

“The use of such methods (intensive husbandry) should not in itself be regarded as objectionable and may often benefit animals: but certain practices are contrary to animal welfare and need to be controlled.”

A standing Farm Animal Welfare Advisory Committee was established by the Labour Government in 1964 with the broad support of the Conservative Opposition. Subsequently the Agriculture (Miscellaneous Provisions) Act 1968 widened the definitions of cruelty to farm animals. Codes of practice for livestock-keeping were later approved by Parliament in October 1969 and revised by the Conservative Government in July 1971.

**The export of live animals** is a recurrent topic of concern. In November 1972 the Conservative Government introduced new procedures to ensure compliance with the Balfour Assurances which have regulated the trade for fifteen years. On 1st February 1973, the issue of export licences for sheep—except for breeding and exhibition—was discontinued, owing to exporters' failure to comply with the new procedures. In July 1973 this ban was extended to cattle. A Committee of inquiry established under Lord O'Brien later made recommendations for the regulation of this trade. Veterinary controls were then introduced and tight control of exports imposed through the existing licensing system. Under Clause 9 of the Agriculture (Miscellaneous Provisions) Bill 1976, the procedure for licensing is to include the requirement of a statement of destination.

## **(I) CONSERVATIVE POLICY**

Conservative policy on agriculture, horticulture, fisheries, food and forestry is set out in *The Right Approach*:

“International developments in the 1970s have made it clear that the era of cheap and abundant food supplies is now over and that security of supply is of even greater importance than it used to be. Every country, including Britain, must accept that for some time the cost of food will be high and increasing. Whatever may be done through selective welfare measures to shield the neediest from the full effects of the inevitable price increases, there is no way in which the country as a whole can avoid them. At the same time the industry has been disrupted more than most by the combination of the oil crisis and unfavourable weather. Furthermore, in Britain, though not elsewhere, its interests have been seriously neglected in favour of the short-run consumer interest for electoral reasons, and damaged by several major pieces of legislation such as the Capital Transfer Tax. The painful and humiliating dispute with Iceland and other diplomatic misadventures have greatly damaged our fishing industry.

“Our priority is therefore to recreate the right conditions for cost-conscious expansion. This will require changes in the taxes introduced by Labour; an end to artificially low prices which depress investment, production and confidence and necessitate higher imports and ultimately higher prices; the establishment of conditions of fair competition with our European partners; and special consideration for the problems of fishing, forestry and the uplands.

“As the period of transition to full EEC membership draws to a close, the nature and development of the Common Agricultural Policy (CAP) will be of ever-greater importance to our farmers. The case for a Community-wide market in agricultural produce remains strong, provided it is economically and administratively efficient, and does not unduly favour Continental producer interests at the expense of consumers or exporters of agricultural products outside the Community. The CAP is at present under great strain and no one can predict what will have happened to it by the time the next Conservative government is formed. Nevertheless, it is of the greatest importance to the British consumer and farmer, and a future Conservative Minister of Agriculture will have to play a very active role in all aspects of its evolution”

As Mr Pym stated:

“The objective is easy enough to state: the assurance of adequate supplies at economical prices for the consumer, and both sides of that equation are of course directly connected.

“In Britain's case, security of supply is a major consideration. The disappearance of the once plentiful supply of cheap food in the world gave our membership of the European Community an added significance. It is an insurance against the permanent risk we take in depending so heavily on imported food. This is the basic case for expanding our home output. In our present economic position that expansion is of even more potential value—in saving imports and helping the balance of payments” (London, 23rd March 1976).

Conservative aims were also summed up by **Mrs Thatcher**:

“We believe that we must make the best use of our greatest national resource. It is in the interests of both farmers and consumers to provide more for the national larder from homegrown supplies. We must, and can, reduce our imports of those foodstuffs that we can grow ourselves—if our farmers are only given the chance.

“This means that there must be prices that will encourage the extra effort, and reward those who want to work even longer hours. It means prices that will give farmers a reasonable standard of living. It means a continuation of agricultural support in a way that ensures stability—and therefore confidence” (*St. Austell*, 21st February 1976).

## **(J) GLOSSARY OF EEC TERMS**

**Unit of Account (U.A.):** the EEC units of common currency. The pound sterling fluctuates daily against this rate. On UK entry to the EEC £1 equalled 2.40 U.A.; on 3rd November 1976 £1 equalled 1.2 U.A.

**The ‘Green Pound’:** this is the artificial and static exchange rate for agricultural products between the UK currency and the unit of account. The arrangement is necessary in order that European farm pricing mechanisms can operate without daily fluctuation. Many of the problems of UK farmers have stemmed from the reluctance of Lord Peart and Mr Silkin and Mr Healey to revalue the Green Pound when there is

substantial difference between pound sterling and the Green Pound. The effect of this is not only to allow other member states to undercut UK producers, but also to deny UK producers the full advantages of the market floor provided by the Intervention system.

**Transitional Compensatory Amounts (TCAs):** also called Accession Compensatory Amounts (ACAs). These are compensatory payments which ensure parity of trade between member states during the transitional period (which for the UK ends 1st January 1978). Before transition, agricultural prices varied throughout the Community. TCAs temporarily protect producers from the effects of price differences. They are progressively reduced during transition and there are two stages left between now and full membership at the end of next year.

**Monetary Compensatory Amounts (MCAs):** MCAs compensate for any currency changes within the EEC. Their effect is to tax cheaper agricultural goods exported to zones with higher prices, and to subsidise more highly priced goods imported by devalued zones. MCAs will continue in operation while countries maintain differing currencies.

**Intervention Price:** this is the price at which the various Intervention Boards of the European Community start to purchase farm produce for storage in order to provide a firm floor price in the market. This price is always lower than the target price.

**Target Price:** this is the price which the farmer should receive for his produce. It is determined by the Commission each year, with the agreement of the Council of Ministers.

**Threshold Price:** this is the minimum import price. By placing levies on produce imported from Third Countries, returns are guaranteed to the farmer within the CAP. The threshold price is always higher than the target price.

# 13. HOUSING

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## Speaking Note

### **Collapse of Labour's Housing Strategy**

- A huge increase in housing expenditure in Labour's first two years of office has been used to provide very expensive new council building and to return to indiscriminate rent subsidies.
- The result of this wasteful misdirection of resources has been a fall in private house starts, an increase in the number of homeless and a slump in the number of improvement grants.
- Labour's strategy has now totally collapsed. The Government has had to cut subsidies and force up council rents while introducing new controls on council building.

### **Labour Hits Home Ownership**

- Both at central and local government level, Labour have severely discouraged the sale of council and new town houses. As a result sales of these houses have slumped from 60,661 in 1972 to 2,234 in 1975 in England and Wales.
- Despite an October 1974 manifesto commitment to expand them, the Government has consistently cut back on local authority mortgages. In 1977–8 alone they are to be cut by nearly £146 million.
- By measures like the Community Land Act and the Development Land Tax, Labour have severely discouraged the private builder. As a result, there is a severe danger of a steep fall next year in private house starts from even the very low level of 150,000 started in 1975.
- By their gross overspending Labour have caused a large increase in the mortgage rate to a record 12¼ per cent.

### **War on the Private Landlord**

- Labour's 1974 Rent Act has dried up the supply of privately rented homes.

### **Conservative Housing Strategy**

The next Conservative Government will pursue policies designed to widen choice, to provide decent accommodation for those in need and to make the best use of our existing housing stock.

**Conservatives will increase home ownership:**

- By encouraging an increase in the building of homes for sale. This will be done by
  - a. Scrapping the Community Land Act and reducing the present penal rate of Development Land Tax, thus averting the threatened land famine.
  - b. Restoring the confidence of our major builders by putting a stop to Labour's plans to nationalise them.
  - c. Working for a smoother flow of mortgage finance for house purchase.
- By giving help to house buyers in a number of ways which might include Shared Purchase Schemes in which families would initially have to buy only 60 or 70 per cent of their homes; government assistance with the deposit; or the fixing of a maximum mortgage rate. It is much cheaper to assist people to become home owners—which is what most people want—than to subsidise them indefinitely in a new council house.
- By giving families living in either council houses or New Town houses a legal right to buy their homes on favourable terms.

**Conservatives will make better use of our existing housing stock:**

- By directing scarce resources towards improvement rather than bulldozing.
- By introducing a new form of shorthold tenure which would enable landlords and tenants to agree on fixed term lettings, thus bringing into use much accommodation at present lying empty.
- By encouraging owner-occupiers and council tenants to let out spare rooms.

**Conservatives will concentrate help on areas and people in greatest need:**

- By encouraging owner-occupation, leaving councils freer to deal with those who really need help.
- By concentrating new council building in areas of housing stress or population growth and on the provision of suitable accommodation for special groups such as the elderly and the disabled.
- By concentrating subsidies on the poorest families whether in council or privately rented accommodation.

**Conservatives will give families living in council houses a greater say in the running of their estates:**

- By issuing a model tenants' charter setting out and defining the responsibility of local authorities to their tenants and setting out the rights that tenants can reasonably expect.

# (A) INTRODUCTION

## 1. THE PROBLEM

The main deficiency of housing policy in recent years has been the failure to get adequate value for the prodigious sums which have been spent. In five years public spending on housing has risen four times as fast as the rest of public spending. Yet, although there is now statistically a surplus of homes over households of about 850,000, in practice serious housing problems remain, and are in some respects worsening.

*Higher spending, for example, appears to have brought little benefit to those families in most extreme need.* Although precise figures are difficult to obtain, there is general agreement among organisations which have to deal with the problem directly, such as Shelter, that there are particular areas, especially in the older industrial cities, in which homelessness is actually increasing. Furthermore, many poorer families are still living in slum conditions or in property which is in increasingly urgent need of renovation.

*A second disappointment is that massive expenditure has done little to widen choice in housing.* It is true that most families in Britain are now adequately housed—indeed, probably better housed than most families in Western Europe—but very many of these families are not in the kind of house they would prefer. Repeated surveys have shown that more and more people want to become home owners. But far from facilitating this development, rising spending on housing in recent years has coincided with a tailing off in the rate of expansion of home ownership. Similarly, although many people, particularly the single and the young, prefer to live in privately rented accommodation, recent years of rising spending have seen the now longstanding decline in the privately rented sector continue unabated.

In any circumstances, such a poor return on substantial investments of taxpayers' money would be unacceptable. But the urgent need in the present economic crisis to reduce expenditure across the board, including that on housing, means it is essential to undertake a thorough reappraisal of policies and priorities in order to ensure that the limited resources that do remain available are put to much better use.

## 2. LABOUR'S MISTAKES

Some of Britain's housing problems predate the present Labour Government. But instead of responding to these problems rationally and constructively, Labour have exacerbated the situation by allowing their approach to be determined by doctrinaire prejudice in favour of huge expenditure on public housing.

Labour have devoted by far the greater part of their housing expenditure to a programme of (i) increased council house building, (ii) increased council purchase of private homes, and (iii) increased rent subsidies for council house tenants. Yet the objections to such a policy are obvious: new council houses are the most expensive form of housing provision; the costly municipalisation of private homes does not add a single additional house to the existing stock; and indiscriminate rent subsidies

lengthen council waiting lists by deterring families who can afford and who would normally want to become owner-occupiers, from incurring the cost of a mortgage.

Meanwhile, the obverse side of Labour's enthusiasm for public sector housing has been (a) a renewed attack on private landlords in the form of further controls in the Rent Act 1974 (see p. 321), thus speeding up the decline of the private rented sector, and (b) the discouragement of home ownership by policies which have included the obstruction of the sale of council houses (see p. 314), cuts in local authority home loans (see p. 313), fewer and dearer mortgages (see p. 312), and measures which have led to record bankruptcies among private house-builders (see p. 313).

It is true that the Government has recently acknowledged that the deepening economic crisis means that spending on council housing cannot be sustained at the levels of the last two years. They have admitted that in 1977 there will be a marked reduction in council house starts (see p. 312); and the February 1976 Public Expenditure White Paper suggested that the Government intended to increase the proportion of costs met by rents between now and 1980.

What is dismaying is that, having abandoned a strategy that has failed, the Labour Government has not developed a more effective alternative. It would be reasonable to expect that a recognition by the Government of the need to reduce spending on council provision, would be accompanied by a willingness to re-examine its approach towards private housing. Depressingly, however, the traditional Socialist vendetta against the private landlord continues; and the resolutions at the last Labour Party Conference calling for a reduction of tax relief on mortgages, and a legislative ban on the sale of council houses (see p. 313) indicate that the Labour Party is actually now more intent than ever on hindering the extension of home ownership.

### **3. CONSERVATIVE HOUSING STRATEGY**

*The Right Approach* states that “concentrating aid on need would lead to a significant reduction in public expenditure”. Conservatives also wish to ensure that in future the housing available in Britain will reflect much more closely than at present people's needs and preferences. The main features of the Party's strategy are:

**1. A major extension of home ownership.** Not only do most families want to become home owners, but it makes good economic sense to encourage them to do so, for it is much cheaper to help families buy their homes than to subsidise them indefinitely in a new council house (see p. 308).

Conservatives will encourage more building for sale by implementing policies designed to restore the confidence of builders (see p. 310). In addition, they favour various forms of additional financial support to first time buyers (see p. 310); and they will give council tenants a legal right to buy their homes on favourable terms.

**2. Better use of the existing housing stock.** When councils in many areas are simply unable to deal with the problem of increasing homelessness, it makes no sense whatever to pursue policies which encourage the present under-use of private homes. In part the solution to the problem of under-occupation is to make sure that the need



to provide landlords with a fair return is taken into account when fixing rents, while at the same time trying to achieve a much greater take-up in rent allowances for poorer tenants. But it is also important to establish a fair balance between the legal rights of landlord and tenant: Conservatives have detailed proposals to ensure that landlords need not be deterred from letting unused rooms and houses by the fear that they will be unable to regain possession when it is fair that they should (see p. 324).

As the private rented sector has declined, so has the quality of the houses it contains. A fair return for landlords will enable them to keep their property in much better repair. But if we are to make the best use of our existing housing stock there should also be an increase in the resources devoted to improvement to ensure that houses with a reasonable life expectancy, whether privately rented or owner-occupied, are not wantonly destroyed but renovated.

**3. Concentrating new council building on those in need.** A shift of resources towards owner-occupation and the private sector will enable councils to concentrate new building on the areas of serious housing stress, on areas of population growth, and on particularly needy groups such as the old and disabled through the provision of more suitable sheltered and smaller dwellings, thus releasing larger houses for younger families.

The Government has belatedly accepted the necessity to cut indiscriminate rent subsidies to council tenants. As *The Right Approach* states, “concentrating aid on need would lead to a significant reduction in public expenditure”.

The document goes on to point out that Conservatives “do not regard higher council house rents as being something good in themselves. But without a fair and realistic distribution of housing costs there can be no real choice for very many people. For largely political reasons, Socialists actually *want* to limit choice, to keep thousands of families trapped (at great public cost) in what has been called ‘the serfdom’ of municipal estates. We offer the much more attractive prospect of a choice—a free choice between ownership and a less restrictive kind of tenancy” (see p. 319).

## **(B) THE CONSERVATIVE RECORD, 1970–4**

**A Fair Deal for Tenants.** The Housing Finance Act 1972 concentrated the housing subsidies on areas and people most in need. As a result, the fair rents system which the previous Labour Government had already introduced for privately rented houses was extended to council houses. But any family in need, whether they lived in a council house or in a privately rented home, furnished or unfurnished, was enabled to get help with the rent. When the 1964–70 Labour Government introduced fair rents for privately rented accommodation they provided no help with the rent for poorer families thus ignoring the needs of many of the worse off families in Britain.

**More New and Better Homes.** In the three years of Conservative Government to June 1973 the total of new houses started and improvement grants for older houses

approved, taken together, was 1,953,000, as against 1,488,000 in the last three years under the previous Labour Government, an increase of about half a million.

**Improved Homes.** Taking both council houses and private homes together, more than a million houses were improved with the aid of grants during the first three years of Conservative Government. Legislation was introduced to concentrate more help in the form of improvement grants on areas of housing stress, but this failed to reach the Statute Book before the February 1974 General Election. Similar legislation has since been implemented by the Labour Government.

**More Home Ownership.** In the first three years of Conservative Government about one million people became home owners for the first time. Of the one million or so mortgages received by these people, about 410,000 went to persons under the age of 25, and some 540,000 to persons on average male industrial earnings or less.

Although house prices rose more sharply than was desirable, this did not prevent more and more families of moderate means from buying their homes. The problem was that the previous Labour Government had practically killed off the effective demand for home ownership and thus greatly reduced the rate of house building for sale. The immediate need therefore was to stimulate demand in order to get house building going again, which inevitably increased prices while the building rate was catching up with increased demand.

In fact, building improved quite dramatically: the number of houses for sale started in 1972 totalled 228,000 as against 165,000 in 1970, but unfortunately the recovery of the building industry began to slow down as high world interest rates pushed up mortgage interest rates in Britain.

**Sale of Council Houses.** There was a major increase in the number of families who were enabled to buy their council houses. For example, in 1972 about 60,000 people bought their council or new town homes—nine times as many as in 1970.

## **(C) HOME OWNERSHIP**

### **1. SCOPE FOR EXPANSION**

At present the proportion of households in Britain owning their homes is about 53 per cent, but there is clearly scope for the further expansion of home ownership. As Mr Hugh Rossi, Conservative spokesman on Housing, said:

“Our new slogan must be 80 per cent home ownership in the 1980s” (*Blackpool*, 8th October 1975).

**Comparison with other Countries.** Britain compares not unfavourably with many other Western European countries in the proportion of homes owned by families living in them. Precise comparisons are not possible because statistics for other countries are not up to date. But it is known that in 1968, for example, the proportion

of owner-occupied homes in France was nearly 44 per cent compared with about 49 per cent in Britain; and in West Germany the proportion was nearly 35 per cent.

However, the percentage of home ownership in Britain is a good deal below the levels in other English-speaking countries, as the table below shows:

<i>Country</i>	<i>Year</i>	<i>Percentage of Owner-Occupied Dwellings</i>	
Canada	1967	65·4	(48·0)
USA	1970	62·9	(50·0)
Australia	1966	70·8	(47·2)
New Zealand	1967	69·9	(48·0)

*Note:* Figures in brackets show the level of owner-occupation in Great Britain in the years indicated.

(*Source:* Memorandum of Evidence to the Government's Review of Housing Finance by the Building Societies Association, March 1976).

**Variations within Britain.** As the next table shows, there is considerable variation in the level of home ownership between the different parts of Britain.

Owner-Occupation by Region  
(December 1974)

<i>Region</i>	<i>Percentage of Owner-Occupied Dwellings</i>
Northern	44
Yorks and Humber	52
East Midlands	55
East Anglia	55
Greater London	46
Other South East	60
South West	61
West Midlands	54
North West	57
Wales	58
Scotland	33

(*Source:* *Social Trends*, 1975)

It is clear from the above table that there is considerable scope for increasing the proportion of home ownership in a number of areas where it is below the average.

## **2. WHY MORE HOME OWNERSHIP IS DESIRABLE**

**Reasons for Increasing Home Ownership.** Conservatives have three main reasons for wanting an increase in home ownership:

(i) **The vast majority of families want to own their homes.** Miss Judy Hillman, writing in *The Guardian* on 12th April 1976, revealed that a survey carried out for a National Economic Development Council Building Committee had shown that nearly 70 per cent of households would ideally like to own their homes in 2 years; in the younger age groups this proportion rose to nearly 80 per cent.

Further evidence has come from Dr Mark Abrams, writing in *New Society* (21st August 1975), who pointed out that a Social Science Research Council survey carried out in the winter of 1973–4 had shown that working class adults who were council tenants were less satisfied with their housing than working class owner-occupiers. A similar result was shown in the case of white collar middle class tenants.

This survey involved 1,000 interviews with a random sample of adults living in the urban areas of Great Britain—that is, representing over 80 per cent of the total population.

The table below summarises the results of the survey.

Mean Levels of Housing Satisfaction (0 to 10 scale)				
<i>Form of Tenure</i>				
	Complete owner	Own on mortgage	Council tenant	Other tenants
Middle class	8·8	8·3	7·4	7·2
Working class	8·6	8·1	7·2	7·0
All	8·7	8·2	7·2	7·1

*(New Society, 21st August 1975)*

(ii) **Saving to Public Funds.** There is a fundamental difference between tax relief, which enables people to keep more of their own money, and subsidies, through which the State takes away people's earnings to distribute as it thinks fit. In any event, it is much cheaper to help a family towards home ownership than to subsidise them indefinitely in a new council house.

A new council house at the beginning of 1976 cost about £12,000 to provide, including the land. The local council would first have to borrow this money, thus adding to the total amount of public borrowing.

In addition to this the council has to pay the interest on £12,000 at, say, 13 per cent which would work out at £1,560 a year. Allowing a further £50 for maintenance and management (which is a low figure because it relates to the first year of a newly-built house), the total cost becomes £1,610 a year. The income which the council would receive by way of rent for this should be about £7 a week (about the average unrebated rent for a new council house) or £360 a year. Thus the annual cost of subsidies works out at around £1,200.

If, however, a family is helped to buy a new house there is normally no addition to public borrowing, because the builder gets his money from the building society concerned. The only “cost” to public funds is the amount of tax relief provided in

respect of the interest paid on the mortgage, and tax relief on an average new mortgage works out at rather over £300 a year—or about a quarter of the yearly cost (£1,200) to public funds of subsidising a family in a new council house.

Admittedly, these figures relate only to the first year of a mortgage or a council house subsidy, given present circumstances. But such a difference in favour of home ownership is unlikely to be markedly reversed except after a very long period of time, if at all, and of course the urgent need at present is to make immediate economies in public spending.

There is a further set of statistics which takes account of what has happened over past years, giving perhaps some guide to the future—and these, too, favour home ownership. The figures relate not to newly provided houses but to the present average cost of a council house subsidy, or tax relief on a mortgage, spread over all existing council houses or owner-occupied houses, as the case may be.

These statistics, compiled by the Government, show that the average tax relief per owner-occupier (including option mortgage subsidy) in 1975–6 amounted to £91 in England and Wales (*Hansard*, 15th March 1976, Written Answer, Col. 382).

In contrast, the statistics show that if the total subsidy were spread over all council houses, the average subsidy per family would have worked out at £204 (*ibid.*, Col. 380).

In order to arrive at the figure of £91 as the cost to public funds of the average mortgage in 1975–6, the total amount of tax relief was spread over *all* owner-occupiers, including those who had paid off their mortgages. This was the same basis of calculation as that used to arrive at the figure of £204 as the average cost of a council house subsidy. For in this case, the total cost of subsidies, running at about £1,400 million in 1976–7, was spread over *all* council houses including those built many years ago and which, therefore, are no longer a charge on public funds.

(iii) **Creating a property-owning democracy.** Home ownership encourages independence and self-reliance by spreading wealth more widely. This is in line with Conservative philosophy that people should be able to own things rather than be dependent on the State for them. As **Mrs Thatcher** has said:

“The inescapable condition for the exercise of individual freedom is a measure of personal prosperity” (Exeter, 20th February 1976).

That is why the Conservative goal is a property-owning democracy.

### **3. CONSERVATIVE POLICIES**

Conservatives have set out proposals for achieving their aim of greatly extending home ownership.

**The Building Industry.** The first requirement for expanding home ownership is a healthy private building industry. A Conservative Government would try to ensure by

its monetary policies a steady flow of money through the building societies for house purchase. It would also be essential to repeal the Community Land Act and institute a fairer rate of tax on development gains than the present penal rate of 80 per cent (introduced with some exceptions on 1st August 1976—see p. 104) and which will ultimately rise to 100 per cent. This will help ensure a regular and adequate supply of land.

The other basic need is to ensure a reduction in planning delays. Mr George Dobry, QC, published a report on 'Development Control' in 1975 which contained many sensible recommendations on how to do this, but it was largely rejected by the Government (see p. 332).

**Special Help for First-Time Buyers.** Conservatives believe that extra help for first-time buyers is fully justified, provided that the money is found by a deliberate switch of resources from the public sector to helping people to buy their own homes, as is advocated in *The Right Approach*.

The exact extent of the additional support that should be given to first-time owner-occupiers must depend on the state of the economy when the next Conservative Government takes office. Equally, conditions then will to some extent determine which method of encouragement is most appropriate. *The Right Approach* sets out three methods which the Conservative Party favours.

First, there are *shared purchase schemes*. All the present methods of house purchase require the purchaser to find 100 per cent of the capital cost of the house at the time of buying. Though some may be willing and able to raise 60 per cent, 70 per cent or even 80 per cent of the cost of the cheapest house in the area, there is no way at the moment that they can then immediately start up the home ownership ladder; they often therefore apply for council housing. The object of Shared Purchase would be to reduce the high demand for expensive council housing by enabling home buyers to acquire initially less than a 100 per cent equity interest in their home and to buy the balance later on if they wished to do so.

To buy a house using the scheme the purchaser would take out his maximum mortgage in the normal way. The balance might well be found by the financial institutions which would receive interest on the money loaned. Payment of this interest would be an Exchequer liability. Mr John Stanley, Conservative MP for Tonbridge and Malling, suggested a scheme on these lines in a booklet entitled *Shared Purchase* (Conservative Political Centre, April 1974).

Second there is the *Home Savings Grant Scheme*, under which the State would supplement a person's regular savings for home ownership up to a given maximum. The scheme would be designed to help with the initial deposit, which represents the difference between the actual price paid for the house and the amount of the mortgage received.

Third, there is stabilization of the cost of home ownership through *the establishment of a maximum mortgage rate*, which the Government ensures by adjusting as necessary the composite rate of tax paid by the building societies.

The cost of any of these proposals would be more than covered by the savings on housing expenditure in general and by the switching of resources from the public sector to the encouragement of home ownership.

**Sale of Council and New Town Houses.** In the October 1974 Election Manifesto Conservatives were pledged to give tenants the right to buy their house or flat, provided that they had lived there for at least 3 years. *The Right Approach* reaffirms this pledge stating that council tenants “should have a statutory right to buy their homes after three years occupancy either on a freehold basis, or in the case of flats in England and Wales, on a leasehold basis.”

The document goes on to say:

“A practical method would be to allow tenants to serve notice on the council, with access to the courts if the council refused the tenant's request to purchase or if it was obstructive.

“We envisage council home sales being financed by building society and insurance company mortgages as well as local authority mortgages. The small cost of tax relief on additional mortgages would be more than offset by the increased revenue that would flow from a large programme of council home sales”.

All the evidence suggests not only that large numbers of council tenants want to buy their homes but that many of them have the money to do so. In 1974 over 20 per cent of council tenants had a household income in excess of £70 a week, whereas nearly one-quarter of owner-occupiers had a household income of under £40 per week. The richest one-third of council tenants had household incomes higher than the poorest one-third of owner-occupiers with mortgages and the poorer half of those who owned their homes outright. And over one-third of all owner-occupiers had household incomes below the national average.

The following table shows the distribution of households by household income and tenure group in 1974.

Distribution of Household Incomes, 1974

Income Range £ pw	Tenure Category			
	LA Renting %	Private Renting Unfurnished %	Private Renting Furnished %	Owner-Occupier %
Under 12	5.0	12.1	7.1	1.5
12–20	15.4	19.2	9.0	6.7
20–30	11.4	11.5	12.5	7.9
30–40	12.1	11.6	18.0	7.9
40–50	12.9	13.0	15.3	10.4
50–60	12.3	10.7	12.9	11.3
60–70	9.7	6.1	6.3	12.1
70–80	7.4	5.4	8.2	10.7

Distribution of Household Incomes, 1974

Income Range	Tenure Category			
	LA Renting	Private Renting Unfurnished	Private Renting Furnished	Owner-Occupier
£ pw	%	%	%	%
80–100	8.6	5.9	6.7	14.4
Over 100	5.2	4.6	3.9	17.1

(Source: *Family Expenditure Survey*, 1974)

Mr Simon Jenkins, writing in the *Evening Standard* on 6th May 1976, referred to recent action by the Labour-controlled Greater London Council in assuring potential advertisers in their housing journal that the image of the council tenant had changed:

“The GLC have been caught out assuring potential advertisers in their housing journal that the image of the council tenant has changed radically in recent years... average tenants are no longer the poor or the elderly”.

“GLC tenants are not subject to a means test,’ they add, and thus a low rent leads to their enjoying ‘an enormous purchasing power’”.

The sale of council houses helps ensure a better maintained housing stock, since owner occupiers have a greater interest in improving their homes. It also gives the new owners far more mobility. Ownership of a house means that a worker can realize a capital sum to put down on a new house if a job opportunity in a different part of the country arises. This is important not only for the new owner but also for the mobility of our working population.

Finally, there are financial advantages for ratepayers in selling council houses. Revenue from sales has dropped from £229 million in 1973–4 to £75 million in 1976–7 (at 1975 Survey Prices). The council which sells, loses the Exchequer subsidy on the old house but receives more in mortgage repayments than it did formerly in rent. The council also saves money on responsibility for management and maintenance. If building society finance were made available, the council would make an immediate capital profit and repay the debt on the house. Significantly, the Building Societies Association in their evidence to the Housing Finance Review stated:

“The Association recognises that the sale of council houses must form an integral part of housing policy if the wishes of the public are to be transformed into reality” (March 1976).

Whether the profit comes in more gradually through increased revenue in the case of a local authority mortgage, or immediately in the case of a building society mortgage, this money could be used, for instance, to build sheltered accommodation for special groups such as the elderly.

## 4. LABOUR'S DISCOURAGEMENT OF HOME OWNERSHIP



As is shown on page 308 it is far less costly to public funds to help a family to buy a home than to subsidise it indefinitely in a new council house. Thus the encouragement of home ownership fits in with the need to reduce the present excessive level of public spending. Yet Labour's policies have made it increasingly difficult both for existing home owners and for those hoping to buy their first home.

**Fewer and Dearer Mortgages.** In November 1976, following the steep rise in interest rates caused by the Government's economic mismanagement, the Building Societies had to raise the mortgage interest rate from 10½ per cent to 12¼ per cent. This means that the first-time buyer with an average mortgage now has to find an extra £7 a month even after allowing for tax relief. The alternative of lengthening the repayment period is no longer open to many families because it would mean that they would be paying off their mortgages long after reaching pensionable age. Mortgages have thus become much more expensive. Furthermore, as the October 1976 issue of "Facts and Figures", published by the Building Societies Association, said, "a reduction in the current volume of lending seems inevitable".

It is therefore absurd for Labour to argue, as they have done, that the Building Societies will be able to make good the cut in local authority home loans.

**Labour Party Policies.** It is extraordinary that with mortgages already scarcer and dearer as a direct result of Labour policies, the Labour Party now seems to be thinking in terms of putting fresh burdens on home buyers. For example, the 1976 Labour Party Conference passed resolutions which called for a reduction of tax relief on mortgages (*Labour's Programme 1976* proposed a cut of £160 million a year), and demanded a legislative ban on the sale of council houses to families living in them.

It may be pointed out that even if a cut in tax relief on mortgage interest took the form of limiting relief to the level currently available to the basic rate taxpayer, the main sufferers would be young married couples wanting to buy their first homes. For any such limitation of tax relief would increase the cost of mortgages for the more expensive houses with the result that many families who would otherwise move from the smaller to the larger type of house would decide not to do so. Thus the supply of the smaller and less costly houses which most young married couples want would be reduced. As Mr Hugh Rossi said:

"What are the Labour Party doing? They are blithely debating amongst themselves whether it is socially just for owner occupiers to get tax relief on mortgage interest. As though this will encourage more people to buy! As though this will encourage more homes to be built! As though this will create jobs for the unemployed building workers! (*Hornsey*, 13th November 1976).

**Local Authority Home Loans Cut.** A further blow to the hopes of many families of buying their own homes has been repeated cuts in local authority home loans, culminating in the cut of nearly £146 million for 1977–8 announced by Mr Healey on 22nd July 1976. This is a direct breach of Labour's October 1974 Election Manifesto pledge that:

"Local councils' lending will be expanded so that they can play a major part in helping house purchasers".

This cut will particularly harm lower-paid families who often find it difficult to get a building society mortgage. Moreover, it could well add to, rather than reduce, public spending in the long run. For many of those families denied a chance of a mortgage will have no alternative but to go on the council waiting list; and the cost to public funds of subsidising them in a new council house would be about four times greater than helping them to buy a home either through normal tax relief or an option mortgage (see p. 308).

**Sharp Fall in Homes being Built for Sale.** In July 1976 the Department of the Environment's Private Enterprise Housing Enquiry suggested a fall in private house starts in Britain from about 170,000 in 1976 (about 50,000 less than in 1973, the last year of Conservative Government) to 155,000 in 1977.

A "State of Trade Enquiry" carried out by the House Builders Federation after the announcement of a 12¼ per cent mortgage interest rate (see p. 000) was even more pessimistic, with some builders suggesting that the number of houses for sale started could fall to 100,000 a year or less over the next year or so. The main reason for this expected sharp drop in housebuilding is, as the report of the enquiry pointed out, that the house building industry now faces a significant fall-off in demand because of: "general economic uncertainty, the inability of potential buyers to save up deposits and meet mortgage repayments and also an increasing lack of readily available mortgage finance."

Other reasons why fewer and fewer homes are being built, which also stem directly from action taken by the Labour Government, include: (i) the lack of building land coming on to the market—this was mentioned by about 65 per cent of firms covered by the enquiry—the main cause of which is Labour's Development Land Tax; (ii) the additional £1,000 million tax burden on industry under the guise of an increase in the Employers' National Insurance contribution, due to start in April 1977; (iii) record interest rates which, at a time of falling profits and mounting bankruptcies in the building industry, have made it difficult or impossible for more firms to face the cost of borrowing the money needed to carry out housing development.

It is hardly surprising, therefore, that the number of unemployed in construction and allied trades at the end of 1976 was at a record level of about 250,000. Yet the Government has announced its intention of introducing legislation during the current session of Parliament to extend the work of local authority Direct Labour departments—a step which could only add to the bankruptcies and unemployment in the building industry and reduce still further the number of houses being built for home ownership.

**Hostility to Sale of Council and New Town Houses.** The Labour Government has not officially withdrawn the arrangements introduced by the last Conservative Government under which, subject to certain reasonable conditions, local councils can sell their houses to sitting tenants at a discount of up to 20 per cent without having to obtain Government approval. But it has been generally hostile towards the sale of council houses, and most Labour-controlled councils have consistently denied those living in council houses the right to buy their homes. Department of the Environment Circular dated 30th April 1974 stated that "it is generally wrong to sell council houses". Labour councils have eagerly followed this lead and the 1976 Labour Party

Conference voted for a legislative ban on the sale of council houses. The sale of New Town houses was in fact specifically banned by New Towns Circular 371 issued on 5th September 1974, although under intense Conservative pressure Mr John Silkin, then Minister of Land and Planning, modified this decision on 12th July 1976. Sales may now be resumed, but only on certain restrictive conditions. The waiting list for people wishing to rent must be under 3 months, the corporations must first consult with the local district council, and a 20 per cent discount (so long as this does not fall below the original cost) will only apply after 4 years in residence. As the proportion of home ownership in New Towns is particularly low (see p. 334) there is all the more reason to encourage sales.

The results of their policies were dramatic. Sales of council and new town houses slumped from 60,661 in England and Wales in 1972 to 2,234 in 1975.

**Arguments used against Sale of Council Houses.** Labour have put forward two main arguments against the sale of council houses.

*First*, they claim that to allow families to buy their council homes is harmful to those on the council's waiting list. In fact families denied the chance to buy their homes normally stay on as tenants so that no vacancy occurs. Indeed Mr Graham Robertson, Labour Chairman of Bristol's Housing Department, described Labour's argument as "a load of bunkum" (*Daily Express*, 17th May 1976).

In 1974 there were 156,000 council house re-lets, but these arose mainly from tenants who had died or moved jobs. In a study entitled "The Sale of Council Houses, a Study in Social Policy", published in 1975 (Birmingham University), Mr Alan Murie showed that purchasers were on average aged about 45 and well established tenants who were unlikely to buy a house in the private sector if denied the chance to buy their council homes.

It is pertinent to note that Mr Ronald Thomas, Labour MP for Bristol NW and vice-chairman of Labour's Left-wing Tribune Group, bought his council house.

*Second*, Labour argue that where older council houses are sold, there is a loss to the ratepayer. This is totally fallacious. It is true that when a sale takes place the local authority loses the Exchequer subsidy in respect of that particular house, but in the majority of cases this loss of subsidy (which in any case saves the taxpayers' money) is more than compensated for because the mortgage repayments will be higher than the amount paid in rent, and in addition local councils will be relieved of the cost of maintenance—a cost which increases with the age of the house.

A more understandable argument against the sale of council houses at less than the market price is that it is unfair to families who have paid the full market price for their homes when buying them on the open market. But, it should be remembered that since the sale of council houses brings financial gain to the council, all owner-occupiers will benefit as ratepayers. Moreover, when a privately rented home is sold to the sitting tenant the price paid is normally lower than would be the case if the house was sold with vacant possession. It is therefore not unreasonable that similar terms should be available to the sitting tenant buying his council house.

It is sometimes suggested that the sale of council houses adds to the total of local authority borrowing. This is not so when, as is normally the case, the council itself provides the mortgage. It does not borrow money for this purpose; what happens is that mortgage repayments replace rent.

## **(D) COUNCIL HOUSING**

### **1. Housing Rents and Subsidies Act 1975**

This Act repealed parts of the Housing Finance Act 1972 and instituted a new system of subsidies. The underlying logic of the previous Conservative legislation had been to concentrate exchequer help on areas and people in greatest need. The new system involves a return to indiscriminate housing subsidies (see also p. 000). The main subsidies provided under the Act are:

- (a) *The Basic Element Subsidy*. This is the total of subsidies payable under the Housing Finance Act 1972 in the fiscal year 1974–5.
- (b) *The New Capital Costs Element*. This is payable at 66 per cent of the reckonable expenditure falling each year on the Housing Revenue Account. It covers the cost of acquiring housing land, constructing and improving dwellings and acquiring existing dwellings.
- (c) *The Supplementary Financing Element*. This is payable at 33 per cent and will help with any increase in housing debt as it stood at 31st March 1975. Thus a third of any increase in interest rates will be met by subsidy.
- (d) *The Special Element*. This was designed to limit rent increases after the rent freeze of 1974–5. It was supposed to be payable for 1975–6 only and then incorporated into an authority's basic element subsidy entitlement for succeeding years. In fact, under the Remuneration Charges and Grants Act 1975, it was extended for 1976–7 although there will be no incorporation in this instance for following years.
- (e) *The High Costs Element*. This will be paid from 1976–7 onwards to those authorities who have higher than average costs per dwelling.
- (f) *Slum Clearance Subsidy*. This is a continuation of a special subsidy initiated under the Housing Finance Act 1972. It is paid out to councils in respect of their slum clearance operations regardless of the type of development erected in place of the slum. For at least the first 15 years, 75 per cent of the loss to the general rate fund incurred through slum clearance is met by the subsidy.
- (g) *Rent rebate and rent allowance subsidies*. These were first introduced under the 1972 Act and have been continued. Rent rebates are designed to help council tenants in need with their rent and qualify for a 75 per cent Exchequer subsidy with the remainder met by the rate fund. Rent allowances are for poorer private tenants and are wholly funded by the Exchequer; an order postponing an intended drop to 80 per cent subsidy for rent allowances from 1977–8 to 1978–9 was put into force on 1st December 1976.

The other main change made by the Housing Rents and Subsidies Act was on the crucial question of the fixing of council rents. Labour claimed that they were returning full discretion on rent levels to local councils; in fact, however, the Secretary of State retained reserve powers to limit rent increases (in public and private sectors) which he felt were excessive. An order would be needed before these powers could be used.

The Government's intention has always been that this legislation would be replaced by a more permanent system. Mr Anthony Crosland, then Environment Secretary, set up a departmental Housing Finance Review with a parallel review by an advisory body of experts. Evidence from the major bodies concerned with housing has been received and the report, originally due in the spring of 1976, is now expected during 1977. A Green Paper setting out the Government's views on the Report and on Housing Policy in general will subsequently be published.

## 2. LABOUR'S POLICY ON RENTS

During the election campaign of February 1974, Labour promised a freeze on council rents, which was put into operation during 1974–5. Subsequently there was a special subsidy (see above) to hold rents down during 1975–6 and 1976–7. The level of council rents over the period 1966–76 is shown in the following table:

Average Council Rents (England and Wales)			
(£ per week)			
	<i>April</i>	<i>Unrebated</i>	<i>Rebated</i>
1966		1·55	—
1967		1·69	—
1968		1·90	—
1969		2·04	—
1970		2·23	—
1971		2·48	—
1972		2·75	—
1973 (May)		3·44	3·13
1974 (January)		3·75	3·31
1975		3·68	4·16
1976 (April—provisional)		4·19	4·80

(Source: *Housing and Construction Statistics*)

(Note: A national system of rent rebates for poorer council tenants was established for the first time under the Housing Finance Act 1972.)

**The proportion of current housing costs in England and Wales met by rents** is as follows:

<i>Unrebated</i>	<i>Rebated</i>
%	%

	<i>Unrebated</i>	<i>Rebated</i>
	%	%
1966-7	69	—
1967-8	70	—
1968-9	69	—
1969-70	69	—
1970-1	67	—
1971-2	67	—
1972-3	72	65
1973-4	69	55
1974-5	57	45
1975-6	55	43

(Source: *Hansard*, 21st June 1976, Written Answers, Col. 433)

It will be seen that the proportion of housing costs met by rebated rents has fallen from 65 to 43 per cent over the last three years. Taxpayers and ratepayers have had to pay the price for Labour's 1974 electoral bribe. It is clear that the existence of a system of rent rebates to help poorer tenants removes any reason for rents bearing less than half the cost of council housing. Indeed rebated rents as a proportion of average earnings are now very low as the table below shows:

Average Weekly Rent as Percentage of Average Household Income of Local Authority Tenants (England and Wales)

	<i>Unrebated</i>	<i>Rebated</i>
1970-1	7	7
1971-2	7	7
1972-3	8	7
1973-4	8	6
1974-5	8	6
1975-6 (estimated)	7	6

(Source: *Hansard* 5th April 1976, Cols. 36-7)

One important result of these low rents is to push up demand for council housing artificially. It also leads to a decrease in the normal movement from council housing to the owner-occupier sector, which in turn leads to fewer re-lets and therefore to longer waiting lists. The table below illustrates the extent to which it has become financially unattractive to move from council housing to owner-occupation.

Average Initial Mortgage Repayments and Rents as a Ratio of Mortgage Repayments

	<i>Average Initial Mortgage Repayments</i>	<i>Average Unrebated Council Rent</i>	<i>Rents as a Ratio of the Mortgage Payments</i>
	£ p.a.	£ p.a.	
1968	314	94	3.34
1969	374	106	3.53

Average Initial Mortgage Repayments and Rents as a Ratio of Mortgage Repayments

	<i>Average Initial Mortgage Repayments</i>	<i>Average Unrebated Council Rent</i>	<i>Rents as a Ratio of the Mortgage Payments</i>
	£ p.a.	£ p.a.	
1970	398	116	3.43
1971	440	129	3.41
1972	521	143	3.64
1973	850	179	4.75
1974	1061	197	5.39
1975	1169	213	5.49

(Sources: The Building Societies Association: "Facts and Figures". *Housing and Construction Statistics*)

The Government is now having second thoughts about the wisdom of indiscriminate rent subsidies. The late Mr Crosland, then Environment Secretary, said:

"We are likely to reach a situation in which the taxpayer and ratepayer combined will say 'we cannot go on indefinitely footing the bill' " (*Hansard*, 11th July 1976, Col. 398).

The 1976 White Paper on Public Expenditure (Cmnd. 6393) stated the Government's intention to raise rents so that they would meet (after rebates) over 50 per cent, rather than the present 43 per cent, of council housing costs by the end of the decade. But the Government announced in the December 1976 "mini-Budget" that housing subsidies were expected to rise by £197 million in real terms in 1977–8 compared with 1976–7. This was designed to ensure that average weekly rents would increase by no more than 60p, and thus appears to make nonsense of the Government's professed intention to raise the proportion of costs met by rents.

### 3. COUNCIL BUILDING

Labour instituted an open ended system of subsidies for council building, regardless of need, under the Housing Rents and Subsidies Act 1975 (see p. 315). Constant assertions were made by Labour Ministers that councils could build without a subsidy ceiling. For example, Mr Gerald Kaufman, then Under-Secretary of State for the Environment, said:

"I have gone round the country addressing special conferences of local authorities urging them to build far more council houses and put the Chancellor in trouble" (Standing Committee on the Housing, Rents and Subsidies Bill, 5th December 1974).

Increasingly, it became obvious that this policy was wholly impracticable. London boroughs like Camden are spending as much as £50,000 per new council house. And in the course of 1976 it became clear that authorities were exceeding the already high spending estimates of the 1976 Public Expenditure White Paper. As part of the measures announced by Mr Healey on 22nd July 1976, a temporary freeze was announced on all new tender acceptances for council housing. This was ended on 18th

August by Department of the Environment Circular 80/76. Henceforth councils must send details of new building schemes for approval to the Department of the Environment before inviting or accepting tenders.

The result of this change of policy rapidly became apparent. In a memorandum to local authorities dated 30th July 1976, the Department of the Environment admitted that the number of council house starts in England for 1976 and 1977 together would be around 200,000, with about 114,000 in 1976 and a fall to only 85,000 in 1977. As Mr Raison said:

“The Government's housing policy over the last 2 years is now collapsing around its ears. That in itself is no bad thing. The pity of it is that there is such a reluctance to put a sensible policy in its place” (Statement, 6th August 1976).

## 4. CONSERVATIVE POLICY

Mr Raison, at the 1976 Party Conference, set out Conservative policy for council housing:

“Our council building programme—and we are still going to have one—must be focused on real need, among the old and handicapped, in the areas of greater social misery and where the rate of population growth is rapid and incomes are relatively low. I do entirely accept the point about the vital need to make sure that everybody is properly housed, but at the same time the subsidy bill has to be cut. It cannot be right that rents should cover only half the cost of council housing” (Brighton, 7th October 1976).

In addition, *The Right Approach* stressed that the whole system of regulating public housing by reference to rigid centrally-determined standards and the cumbersome cost yardstick needs to be reviewed. Conservatives will also examine the longer-term possibility of block loan sanction approval for council housing programmes.

Concentrating aid on need will lead to a significant reduction in public expenditure. That is why Conservatives will also support any moves that Labour may take towards cutting subsidies and will review, when returned to office, the progress they have made towards fairness and sanity.

**A Tenants' Charter.** In many areas councils have imposed absurdly detailed restrictions on what tenants can do at home. Conservatives believe that a model Tenants' Charter should be issued by the Government setting out the rights and freedoms that tenants can reasonably expect. This would, first and foremost, give council tenants the right to buy the homes in which they live. But for those who prefer not to buy, there is a clear need to allow them a far greater say in the management of the estates in which they live. Labour have, however, rejected Conservative proposals for a Tenants' Charter, despite the fact that this Government has put all the emphasis on increasing the number of people living in what Mr Frank Field, Director of the Child Poverty Action Group, called the “serfdom” of the council estate. In a report entitled “Do we need Council Housing?”, published in December 1975, he said:



“... some people will argue that municipal housing as such is a very good thing. That certainly does not tally with my experience of being on a council for 4 years when we were not receptive to the needs of many ordinary families”.

Indeed, a report by the National Consumer Council, published on 9th September 1976, said that council tenancy agreements were often “one-sided, primitive and incomprehensible” (*Financial Times*, 10th September 1976).

Mr Hugh Rossi has suggested that the following points should be included in a Tenants' Charter:

1. The right of every sitting tenant to buy his home on generous terms.
2. Subject to certain conditions, the right to take in lodgers.
3. The encouragement of tenants to take an active part in formulating estate management policies.
4. Much greater scope for tenant involvement in the maintenance of their homes.
5. A scheme to enable tenants to move far more freely throughout the country by means of computer linked exchange centres.
6. More humane regulations regarding pets.
7. The scrapping of stupid and paternalistic regulations on flower pots, aerials and the cleaning of houses. (London, 13th September 1976).

**Tenant Co-operatives.** Another method favoured by Conservatives of giving tenants more say in the management of the estates in which they live is the encouragement of Tenant Co-operatives, of which there are basically 3 types:

- i. *Management Co-operatives*, in which the tenants have collective responsibility for some or all of the management functions but do not own or lease the property. These co-operatives can be established where the local authority wishes to devolve some responsibility but does not feel that there is sufficient support for full control by the tenants.
- ii. *Non Equity Co-operatives*, in which the tenants collectively own or lease the property but have either no individual stake in the equity, or a stake limited to a share repayable on leaving at its original “par” value. Paragraph 9 of Schedule 1 of the Housing, Rents and Subsidies Act 1975 provided that where a local authority makes an agreement, with the approval of the Secretary of State, under which any of the statutory housing functions of the local authority are transferred to a co-operative, this should not be treated as a ground for reducing or discontinuing the payment of housing subsidy. This provision was supported by Conservatives on the Committee of the Bill.
- iii. *Co-ownership*, in which the tenants collectively own and manage the property and share in the equity through a leasehold interest or an entitlement to payment on leaving. This means that a tenant has added mobility since he can put down a sum for a house if he wishes to move. Essentially it is a half-way house between buying and renting. Over 30,000 families live in co-ownership schemes but the number of new schemes has declined.

Co-operatives clearly have a role to play in the future and can be a means of bringing additional personal commitment and resources into housing.

A Working Party on Tenant Co-operatives under the chairmanship of Mr Harold Campbell reported in January 1976 and recommended in particular that:

Non-equity co-operatives should be encouraged both on local authority estates and by housing associations. At national level responsibility for providing guidance for co-operatives should be undertaken by the Housing Corporation.

Co-ownership should be revived by introducing a revised form of joint mortgage scheme and a new community leasehold scheme.

The Working Party stressed that an important precondition of successful co-operative schemes was a desire by the tenants themselves to participate.

The Report was welcomed by Mr Rossi. And the Government expressed its broad approval in Department of the Environment Circular 8/76.

A further examination of additional forms of social ownership and tenure is being undertaken by a new Working Group also under the chairmanship of Mr Campbell.

## **(E) THE PRIVATE RENTED SECTOR**

### **1. BACKGROUND**

The number of privately rented houses has fallen as a percentage of the total number of houses in the country from around 90 per cent in 1900 to about 12 per cent today. This decline is partly the result of the rise of the building societies and the spread of owner-occupation. But it has been sharply increased by loud and persistent Socialist threats. Rent controls have made residential accommodation a poor investment compared with the alternatives, and security of tenure has severely discouraged the smaller landlord from letting. The quality of rented houses has declined with their numbers, again mainly because rent controls have not made it worthwhile either to keep existing investments in decent repair or to build for letting.

### **2. LABOUR POLICY**

**Rent Act 1974.** Labour's attitude of unremitting hostility to the private landlord was clearly shown by the indecent haste with which the 1974 Rent Act was rushed on to the Statute Book. This Act abolished the previous legislative dividing line between furnished and unfurnished accommodation and extended security of tenure to many tenants in furnished accommodation. Unless the landlord is resident or the rateable value of the property exceeds £750 outside London and £1,500 inside London, the tenant is generally entitled to full security of tenure. As in previous legislation, if the tenant fails to pay the rent or damages the property, the landlord can apply for a Court order to evict the tenant. However, if the landlord wishes to secure possession for his own use, he must prove greater need than the tenant. If he wishes to use the property for a member of his family or to sell the property at a reasonable price to meet a sudden financial crisis, he cannot secure vacant possession through the courts at all.

The tenant has security of tenure for his own lifetime and can pass on the tenancy after death for two generations.

Although the tenant living with a resident landlord does not have full security of tenure, in the event of a court order for possession being granted against him, he can apply to the Rent Tribunal for temporary periods of security of tenure of up to 6 months. These are technically renewable indefinitely and, although this would not in practice happen, this provision is a considerable disincentive to let. The alternative is for a resident landlord to let on a fixed term, when possession is automatic at the end of it. If, however, a second fixed term is given to the same tenant, that tenant obtains full security of tenure. Thus the landlord is encouraged to evict his tenant at the end of each fixed term in order to maintain control of his own home.

**Effects of the Act.** In passing the 1974 Rent Act, the Government ignored the clear advice of the committee set up by the previous Labour Government under Mr Hugh Francis QC to review the working of the Rent Acts. This committee reported in March 1971 (Cmnd. 4609) and warned that extension to furnished tenants of the full security of tenure available to unfurnished tenants would involve substantial risks for the stock of rented dwellings. The majority Report stated:

“The eventual overall reduction in the supply of privately rented accommodation would, as we think, be substantial ... Greater security for those in occupation when the extended security code came into force could well be bought at the cost of greater hardship and difficulty for the much larger number of households seeking such accommodation in the following weeks, months and years ... For the reasons we have indicated, we cannot recommend such extension. On the contrary, we venture to sound a solemn warning against it”.

The Royal Institution of Chartered Surveyors published a survey in February 1976 which covered a sample of 60 Estate Agents who had a reasonable amount of letting. It showed that there had been a fall of 20 per cent since the introduction of the Rent Act in the number of furnished properties available in the inner urban areas and in particular in inner London. Mr Des Wilson, a former director of Shelter, remarked:

“It (the Rent Act) has hindered those who are homeless because it undoubtedly *has* reduced the available accommodation” (*Social Work Today*, 2nd September 1976).

Indeed, the figures for homelessness show that it is the poor, who traditionally have relied on furnished rented accommodation, who have suffered most. At the end of 1973 the number of households in local authority temporary accommodation—as reported to the Department of Health and Social Security—was 6,400. By end-1975 this figure had increased to 7,390. Although the latter figure was calculated by the Department of the Environment on a different basis, the upward trend is clear. As *The Times* commented: “Mr Crosland has done more to promote homelessness than anything since the blitz” (20th November 1975).

**Squatting.** The rise in the new and disturbing phenomenon of squatting is directly related to the number of privately-owned empty properties kept off the market because of the Rent Acts. A Law Commission Report on Conspiracy published in

March 1976 recommended that a new criminal offence of trespass should be established when a squatter broke into occupied property. Mr Rossi has stated:

“Let me make it clear that unlawful squatting must be dealt with. The existing law is inadequate and must be changed... but the real villains of the piece are Socialist councils clamouring to buy up rented property when they leave scores of their own properties empty, and Socialist laws which keep private property empty for fear of the consequences of letting it out” (Blackpool, 8th October 1975).

The Government has now announced its intention of bringing forward proposals in its new Criminal Law Bill (see p. 455) along the lines recommended by the Law Commission in its report on Conspiracy.

**Labour's ultimate aim** is to municipalize all privately rented property. Mr Crosland for instance, said:

“I do not believe there is a long-term future for the privately rented sector in its present form” (Eastbourne, 20th November 1975).

Department of the Environment Circular 70/74 (30th April 1974) gave virtually blanket approval for the acquisition of privately rented property. Since then, however, although £176 million was allocated for municipalization in England and Wales in 1976–7, the scope of Circular 70/74 has been limited. Circular 33/76 (17th March 1976) sets out specific categories of property where special permission to acquire will no longer be necessary. These include properties in General Improvement Areas and Housing Action Areas (see p. 314).

Apart from the expense and impracticability of municipalization, it is also a socially undesirable policy. As Mr Rossi made clear:

“A council monopoly of rented accommodation will spell disaster for the young, the single, and childless couples who do not qualify for council houses” (Blackpool, 8th October 1975).

People like students, mobile workers and couples saving to buy a home of their own do not need long-term security of tenure but are finding it increasingly difficult to find a rented home for a limited period. Mobility and choice will be destroyed if the private landlord is forced out of existence.

After considerable Conservative pressure, Mr Crosland announced a review of the Rent Acts which would be concluded by the end of 1977. At the same time he admitted that the Rent Acts “had become an impenetrable jungle which daunt the responsible and the irresponsible alike” (Eastbourne, 20th November 1975).

A Consultation Document was published by the Department of the Environment on 31st January 1977 as part of the review, but no action is proposed until 1978.

Conservatives have welcomed the review; but it does not remove the need to take immediate action to bring into use empty houses and rooms.

## 2. THE CONSERVATIVE APPROACH

*The Right Approach* states that Conservatives will try to halt the decline of the privately rented sector, but it acknowledges that the long-term possibility of attracting new investment into privately rented housing must depend upon the success of the initial policy, and the creation of a climate in which private renting is seen as sensible.

Conservatives accept that security of tenure must not be generally abolished. But an owner of property should be able to regain what is his when it is right and fair that he should have it. And although there are obvious limits to what can be done while Labour remain in power, efforts have been made by Conservatives to correct the balance and to make more private rented homes available:

(i) **The North Wiltshire Scheme.** The Conservative-controlled North Wiltshire Council have adopted a scheme in which they take on a lease from a landlord and sub-let to someone on the waiting list who would not have security of tenure as a council tenant, allowing the landlord to secure vacant possession at the end of the lease if he wishes. About 40 councils have since taken up the scheme and Mr Freeson, Housing Minister, has been roused into asking Sir Dennis Pilcher and Mr Derick Wood to look into the possible wider application of such schemes.

(ii) **The Homes Bill.** This was introduced by the former Conservative MP for Cambridge, Mr David Lane, on 17th December 1975, and contained the following proposals:

- a. *Fixed Term Lettings:* Owner-occupiers should be able to give second or subsequent fixed-term lettings to the same tenant without that tenant getting full security of tenure. It is absurd that a tenant who gets on well with the landlord should be evicted because the landlord has no real option if he wishes to maintain control of his own home (see p. 000).
- b. *Flats over Shops:* A shopkeeper should be enabled to let the flat above his shop for a fixed period without security of tenure. Many flats over shops are at present left empty because the shop owner wishes to ensure that they are available if and when he may need them for shop staff or to sell on retirement.
- c. *Student Lettings:* Accommodation registered with an approved university or educational institution should be exempt from the security of tenure provisions of the Rent Acts. Mr Hugh Rossi, sent a letter on 27th November 1975 to all universities and polytechnics in England and Wales suggesting such a scheme. Eighteen were very much in favour, and the remainder mostly felt that though the scheme was not relevant to their particular needs because they housed a large proportion of their students in halls of residence, they were in no way opposed to its being introduced for the benefit of other areas.

Regrettably the Government refused to accept even these moderate proposals and the Bill failed to get a Second Reading.

**Shorthold Tenure.** This new system was proposed in *The Right Approach* and originally put forward by Sir Brandon Rhys Williams, Conservative MP for Kensington, in a Private Member's Bill, which was published in May 1975, but did

not receive a Second Reading. It would give a tenant security of tenure during the period of the lease, but the landlord would be entitled to vacant possession at the end of it unless he only wanted to put in a different tenant. If he wished to remove a tenant for breaking a contractual obligation by not paying the rent, or damaging the property, he would be entitled under existing law to go to court to secure an eviction; and Conservatives would aim to ensure him speedier justice. A minimum period of lease would be necessary which could be extended if both parties agreed. The scheme would apply to both furnished and unfurnished accommodation and the rent would be fixed either by agreement or by the Fair Rents procedure (see below).

**Fair Rents**, which are fixed for many privately rented homes, are assessed by a Rent Officer with appeal to a Rent Assessment Committee. The rent is supposed to be the market rent less any element for scarcity. However, as *The Right Approach* comments, the present level of rents in the private sector gives little return to the landlord on capital investment. Conservatives believe that a fair return must be taken into account in fixing rents while at the same time a much greater take-up in rent allowances for poorer tenants should be aimed at.

## **(F) IMPROVEMENT AND SLUM CLEARANCE**

### **1. CONSERVATIVE ACTION 1970–3**

The last Conservative Government launched a massive and successful drive to speed up the modernisation of older houses. In 1967 there were nearly 4 million dwellings in England and Wales which lacked the basic amenities—running hot water, bath or decent indoor sanitation. By the end of 1973 this figure was down to 2½ million. In 1973, 453,000 improvement grants were approved in Britain, well over three times the number reached in 1970. In June 1973 the Government published a White Paper, *Better Homes: The Next Priorities (Cmnd 5339)*, which formed the basis for the Housing and Planning Bill which lapsed because of the February 1974 Election.

### **2. HOUSING ACT 1974**

For some time governments have attempted to give particular areas priority for public assistance with housing improvements. Under the Housing Act 1969 local authorities were enabled to designate “General Improvement Areas” which should be residential districts, free of stress conditions, but containing sound older houses capable through improvement of providing decent homes for at least another 30 years. In these areas local authorities were given new powers and government grants to carry out environmental as well as housing improvements. By February 1977, 945 General Improvement Areas had been declared in England and Wales.

**Housing Action Areas.** The Housing Act 1974 followed the provisions of the Conservative Housing and Planning Bill (see above) in establishing a new category of improvement area—“Housing Action Areas”. These are small areas of the worst housing stress, containing houses which are overcrowded and lacking basic amenities

such as inside flush lavatories. The local authority concerned is responsible for designating an area (for 5 years initially) subject to the Secretary of State for the Environment's permission. The aim is to achieve a rapid upgrading of the area by installing basic amenities and rehousing where necessary to relieve overcrowding. Circular 33/76 enables local authorities to acquire private property in these areas and the local authority may serve compulsory improvement notices on property owners, apart from owner-occupiers, if they decide that this is the only way in which the property will be improved. At the end of February 1976, 181 areas had been confirmed. In both General Improvement Areas and Housing Action Areas, a special "repairs-only" grant is available.

**Improvement and Intermediate Grants.** The grants available everywhere, which replace those under previous legislation, are:

- a. *Improvement Grants.* These are available as a percentage of a £3,200 eligible expense limit. In ordinary areas 50 per cent of this is available, in General Improvement Areas 60 per cent and in Housing Action Areas 75 per cent (in hardship cases in these areas it can go as high as 90 per cent). This is the standard grant for home improvement. Private landlords are only eligible for these grants if they guarantee to keep their property in the rented sector for 5 years.
- b. *Intermediate Grants.* These are available mainly for installing basic amenities and for doing repairs to properties. Eligible expense limits of £700 are in force for basic amenities and £800 for repairs. The same percentages apply as with improvement grants. Local authorities pay out the grants and receive a 75 per cent grant from the Exchequer in normal areas and a 90 per cent grant in General Improvement Areas and Housing Action Areas.

Qualifying rateable value limits of £300 inside London and £175 outside London were fixed under the Act by order in December 1974. Under Conservative pressure these were doubled for house conversions only in March 1976.

### 3. SLUMP IN IMPROVEMENTS

Since Labour came to office there has been a drastic slump in the level of improvement grants. In part this is due to a redirection of resources to areas and people in greatest need, which Conservatives fully support and originally proposed. There does seem to be evidence, however, that the rateable value limits that have been introduced are having a harmful effect. Labour has nonetheless refused a general review of these limits. In 1973 453,000 grants were approved for council and private housing whereas in 1976 only 168,000 were approved in Great Britain.

**Council House Improvements.** Expenditure on council house improvements has been cut from £505 million in 1973–4 to £374 million in 1976–7 (at 1975 Survey Prices) despite Labour's declared aim of switching from a policy of wholesale redevelopment to a policy of rehabilitation wherever possible. Indeed for some time the Government encouraged councils to knock down and rebuild through their policy of open-ended subsidies for new council building. This has now been modified under the pressure of circumstances (see p. 318). Mr Christopher Booker pointed out that

Labour councils in London were continuing unnecessarily to evict owner-occupiers and to pursue a policy of wholesale slum clearance and redevelopment, adding that “most of the victims of these schemes are comparatively poor, working class, and often elderly” (*Evening Standard*, 30th March 1976).

**Conservative Policy.** Conservatives believe that it is right on economic and social grounds to preserve rather than bulldoze houses with a reasonable life expectancy. This policy is cheaper, and does not destroy existing communities. *The Right Approach* states that urgent consideration should be given to increasing the rateable value limit for improvement grants. Within the constraints imposed by the overriding need to reduce public expenditure, the next Conservative Government will give a high priority to improving both privately owned and council housing.

## **(G) THE VOLUNTARY HOUSING MOVEMENT**

Until 1974 most housing association schemes were either on the basis of co-ownership or could only charge rents needed to cover cost. 30,000 people now live in co-ownership schemes but the huge increase in the cost of new development or improvement has created great difficulties for these schemes.

Department of the Environment Circular 8&slash;76 stated that the Government wished to put co-ownership on a new financial basis so that expansion would again be possible.

**The Housing Act 1974** followed the proposals in the Conservative Housing and Planning Bill to introduce new financing arrangements which would allow for the establishment of fair rent schemes. Rent Officers now fix, as in the case of private tenants, ‘fair rents’ (see p. 324) for the new or improved properties. Rent allowances are available for those tenants who need help to pay the rent. The difference between the rent and the full cost of the scheme is met by a Housing Association Grant. Unforeseen deficits may be met at the discretion of the Secretary of State by Revenue Deficit Grant.

The initial financing for these schemes is normally by loans from either local authorities or the Housing Corporation. The latter, set up by the Conservative Government in 1973, has a general supervisory role, approving schemes for which it lends money and registering housing associations so that they become eligible for Government grants.

Because of the shortage of resources, housing association schemes are now mainly concentrated on the provision of accommodation for the special needs of the elderly, the disabled and the single and in co-operating with local authorities in inner city renewal. The Public Expenditure White Paper (Cmnd. 6393) made provision for 46,000 new and improved homes a year which is under 10 per cent of the national total but still a big increase on previous years.



The new controls on council building (see p. 318) were also extended to housing association building. Because of prospective overspending on the level proposed in the White Paper, a reduction in approvals for new building of 3,000 dwellings was likely for the remainder of the financial year 1976–7 and for 1977–8. However, as part of Mr Healey's measures announced on 15th December 1976, housing association activities financed by the Housing Corporation have been cut by £57 million in 1977–8 (at 1976 Survey Prices). Meanwhile, housing subsidies are due to rise by £197 million in order to keep rent increases down to 60p per week. As Mr Rossi said:

“Rather than face the political consequences of cutting housing subsidies, Mr Shore has preferred to cut housing association provision for the elderly, the disabled and for those in inner city stress areas. It is a cowardly policy which puts jobbing for votes above homes for those in real need” (Ealing, 21st January 1977).

The Government is now exploring the possibilities for private sector finance instead of loans from local authorities and the Housing Corporation.

Mr Rossi speaking at the 1975 Conservative Party Conference, strongly supported the housing association movement:

“I look to the voluntary housing movement to play an increasingly important role in the field of specialist accommodation, and in the task of urban renewal housing associations have a major role and can provide another alternative for those wanting rented accommodation (*Blackpool*, 8th October 1976).

## (H) HOUSING STATISTICS

### 1. HOUSEBUILDING PERFORMANCE

	great britain		
	<i>Thousands</i>		
	<i>Starts</i>		
	<b>Public</b>	<b>Private</b>	<b>Total</b>
1970	153·8	165·1	318·9
1971	136·9	207·4	344·3
1972	123·0	228·0	351·0
1973	112·8	215·7	328·6
1974	146·8	105·9	252·7
1975	173·9	149·8	323·7
1976	171·2	154·9	326·1
—1st Quarter	44·6	37·2	81·8
—2nd Quarter	50·3	46·6	96·9
—3rd Quarter	47·0	43·1	90·1
—4th Quarter	29·3	28·0	57·3

*Thousands*

	<i>Completions</i>		
	<b>Public</b>	<b>Private</b>	<b>Total</b>
1970	180·1	170·3	350·4
1971	158·9	191·6	350·6
1972	122·8	196·5	319·3
1973	107·5	186·6	294·1
1974	128·6	140·9	269·5
1975	162·3	150·9	313·2
1976	162·8	151·7	314·7
—1st Quarter	39·1	37·1	76·2
—2nd Quarter	42·1	36·9	79·0
—3rd Quarter	41·0	38·8	79·9
—4th Quarter	40·6	38·9	79·6

For housing completions in Scotland, see Chapter 22, p. 547.

(Sources: *Housing and Construction Statistics* and DOE Press Notice 9th February 1977).

## 2. IMPROVEMENT GRANTS

great britain

*Thousands*

1970	180·0
1971	232·5
1972	368·1
1973	453·5
1974	300·5
1975	159·1
1976	168·3
—1st Quarter	47·8
—2nd Quarter	37·9
—3rd Quarter	43·1
—4th Quarter	39·5

(Sources as in Table 1)

## 3. NEW AND IMPROVED HOUSES

great britain

<i>Year</i>	<b>Total No. of Houses <i>started Plus</i> Total No. of Improvement Grants Approved</b>	<b>Total No. of Houses <i>Completed Plus</i> Total No. of Improvement Grants Approved</b>
	<i>Thousands</i>	<i>Thousands</i>
1970	498·9	530·4

great britain

<i>Year</i>	<b>Total No. of Houses <i>started Plus</i> Total No. of Improvement Grants Approved</b>	<b>Total No. of Houses <i>Completed Plus</i> Total No. of Improvement Grants Approved</b>
	<i>Thousands</i>	<i>Thousands</i>
1971	576·8	583·1
1972	719·1	687·4
1973	782·1	747·6
1974	553·2	570·0
1975	482·8	472·3
1976	494·4	483·0
—1st Qtr.	129·6	124·0
—2nd Qtr.	134·8	116·9
—3rd Qtr.	133·2	123·0
—4th Qtr.	96·8	119·1

#### **4. SALES OF LOCAL AUTHORITY AND NEW TOWN DWELLINGS (EXCLUDING THOSE BUILT FOR SALE)**

england and wales

	<b>Local Authority</b>	<b>New Town</b>	<b>Total</b>
1970	6,231	223	6,454
1971	16,851	2,755	19,606
1972	45,058	15,603	60,661
1973	33,720	7,254	40,974
1974	4,153	653	4,806
1975	2,089	145	2,234

(Source: *Housing and Construction Statistics*)

Scottish figures on the sale of council and New Town houses are given in Chapter 22, p. 548.

## **14. ENVIRONMENT**

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## (A) INTRODUCTION

**Rising Public Concern.** Recent years have seen a considerable quickening of public interest in environmental problems. In part, this development should be seen as a consequence of the rising living standards which, until lately, have characterised the postwar period: as people have become more affluent it is natural that they should have increasingly demanded that material advance should be accompanied by those improvements in the quality of life which depend upon the protection and improvement of the environments in which they work and spend their leisure.

But public concern also reflects the increasingly widespread fear that advanced technology is now making such fierce and extensive assaults on natural resources and processes that, in the absence of proper control, it may inflict unprecedentedly severe and possibly irreparable damage upon the environments of the industrialised nations.

**The Responsibilities of Government.** Since the onset of industrialisation successive British Governments have been shouldering ever widening responsibility for environmental problems—from sewage disposal and the control of air pollution to the preservation of historic buildings and the protection of the countryside.

Until recently, however, difficulties have arisen because these responsibilities having been acquired gradually and piecemeal; separate but related environmental problems have often been covered by widely divergent Government Departments. This has handicapped efforts to evolve a coherent national environmental policy.

Fortunately, the last Conservative administration not only shared the public's anxiety about the environment but also recognised that better co-ordinated and more effective governmental action in this area would only be possible if there was fundamental administrative reform. This was the major reason for the establishment of the Department of the Environment which brought together under a single Secretary of State responsibility in England for land use planning, pollution control, transport, public building and construction.

This change within the machinery of government made it possible to evolve a much more comprehensive approach to environmental problems.

**Economic Growth.** Administrative reform on its own, however, would not have been sufficient. Improvements in the environment where it is spoilt or polluted are inevitably expensive, and only industrial prosperity can provide extra resources to meet these costs.

It may seem perverse to stress the importance of industry, when it is acknowledged that many (though by no means all) environmental problems are a consequence of past and present industrialisation. But Conservatives believe that our environment has been damaged, not by economic growth itself, but by failure to avoid its unnecessary and unpleasant side effects.

Experience shows that not all environmental problems can be solved by increased public expenditure. Conservatives have important proposals in particular areas of environmental policy which will not require additional expenditure. Indeed, the repeal of the Community Land Act (see p. 338) will *reduce* public spending. But many desirable environmental policies do entail increased spending; and in the end, in environmental policy as in many other areas, any substantial progress will have to be deferred until we return as a nation to a condition of economic solvency.

## **(B) TOWN AND COUNTRY PLANNING**

### **1. TOWN AND COUNTRY PLANNING ACTS**

Comprehensive land use planning was initiated by the 1947 Town and Country Planning Act introduced by the Attlee Government. The Conservative Government which followed repealed the sections giving powers to take all development land into public ownership but retained the basic structure of plan-making and development control.

During the 1960s the pace of development placed new pressures on the planning system established by the 1947 Act. The system was too rigid to respond rapidly to the increased scale and variety of development. A more flexible system of planning, based on the idea that planning authorities should initially indicate broad guidelines and develop more detailed plans as and when necessary, was implemented in the Town and Country Planning Act 1968. Local plan-making was freed from detailed central government control and the public was given a greater opportunity to affect planning decisions. The 1968 Act and subsequent measures were consolidated in the Town and Country Planning Act 1971. The Town and Country Planning (Amendment) Act 1972 contained further provisions relating to the preparation of structure plans and powers of local authorities in connection with conservation areas.

**The Department of the Environment.** Although there is no national policy for land use, the Department of the Environment plays an important role in the operation of town and country planning. The Department serves the eight Regional Economic Planning Councils in England (see below) which are responsible for preparing Regional strategies. The Secretary of State for the Environment is also the final arbiter in planning appeals which applicants take to him when they are dissatisfied with decisions of planning authorities.

The Secretary of State also has power under the Planning Acts to make a *General Development Order* (GDO) which specifies certain kinds of development which do not need the permission of the local planning authority. Where the Secretary of State feels that a planning issue is of more than local public interest, he can 'call in' the application (which takes the matter out of the hands of the local planning authority) and decide it himself.

**Regional Strategies.** In the mid-1960s eight regional economic planning councils were established for the English regions and similar arrangements were made for Wales. The councils are appointed by the Secretary of State for the Environment and advise him on regional issues. They prepare regional strategies, analysing regional problems and proposing action. In 1972 much of the Department of the Environment's involvement with the Planning Acts was devolved from Whitehall to six regional offices: Newcastle, Leeds, Birmingham, Manchester, Nottingham and Bristol. The regional administration for East Anglia and the South East remains in London.

The regional strategies have reached different stages, although most are near to completion.

**North West Region.** A Strategy Report was produced by a team commissioned jointly by the Government, the Regional Economic Planning Council and local authorities, and published in May 1974; the Government response to it was published in December 1975.

**Northern Region.** A team set up on a similar basis is now at work, and a Report is expected early in 1977.

**Yorkshire and Humberside.** A Strategy prepared by the Regional Economic Planning Council was published in October 1970 and the Government response was made in July 1971. A review of this Strategy was published in February 1976: the Government response to this will be published shortly.

**West Midlands.** A Strategy prepared by the West Midlands Planning Authorities Conference was published in 1973 and a Government response was made in January 1974.

**East Midlands.** A Study by the Regional Economic Planning Council was published in June 1969 and the Government response made in November 1969: A short term economic review of the region was published in October 1976.

**East Anglia.** A Strategy Report was published in January 1975. The Government response was published in February 1976.

**South West.** A Report by the Regional Economic Planning Council was published in April 1974 and the Government's response to it was published in August 1975.

**South East.** The strategic plan for the South East, produced by a team under the aegis of central government, the Standing Conference of London and South Eastern Planning Authorities, and the South East Economic Planning Council was published in June 1970 and was given Government approval in October 1971.

A Report, *Strategy for the South East 1976 Review*, published in October 1976, updated the Strategy by taking account of population and employment changes in the region since 1970. The recommendations include:

1. Urgent measures to cope with employment, housing and transport problems in London;

2. A flexible strategy for the redevelopment of Docklands;
3. Because of stabilisation of the population of the region as a whole, and some reduction in emigration from London, there should be less pressure to develop in the rest of the region. New development in other parts of the South East should be held back;
4. Development in areas of minimal development (e.g. Chilterns, Cotswolds) should be more tightly controlled than in the past;
5. Development should be concentrated in the growth areas indicated in the 1970 Strategy (i.e. Milton Keynes, Reading, Basingstoke, South Hampshire, South Essex and Crawley);
6. There is a need to improve the network of lorry routes in the region;
7. There are doubts about the ground side-effects of airport expansion envisaged in the Government Consultation Document (see p. 372): large-scale expansion of air traffic at Stansted and Luton would have adverse effects on areas of restraint.

**Structure Plans.** The Town and Country Planning Act 1968 made radical changes in planning law, introducing a two-level development plan system comprising structure plans and local plans. The structure plan sets out a forward planning strategy for each administrative county and is a written statement. Because structure plans deal with broad outlines rather than detailed changes to the physical environment, it is difficult to attract much public interest. The Skeffington Report, *People and Planning* (July 1969), defined participation as “the act of sharing in the formulation of policies and proposals” and recommended that people should be kept informed of the local planning authorities' intentions through the preparation of structure plans and local plans. Public involvement is more likely at the local plan stage.

**Local Plans.** These express the detailed proposals of the planning authority. They comprise a map and a written statement and are prepared mainly by district councils.

**Development Control.** In addition to preparing local plans, district councils deal with most aspects of development control, although the Local Government Act 1972 made it possible for county councils to deal with certain “county matters” of more than local significance, where for example trunk roads are affected. There has been considerable concern expressed over delays in dealing with planning applications and appeals, aggravated by the pressure for development in the 1960s and early 1970s.

## 2. THE DOBRY REPORTS

In October 1973, the Conservative Government appointed Mr George Dobry, **Q.C.**, to review the development control system. Mr Dobry published an interim report in January 1974 in which he recommended a number of ways in which planning authorities could streamline their procedures including more delegation to sub-committees and officers.

His final report, which was published in February 1975, stated that while the planning control system was fundamentally sound its procedures were not adequate to meet current needs.

He therefore recommended that all planning applications should be divided into two classes: Class A—those which were relatively simple, including all applications complying with an up-to-date plan; and Class B—those which were more complex and controversial. In the case of Class A applications, the local authority's consent would be deemed to have been given if no reply had been received after a period of 42 days. It was estimated that about 70 per cent of applications would fall into Class A.

Mr Dobry recommended that appeals should also be divided into two classes, in the same way as applications, with the enforcement of a strict timetable during appeal procedures. He considered that there should be a strong presumption in favour of applications which conformed to up-to-date local plans. He also considered that there should be local guidelines for the public on how to apply for planning permission, with explanations of national and local planning policies. There should be early public consultations on all planning applications, more provision by planning authorities of published information on planning procedures, and a more active role for amenity societies in the planning process.

Mr Dobry's Report concluded that:

“It is not so much the system which is wrong, but the way in which it is used. The sensible implementation of the proposed measures depends on a change of attitude towards a more positive and constructive approach on all sides.”

**The Conservative Attitude.** As Mr Hugh Rossi, Conservative spokesman on Housing, said:

“We desperately need improvement in the present system of planning procedures. We are still carefully considering George Dobry's proposals on development control. That is why I deeply regret the Government's churlish rejection of Mr Dobry's long and valuable study of our planning system” (Northampton, 15th October 1976).

### **3. THE NATIONAL PARKS**

The ten National Parks of England and Wales were established in the years immediately following the passage of the National Parks and Access to the Countryside Act 1949.

In July 1971, the Conservative Government, in consultation with the Countryside Commission, appointed the National Parks Policies Review Committee under the chairmanship of Lord Sandford to take a fresh look at the National Parks and consider long-term policies for them. The Report was submitted in November 1973 and published in 1974. Its main recommendations included:

1. Strict application of development control policies;
2. All national park authorities should be able to control the design of farm buildings permitted under the General Development Order;
3. Administrative arrangements for the Parks under the Local Government Act 1972 should be reviewed by 1979;
4. The status of the Countryside Commission should be reviewed before 1979;



5. Park authorities should have powers to acquire compulsorily 'open country' in the national parks to preserve its natural beauty;
6. Forestry operations in national parks should be brought within the ambit of planning control;
7. More country parks should be provided near towns to divert people seeking recreation away from national parks;
8. Trunk road development should aim to avoid national parks.

On 12th January 1976, the Department of the Environment issued Circular 4/76 which set out the conclusions the Government had reached on the Sandford Report's recommendations. The Government accepted that there should be a review of the Countryside Commission's role within five years, and agreed that high priority should be given to provision of more country parks. They took the view that planning control of private forestry operations would be unnecessary in view of a new private forestry scheme announced in July 1974, and rejected the proposal that Park Authorities should have compulsory purchase powers to preserve natural beauty.

## 4. GREEN BELTS

The Green Belt policy initiated in the 1940s is designed to prevent urban sprawl around conurbations and other large towns. In March 1975 there were 5,800 square miles of designated or approved green belt, approximately 10 per cent of the land area in total, 2,000 square miles of which were approved by the Conservative Government between 1970 and 1974.

## 5. NEW TOWNS

The modern concept of planned New Towns was first proposed in Ebenezer Howard's book *Garden Cities of Tomorrow*, (1902) and embodied in Letchworth (begun 1903) and Welwyn Garden City (begun 1920). Welwyn Garden City was one of the first New Towns designated as part of the post-war reconstruction, implemented in the New Towns Act 1946. Between 1946 and 1950 fourteen New Towns were designated, eight of them around London. Further New Towns were designated in 1960–64 and a third group in 1967. There are now 21 New Towns in England and two in Wales.

Before a New Town is established, the Secretary of State consults with local authorities and other interests, and in the case of recent New Towns, a feasibility study is carried out to determine the suitability of the site and the appropriate size.

The Development Corporation, once it is established, is required to prepare a master plan giving the layout and timing of development. The Development Corporation's duties are to acquire, manage and dispose of land in the New Town, and to build houses, factories, shops, and community buildings. Capital works are financed by money advanced by the Government. Corporation development does not require planning permission because this is included in the Secretary of State's approval given from time to time to their proposals.

**The Commission for the New Towns.** When the New Town has reached its target population the development corporation's work is complete, and the assets and

liabilities are transferred to the Commission for the New Towns. This body is responsible for managing the assets of its New Towns, which are now four in number, Crawley, Hatfield, Hemel Hempstead and Welwyn Garden City.

**Housing in New Towns.** At present over two-thirds of housing in New Towns is rented from the corporations or the Commission. Where there is also local authority housing, the provision of public rented housing is often far higher. On 8th November 1976, Mr Guy Barnett, Under-Secretary of State, the Department of the Environment, said that 1971 Census figures indicated that only 22 per cent of homes in first and second generation new towns were owner-occupied. The proportion in third generation new towns was 59.8 per cent but this included housing in the original towns prior to designation. (*Hansard*, WA, Col. 7).

The Conservative Government's policy was to increase owner-occupation to about 50 per cent by encouraging the sale of houses to sitting tenants and by promoting development by private builders.

The present Government has initiated the transfer of housing and related assets from the corporations and the Commission to the appropriate district council. In the New Towns (Amendment) Act 1976 (RA 15th November 1976), the Government argued that the transfer of assets would enable housing authorities to make more efficient use of the housing stock in New Towns and integrate housing waiting lists, which have increased as a result of second generation household formation in the New Towns. In the interests of unified estate management, parking, garaging, open spaces and community facilities may also be transferred to the local authority. Conservatives did not oppose the transfer of housing assets in principle, but pressed the Government on a number of occasions to include in the transfer schemes a right for tenants to buy their homes (see p. 334).

**Expenditure Sub-Committee Report on New Towns.** The Environment and Home Office sub-committee of the House of Commons Expenditure Committee published a report, *New Towns*, in October 1975 which, among other recommendations, gave general support to the transfer of new town housing assets. The sub-committee's main proposals were:

1. Alternative forms of planned development should be fully considered before new towns are designated;
2. Other options should be considered when the target populations of new towns are being revised;
3. Housing management over an entire district containing a new town should be better co-ordinated;
4. Housing allocation in new towns should provide for special needs groups in addition to housing for employment;
5. Local residents should have more responsibility for running their estates;
6. Special assessment should be given for capital expenditure requirements of local authorities for projects within new towns.

The Government has already undertaken the transfer of new towns assets (see p. 334), and in a White Paper, *New Towns* (Cmnd. 6616, September 1976), gave a general welcome to the Expenditure sub-committee's main proposals.

The future development of new towns must now be viewed in the light both of recent speeches by Mr Peter Shore, Secretary of State for the Environment, and a number of articles which have criticised the third generation new towns.

On 17th September 1976 Mr Shore said in Manchester:

“I certainly acknowledge that the objective circumstances in which the New and Expanded Towns are operating have changed, and it is these changes and not any criticisms of the past value of new towns which must cause us to reappraise their future role.”

The criticism of new towns has focused in particular on Milton Keynes, the most ambitious of the third generation new towns, and the Central Lancashire New Town.

Writing in *Built Environment* in September 1976 Mr Conrad Jameson questioned the need for new towns on the scale of Milton Keynes:

“By the time Milton Keynes was on the drawing boards the population of the South-East had stabilised and London was shrinking at the rate of nearly 100,000 people a year.”

He also criticised the argument that it is cheaper to build in Milton Keynes than in London:

“Milton Keynes can provide housing—at half the cost of London. The figure is arrived at by culling out the basics of construction land, interest charges and so on, leaving out such services as major roads, schools and sewerage work. Add back these service costs and housing in Milton Keynes—the most expensive of any New Town, incidentally—comes out at least as expensive as housing in London and probably a little more.”

In *New Society* (18th November 1976) Mr Geoffrey Woodcock, writing about the Central Lancashire New Town, reported the comments of one local group, which indicate a widespread concern about the powers of development corporations:

“We understand the purpose of the outline plan very well indeed ... It is to secure for the development corporation, a non-elected body, very wide and far-reaching powers to make changes in the physical environment of 235,000 people now occupying 55 square miles of central Lancashire, uninhibited by public debate, unfettered by electoral responsibility, or unrestrained by further public enquiries.”

The comparative failure of the third generation new towns has been highlighted by the 1976 Review of the *South-East Regional Strategy* which acknowledges that the third generation towns near to London, Milton Keynes, Northampton and Peterborough, have not been able to achieve their population targets from a London catchment area alone. The Review recommends:

“The New Towns, notably Milton Keynes, represent a very considerable investment which it is undesirable to underutilise ... the catchment areas of Milton Keynes,

Northampton and Peterborough should be extended to relieve pressure on areas where restraint is necessary.”

In fact the proposed catchment area for these towns would extend over the whole Northern Home Counties, including the areas of several other new towns, including Stevenage and Harlow, which elsewhere the Government is considering expanding.

Conservatives take the view that investment in new towns should be more carefully scrutinised, recognising that in some of the more recent new towns, Peterborough, Northampton and Milton Keynes, the rate of immigration has been slower than expected. There must now be doubts about the feasibility of proceeding with the expansion of Stevenage and Harlow, and the development of the Central Lancashire New Town.

As Mr Rossi said:

“We have a duty to debate now whether it is right to continue to invest in increasing the size of new towns on green field sites, while the Government fails to invest or encourage investment, in the hollow hearts of our cities, or whether we should shift the limited resources available to an urgent programme of urban renewal” (Hatfield, 17th September 1976).

## **6. HISTORIC BUILDINGS**

Historic buildings are protected primarily by listing by the Department of the Environment. This means that a building entered on a statutory list is given some degree of protection against demolition. In 1976 there were over 229,000 buildings in England listed as being of special architectural or historic interest, over 14,000 of them added during 1975–6. In addition by 31st March 1976 there were 3,600 designated conservation areas in England. These are declared by local authorities under the 1967 Civic Amenities Act and include groups of historic buildings, for example town centres and old villages. There are 58 town schemes to help maintain the fabric of historic areas on which £370,000 was spent in 1975–6.

The Historic Buildings Council makes grants under the Historic Buildings and Ancient Monuments Act 1953 and under the Town and Country Planning (Amendment) Act 1972. Grants under the 1953 Act taken up in 1975–6 totalled £1.6 million and grants under the 1972 Act taken up totalled £555,000.

In its report for 1975–6, published on 6th December 1976, the Historic Buildings Council concluded:

“Many inner city areas which have been neglected for years are at a point where a relatively small sum of money would help bring the economic and social regeneration so desperately needed to counter the blight of years of uncertainty. Conservation in these circumstances is not simply expenditure on appearance but investment in the continuing life and work of a community ... ‘Bull-dozer’ redevelopment has demonstrably failed to bring the gains it promised: constructive conservation must now be seen as a real alternative.”

## 7. INNER CITY PROBLEMS

The most intractable environmental problem in Britain is the continuing decline of our cities and the mounting scale of social provision needed to help families in the stress areas. In spite of large-scale investment in the inner cities in the past 25 years the situation continues to get worse.

A recent analysis in the *Sunday Times*, “*A Strategy for City Life*”, (28th November 1976) defined the problem as follows:

“What has gone wrong? The answer is as complex as city life, but essentially falls into four layers—excessive concentration on housing, inadequate concern over changing employment patterns, well-intentioned but obstructive planning and a tendency to treat all resulting distortions as a ‘welfare’ problem.”

The centre of the crisis is seen by this report as the failure to provide jobs and other community facilities to go with the major council house building programmes which have used up most of the resources going into inner cities.

First, housing has not always been accompanied by essential services like schools and welfare and community centres. Second, industry has not been helped in inner city areas. Planners have often made it impossible for firms employing the residents of inner city areas to expand or relocate their factories in inner city areas. Third, the structure of housing waiting lists has made it difficult for many young people, single and married, to live and work in inner city areas. Fourth, the resources which might have been used to stimulate employment in inner city areas have been wasted on indiscriminate rent subsidies. Fifth, the land, which was blighted by massive clearance programmes and the closing of inner city factories, stands empty and undeveloped with little prospect of development, because it is too costly to develop. Sixth, rent control in the large cities, particularly in London, has contributed to blight by limiting population mobility and acting as a disincentive to private investment in housing (see Chapter 13, p. 321).

The problem of blight was highlighted by a study, “*Vacant Land*” (IAS/LI/11 DoE December 1975), in Inner Liverpool by the Inner Area Study Team for Liverpool set up by Mr Peter Walker when he was Secretary of State for the Environment in 1972.

A Survey by this team in March 1975 revealed a total of 139 acres of vacant land, representing approximately 11 per cent of the area studied. A later survey by the City Planning Officer indicated that about 1,236 acres of land were vacant or unused in the city.

The Report commented:

“The extent of vacant land in Inner Liverpool has its recent origins in the social development programmes of the past twenty years. In 1966 the council adopted a policy that the slum clearance programme be accelerated with the aim of clearing the worst unfit houses within seven years and this programme has by and large run to the original targets. The problems arose in the redevelopment of the cleared sites partly

because of resources questions, partly because of the administrative procedures that are employed.”

The *Sunday Times* report also discussed the loss of jobs in the cities. An employment study in Wandsworth showed that under comprehensive redevelopment “houses were replaced but jobs were not”. And in Lambeth the rolling housing programme has wiped out 300 firms which had given employment to over 3,000 staff.

The failure of planning policies to maintain employment has been conceded by Mr Peter Shore:

“There is no doubt that planning policies through comprehensive redevelopment schemes ... have contributed to a loss of jobs; and in some boroughs the proportion of jobs lost through redevelopment schemes has been startlingly high.”

This problem was discussed by Mr Hugh Rossi in a speech in London on 15th December 1976:

“It has to be said that post-war investment in urban renewal has mistakenly concentrated on highly subsidised council housing at the expense of local employment and the viability of the community. This has been compounded by the planners' disregard for the requirements of industry and general indifference to the needs of key workers, young marrieds and single people, who have not been encouraged to stay in the cities but have been offered blandishments to leave them for the new towns. All in all the new collectivist remedy for the ills of inner cities resembles most strongly the heavy reliance mediaeval surgeons placed on leeches.”

The problems of firms in inner city areas were also referred to recently by **Mrs Thatcher** in a letter to the Indian language paper *Garavi Gujarat* on 14th October 1976:

“I believe that in recent years inner cities have suffered from the unnecessary discrimination against small firms and the self-employed through high taxation, needless form filling, high rates, and insensitive redevelopment schemes. We will seek to improve the lot of small firms and the self-employed. They can play a vital role in providing services and creating new jobs in the inner city.”

## **8. DERELICT LAND**

In most parts of England and Wales there remains a problem of derelict land, much of which was worked before the establishment of planning law and which is not subject to conditions requiring restoration. The worst problems occur in the older industrial areas of the North and the Midlands, but also in Cornwall and on National Coal Board and British Rail land. The interim returns for 1974–5 show that 3,262 acres of land were reclaimed in England in this period, compared with for example 5,360 acres in 1972 under the Conservatives. In October 1976 it was estimated that there were still over 137,000 acres of derelict land in England and Wales, including 22,000 acres of derelict land held by British Rail. Grants for reclamation are available to local

authorities: these are 85 per cent in development areas, 75 per cent in intermediate and derelict land clearance areas and 50 per cent elsewhere.

## (C) COMMUNITY LAND ACT 1975

### 1. LAND

**Background.** The Community Land Act 1975 is the third attempt by Labour since the war to ‘solve’ the land problem.

**The Town and Country Planning Act 1947** in effect nationalised the development value in all land (leaving only the “existing use” value). Before its amendment in 1953 this Act was proving to be a serious brake on essential development.

**The Land Commission Act** introduced in 1967 set up a new central bureaucratic land agency, the Land Commission, with extensive powers to buy up land by agreement or by compulsory purchase. A 40 per cent betterment levy on development value was also collected by the Commission under the Act. Both the levy and the Commission were abolished by the Conservative Government on its return to office in 1970. The late Mr Richard Crossman summed up the general view about the Land Commission:

“The Land Commission was a total failure. It was one of our great disappointments, it was going to be one of our great Labour institutions, it was going to solve the price of land ... The problem is worse than ever” (ITV *This Week*, 1st October 1970).

The Community Land Act 1975 is the third in this disastrous trio of mistakes. It shows clearly that Labour has learned nothing from its past failures.

### 2. HOW THE ACT WILL WORK

The intention of the Community Land Act is to compel local councils to municipalise nearly all development land. It is being introduced in stages.

Local authorities were given a duty to prepare Land Acquisition and Management Schemes for submission to the Secretary of State for the Environment by 28th February 1976. The counties and the districts were obliged to decide between themselves the way in which they would jointly implement the Act. In the event of disagreement, or if the Secretary of State disagreed with a scheme, he had the power to step in and either alter the scheme or make a new one.

*The First Appointed Day* for the purpose of the Act was 6th April 1976. From that day local councils assumed the new powers provided in the Act to buy up land which in their opinion was suitable for development but they were not at this stage compelled to do so.

At any time after the First Appointed Day the Secretary of State can make what is known as a Duty Order applying to a particular area. This means that in that area either land for *all* types of development must first be acquired by the local council or,

alternatively, that land for a particular type or types of development must first be bought up by the local council, before the development can proceed.

When Duty Orders cover every area of the country for *all* types of development the Secretary of State will make an Order for the *Second Appointed Day* on which the Act comes into full operation everywhere.

From that day on, no significant development can take place until a local authority has first bought up the land and then either developed the land itself or disposed of it to the private sector, normally by leasehold, for development. New owner-occupiers, however, will continue to own the freehold of their land. Exempted from the Land Act altogether are very minor developments and most agriculture and forestry development. Local authorities are exempted from the duty to acquire 1,000 square metres of housing development and 1,500 square metres of industrial development as well as minor extensions to existing developments and recreational and mineral developments.

**Development Land Tax.** Linked to the Act is the Development Land Tax which is to be levied on development gains exceeding £10,000 (see Chapter 4, p. 104).

One acre of an owner-occupier's garden is exempt. Gains between £10,000 and £160,000 are to be taxed at 66 $\frac{2}{3}$  per cent until 1st April 1979 and all gains above £160,000 at 80 per cent. The eventual intention is to tax gains at 100 per cent.

Local authorities will buy land net of the tax and will also share in the proceeds. 40 per cent goes to the Treasury, 30 per cent to the local authority in the particular area concerned and 30 per cent into a pool for authorities with initial deficits on their Community Land Accounts. These Accounts record the costs of land acquisition and extra administration and also the profits from subsequent land disposals.

## 2. CONSERVATIVE OPPOSITION TO THE ACT

Conservatives vigorously opposed this objectionable measure from the outset. Over a thousand amendments were put down in the Commons and the Lords and there were three all-night sittings at Committee Stage, one at the Report Stage and one at the Lords' Amendments Stage. There was virtually unanimous agreement by outside interests that the Bill would be a disaster. Unfortunately the Liberals took an equivocal attitude. Although they voted against the Bill on Second Reading, their spokesman on the Environment, Mr Stephen Ross said:

“I think that people are beginning to accept the concept of the Community Land Act. However I was sad to hear the Hon. Member for Aylesbury (Mr Timothy Raison) say that the Conservatives would repeal that Act” (*Hansard*, 23rd June 1976, Col. 1662).

**Concessions.** Conservative opposition during the Parliamentary Stages of the Bill succeeded in gaining some concessions.

(1) Churches and Charities were given some protection, although their land can still be compulsorily acquired by local councils.



(2) The Act provides for the creation of Disposal Notification Areas which can be created by local authorities in any part of their boundaries where they consider that there is development land. Anyone selling an interest in land in such an area has to inform the local council who have 4 weeks to decide whether to buy themselves or not. Conservative pressure in the Lords prompted the Government to exclude from this provision the sale of a house and garden totalling one acre or less.

(3) The only original exemption in the Bill was for a single plot used to build a house for a relative. Conservatives secured a number of other exemptions. Excluded altogether from the Act is most agricultural and forestry development. A new category of 'excepted development' was introduced. Development of this kind would never be subject to the duty to acquire conferred by 'duty orders'. If local authorities wish to buy such land compulsorily, they will not be able to use the new powers of compulsory purchase either. Instead they will have to rely on conventional procedures. The category includes:

- a. Churches' and Charities' land.
- b. Parish Council land.
- c. A single plot.
- d. Development of less than 1,000 square metres for housing and 1,500 square metres for industrial development.
- e. Changes in use and extensions or rebuilding up to a 10 per cent increase in the original size.
- f. Mineral Development.
- g. Recreational Development.

(4) Originally rights of appeal were virtually removed under the Bill. Under enormous pressure, the Government gave some ground. Owner-occupiers will have an absolute right of appeal unless the compulsory purchase is consistent with the council's own local or strategy plan.

## **Reasons for Continued Conservative Opposition**

- a. *It will slow down development and push up house prices.* Planning delays already add hundreds of pounds to the cost of a new home; this Act will make things far worse. Eventually councils will be forced to buy up land and dispose of it before a brick can be laid on any significant private development.
- b. *It will be extremely costly in terms of extra resources and staff.* The Government estimates that 12,000 extra local council staff will be required to service the Act, as well as 700 for the Land Authority for Wales, which will operate the Act in Wales instead of the local councils, and 1,200 extra Inland Revenue staff. Mr Healey preaches restraint in staff levels and at the same time the Government imposes this onerous and unnecessary duty on local government, which they have neither the knowledge nor the expertise to perform. The 1976 Public Expenditure White Paper estimated that the Act would cost £312 million over the next 4 years *after* taking account of the proceeds from land disposals. However, as part of Mr Healey's measures announced on 15th December 1976 (see Chapter 3, p. 63), spending under the Community Land Act in 1977–8 is to be cut by £35 million (at 1976 Survey Prices). Thus it becomes even clearer that councils will not be given the

- money necessary to provide land for private development. A near monopoly for councils in development land is not only undesirable but also impracticable.
- c. *The Land Act and the Land Tax may well lead to a land famine.* The Land Act itself is a blow to the confidence of builders and developers. The high rate of land tax at 80 per cent will mean a reluctance to sell land. Local councils have not got the capacity for filling this gap by buying up land for the private sector's requirements, even if this were desirable. Thus there is a severe danger of a land famine in 2 or 3 years time when builders have run down their stocks. Indeed, the difficulties the Act has already created in obtaining land is one of the reasons for the serious slump in house-building (see Chapter 13, p. 314).
  - d. *Both the Act and the Tax will harm charities and pension funds.* Charities have been given some protection but pension funds have had no concessions at all. This means that in the future the charities' ability to build old people's homes for instance, will be adversely affected and the interests of pensioners will be harmed.
  - e. *The Act gives unacceptable powers to the Secretary of State for the Environment.* The Secretary of State has sweeping powers to take over the functions of local authorities under the Community Land Act or any other Act which deals with the management or disposal of land. The Community Land Act is supposed to allow the local authorities to determine their own needs and priorities. In fact they are, as Professor Denman, of the Department of Land Use and Economy at Cambridge University, has said, to be no more than marionettes on the Secretary of State's string (*Daily Telegraph* article, 27th March 1975).

**Conservative Policy.** For these reasons the Conservative Party is pledged to repeal the Act. As **Mrs Thatcher** said:

“If this Bill should reach the Statute Book, a Conservative Government is pledged to repeal it” (Hendon, 15th August 1975).

Mr Rossi, speaking at the 1975 Conservative Party Conference, proposed that, instead, a fair rate of land tax should be instituted, which encouraged development and thus at least brought in as much revenue as a penal tax which kept land off the market. Local councils could have a share of the proceeds of any fair tax on development gains (Blackpool, 8th October 1975).

## **(D) THE WATER SERVICE**

### **1. WATER ACT 1973**

In April 1971 the Central Advisory Water Committee reported to the Conservative Government on the state of the water service. The Report, *The Future Management of Water in England and Wales*, recommended a reduction in the number of authorities, and proposed that in each river basin there should be a comprehensive water management plan. In December 1971 the Government announced the full integration of water services, based on ten multi-purpose Regional Water Authorities (RWAs) in

England and Wales, able to take a comprehensive and long-term view of all the relevant aspects of water management.

The Water Act 1973 implemented this policy, replacing over 1,400 sewerage and river authorities with nine all-purpose Regional Water Authorities in England: Thames, Severn-Trent, Anglian, Northumbrian, Yorkshire, North-West, South-West, Southern and Wessex; and the Welsh National Water Development Authority (WNWDA) in Wales. Each RWA and the WNWDA are responsible for the supply and conservation of water, the monitoring and control of pollution in rivers and estuaries, the treatment of water for public use, sewerage and sewage disposal, and the full development of rivers and estuaries for recreation and amenity.

The 1973 Act also provides for a National Water Council, drawing together the Chairmen of all the Regional Water Authorities and the WNWDA. Its responsibilities include advising the Government on national water policy, and encouraging the research and planning functions of the RWAs.

The importance of recreational use of water is reflected in the establishment under the 1973 Act of the Water Space Amenity Commission which has a general duty to advise the English RWAs on recreational and amenity uses of water.

Although the Chairmen of RWAs are appointed by the Secretary of State for the Environment, and other members are appointed by the Minister of Agriculture, a majority of members of Regional Water Authorities are local authority representatives, maintaining the strong link between local councils and the water service.

**Financing the Water Service.** The Water Act 1973 provided that the RWAs would directly bill householders for all water services. At the present time, and for a transitional period, charging for water supply and for sewage disposal are not combined, but water supply is paid for by a water rate, based on rateable value, and sewerage and other service charges are collected as part of the general rate demand by district councils, acting as the agents of the RWAs. There has been considerable controversy recently over the imposition of a charge for sewerage and sewage disposal on householders whose property is not connected to the main sewerage system. This was resolved by the case of *Daymond v the South-West Water Authority* (see below).

## **2. WATER CHARGES ACT 1976**

This Act (RA 25th March 1976) provides for refunds of those sewerage and sewage disposal charges declared illegal by the House of Lords in the case of *Daymond v the South-West Water Authority* (3rd December 1975). The House of Lords ruled that such charges may be levied only on properties connected to public sewers. It is estimated that there are 900,000 properties not connected.

Under the Act, water authorities are required to refund all charges for sewerage and sewage disposal levied on unconnected properties in 1974–5 and 1975–6. The cost to the water authorities is to be recovered by higher charges on those properties that are connected. It is estimated that the cost of refunds to the 900,000 unconnected

properties amounts to £60 million. It is likely that the general service charge will be increased by 20 per cent. Refunds will be made by local authorities, who act as collection agents for the water authorities, in the form of credits against general rate demands for 1976–7. Under the Bill's arrangements, most domestic ratepayers will get their refunds automatically.

The Act is also intended to clarify the power of the water authorities to charge for those services (for example, pollution control, recreation and amenity) which are undertaken for the benefit of the community as a whole. The Act states that all ratepayers are liable to pay this general service charge, and expenditure on these services for 1974–5 and 1975–6 will not be refunded.

### **3. CHARGES FOR CESSPIT EMPTYING**

Although households unconnected to main drainage are benefiting from the refund under the provisions of the Water Charges Act, many are now paying more than those households which are connected, as a result of a higher emptying charge. According to the *Municipal Journal* (2nd April 1976) charges to local authorities by RWAs for treating sewage from cesspits etc. vary from no charge in Thames Water Authority, to £5.00 in Wessex Water Authority and Northumbrian Water Authority. In Reigate, Surrey, one householder paid £624 in 1976 for cesspit emptying. Charges for emptying septic tanks in Severn-Trent Water Authority have risen 800 per cent since April 1974 (*Hansard*, 17th February 1976, Col. 653).

The Layfield Report on Local Government expressed concern about the present state of “confusion among ratepayers and consumers” about responsibility for water charges and recommended that the present arrangements should be changed as soon as possible and that water authorities should collect charges direct.

### **4. GOVERNMENT'S GREEN PAPER ON WATER**

In June 1974 the Government announced a review of the Water Service, and a consultative document, *Review of the Water Industry in England and Wales*, was published on 18th March 1976. Its main recommendations include:

1. The replacement of the National Water Council by a National Water Authority with wide powers over the planning and policies of regional water authorities, and with its own research functions. It would incorporate the British Waterways Board and the Water Space Amenity Commission.
2. The nationalisation of the Water Companies which have been working alongside the Regional Water Authorities since the 1973 Act.
3. Equalisation of charges by pooling the historic debt of the Regional Water Authorities and the Welsh National Water Development Authority.

The Conservative reaction to the Green Paper was expressed by Mr Keith Speed, spokesman on local government, who said that doctrinaire Socialist policies to nationalise the private companies would not improve the present situation:

“The public expenditure cost is ignored and there is no tenable argument for increased efficiency. Equally unpalatable is the total absence of any proposals or ideas about water charging in the future” (*Statement*, 19th March 1976).

## **5. WATER CHARGES EQUALISATION BILL**

This Bill, which was foreshadowed by the Consultative Document, *Review of the Water Industry in England and Wales* (18th March 1976), (see p. 343) was published on 30th November 1976. The Government's purpose in introducing the Bill is to bring average bills for domestic and some other water supplies in different water authority areas within a narrower range. At present average household bills for water supply vary among the ten regional water authorities from 44 per cent above the national average to 17 per cent below it.

The Bill, which applies to England and Wales, will provide a scheme to equalise the cost of financing capital expenditure incurred by each of the ten water authorities before 31st March 1976 in providing water for domestic supplies. The National Water Council will act as a sort of banker administering transfers between water authorities. Those with unit costs below the national average will pay levies determined by the Secretary of State to the National Water Council, which will then distribute the total levies among those authorities whose unit costs are higher than average. The Government claims that the cost of administration will be met as part of the National Water Council's normal expenditure and the scheme will involve no additional public expenditure.

The scheme has been criticised because it will mean that consumers in one area will be obliged to subsidise the charges levied in other parts of the country, and this is incompatible with the principles of the Water Act 1973 which envisaged Water Authorities as being self-financing. It should also be emphasised that equalisation of historic debts will only serve to hold down charges in Wales and some other areas for a limited time. The level of charges will rise again as the effect of the transfers diminishes over about five years and the high cost of providing supplies in rural areas will remain.

It has been estimated that the effect of the transfers will be that consumers in Wales would pay about £4 less per household per year, the reduction in the South West would be £3·50 per household per year, and in East Anglia £1·50 per household per year. In the South East the annual household water charge would rise by up to £2. The Bill was given a Second Reading on 24th January 1977 after a free vote.

## **6. THE DROUGHT**

After the relatively low rainfall in the winter of 1975–6 it became clear from at least last spring that in the event of a very dry summer drought conditions would be created in many parts of the country.

In a letter to Mr Peter Shore dated 26th April 1976, Mr Timothy Raison, then Conservative spokesman on the Environment, called for a full public statement on the water shortage, including the Government's contingency plans and advice on the

conservation of water. On 3rd May in the House of Commons, Mr Michael Morris, Conservative M.P. for Northampton South, asked the Minister for Planning and Local Government if he was confident that the necessary powers were available to ensure that there would not be extreme hardship to industry, agriculture and domestic consumers as a result of the water shortage.

It was not until the 2nd July 1976, however, that Mr John Silkin announced that the Government had been reviewing the range of powers available for dealing with the drought. He said:

“They are inadequate for what is a quite unprecedented situation. In particular, they have two major defects: they do not allow for progressive limitations on non-essential uses of water in a developing shortage, and they do not enable the water undertakers to impose in an emergency a flexible and equitable water rationing system. We have accordingly decided to bring forward urgently a short Bill designed to confer on statutory water undertakers new powers of control over use of water in times of shortage.” (*Hansard*, Col. 797).

**The Drought Act.** On 20th July 1976 the Drought Bill was given a Second Reading in the House of Lords and received the Royal Assent on 6th August 1976. It provides for two stages of action depending on the severity of water shortage.

*First*, an Order under Section 1 enables a Water Authority or Company to restrict the use of water for any purpose specified in the Order for a period of up to six months. This power enables an authority to ban the use of water for commercial car washes and similar processes, as well as the watering of parks, public gardens, sports grounds and racecourses.

The ban applies to areas within the boundaries of a regional water authority, and not necessarily the whole area of the authority.

*Second*, an Order under Section 2 can be issued where the water shortage seems likely to have widespread economic or social consequences, for example unemployment. This Section gives the Water Authorities draconian powers to restrict the use of water as they think fit. These restrictions may be applied generally, collectively or to individuals, and may run for up to three months. The Section also gives authorities powers to cut off supplies and set up stand-pipes.

**Cost of Drought.** In a Report, *Water Supply Prospects for 1977*, issued in October 1976, the National Water Council states that the net revenue cost of dealing with the Drought in England and Wales will amount to £35 million, and this could lead to increases in water supply charges in 1977–8 of up to 20 per cent for some households.

**Prospects for 1977.** Heavy rainfall in the autumn and winter subsequently greatly eased water shortages in all the areas affected.

In a statement to the House of Commons on 16th November 1976 Mr Denis Howell, Minister of State, Department of the Environment responsible for water services, spoke about the National Water Council's Report and proposals for a water programme to ensure supplies in 1977. Work totalling £187 million is in hand or

commissioned, including £66 million worth of additional work as a result of studies carried out last summer:

“The NWC concludes, on this basis, that even if we have another dry winter followed by a dry summer comparable to this year's experience there would be sufficient supplies available next year to maintain industrial production and employment and to meet almost all domestic requirements.”

Mr Howell referred to the lessons the Government had learned from the drought crisis and stated:

“I am asking the National Water Council, in collaboration with my Department, to carry out a detailed study of the relative merits of different forms of water rationing by standpipe and by rota cuts; of contingency plans for such action; of the operation of the Drought Act procedures; and—as part of the preparation of a long-term strategy—of the criteria on which water supply planning is based.”

He reaffirmed that water services had to be organised on a river basin system (as provided in the Water Act 1973) and added:

“It is essential to establish a strong national water authority capable of developing a national strategy and with responsibility for national planning.

We therefore intend to publish a White Paper early next year setting out detailed proposals for the implementation of these conclusions” (*Hansard*, 16th November 1976 Cols. 3–4).

## **(E) CONTROL OF POLLUTION**

### **1. THE CONSERVATIVE ACHIEVEMENT**

The last Conservative Government took a number of major initiatives to improve the environment, and the control of pollution:

1. The Department of the Environment, the first all-embracing government department in the world able to co-ordinate most aspects of environmental policy, was established in November 1970.
2. Hazardous wastes were dealt with by the Deposit of Poisonous Waste Act 1972 which controls the movement and dumping of toxic waste.
3. Smoke control under the Clean Air Act 1956 was advanced so that in 1974 66 per cent of all premises in ‘black areas’ were covered by smoke control orders.
4. Programmes to clear derelict land resulted in the reclamation of over 20,000 acres of derelict land between 1970 and 1974.
5. More than one mile in every ten of heavily polluted rivers in England and Wales was improved between 1970 and 1974 at an average rate of half a mile of river every day.
6. The Protection of the Environment Bill 1974 was introduced to deal with four main areas of pollution: (a) waste disposal; (b) water pollution; (c) noise; and

(d) air pollution. This Bill lapsed because of the February 1974 Election. It was reintroduced in a modified form as the Control of Pollution Bill by the Labour Government, receiving the Royal Assent on 31st July 1974 (see below).

## **2. CONTROL OF POLLUTION ACT 1974**

The Act provides a comprehensive framework for dealing with the four main aspects of pollution; waste on land, water pollution, noise and air pollution.

*Part 1* of the Act empowers County Councils as Waste Disposal Authorities to carry out surveys of wastes requiring treatment and sites for disposal, and to prepare plans for the disposal of waste. Only certain sections of Part 1 have been implemented.

*Part 2* empowers Regional Water Authorities to control the discharge of effluent into rivers and estuarial waters.

*Part 3* empowers local authorities to inspect their areas for noise nuisances, to require the abatement of noise nuisances, to control noise abatement zones. The main provisions of Part 3 have not yet been implemented.

*Part 4* governs regulations concerning the content of motor fuel and other oils, and gives local authorities powers to undertake research into air pollution and publish information about air pollution.

It has not been possible to implement the whole of this Act in the economic climate produced by the Government's policies.

## **3. ROYAL COMMISSION ON ENVIRONMENTAL POLLUTION**

The Royal Commission, which was appointed in 1970, published its fifth report in January 1976. Its main proposals were:

1. The Alkali Inspectorate should be returned from the Department of Employment to the Department of the Environment as part of a new body, the HMPI (Her Majesty's Pollution Inspectorate). HMPI would be responsible for dealing with all pollution problems arising from registered industrial processes. It would operate like the Alkali Inspectorate on the basis of seeking the best practicable means of improving standards, extending the application of this system to liquid effluent and solid waste;
2. Local authorities should continue to have responsibility for the control of air pollution from domestic sources and less complex industrial plants. New legislation is proposed to give local authorities wider powers in dealing with air pollution;
3. The system of air pollution control should be more publicly accountable and more comprehensible to the public.



The Sixth Report of the Royal Commission (September 1976) was concerned with the impact on the environment of the development and production of nuclear energy (see Chapter 9, p. 247).

## **4. EEC ENVIRONMENTAL POLICY**

The European Community's first environmental action programme was drawn up in 1973 and has resulted in a number of directives. In 1976 the Commission drew up a continuation programme to run from 1977 to 1981. The main objectives of the Community's policy are:

1. The reduction of pollution and nuisances, with particular emphasis on water and atmospheric pollution and noise abatement.
2. The non-damaging use and rational management of space and natural resources; this will include encouragement of recycling of waste.
3. Action of a general nature to protect the environment, including European research projects, action to improve the working environment and the dissemination of information on environmental protection.

The European Conservative Group at the European Parliament has always supported the idea of a European environmental policy to check, control and diminish pollution so long as it poses a threat to public health. In 1976, members of the Group were responsible for Parliamentary reports on directives dealing with the dumping of wastes at sea and with the standard of drinking water.

The United Kingdom has, however, been particularly concerned by the Commission's attempts to control water pollution by laying down 'emission standards' which necessitate the measurement of pollution at the point of emission. This policy ignores the fact that the pollution capacity of Community waters varies enormously: what may be harmlessly dissolved in the North Sea may remain undissolved and toxic in the Mediterranean. In 1975 the Government negotiated a more flexible formula, laying down 'quality objectives', so that pollution may be measured in terms of the total environmental impact, allowing for natural absorption and dispersal of harmful elements. The European Conservative Group supports this policy as an effective way of controlling pollution while avoiding cost and unnecessary harmonisation.

## **(F) PROPERTY SERVICES AGENCY**

The Property Services Agency (PSA) is part of the Department of the Environment and is staffed by Civil Servants. Its responsibilities include the provision of accommodation, furnishings, supplies and transport for central government, the armed forces, the Post Office and other public bodies. The total number of staff employed in the PSA at 1st January 1976 was 44,672. The net cost to public funds of the services provided by the PSA is estimated to be £750 million in 1975-6 including £100 million for salaries and administration. £315 million out of the total £750 million is allocated for office and general accommodation services in the United Kingdom and £408 million is for defence accommodation services. PSA Expenditure in the 1976-7 estimates is set at £778 million (*Hansard*, 26th January 1976, WA, Col. 23).

Between April 1974 and September 1975 the PSA leased in total over 3·8 million square feet of office space in the United Kingdom at a cost of £13·27 million and since March 1974 construction has been started by the PSA on over 2 million square feet of office space in Great Britain at an estimated cost of £4·35 million (*Hansard*, 5th November 1976, WA, Col. 229).

In the House of Lords on 4th October 1976 Conservative Peers called for the publication of an annual report and accounts for the PSA. Lord Hewlett said:

“With such expenditure detailed accounts should be available for all to examine” (*Hansard* (Lords), 4th October 1976, Col. 819).

Baroness Stedman, for the Government, said that information was available in various publications and that an annual report could not be justified.

## **(G) SPORT**

### **1. THE SPORTS COUNCIL**

Government support for sport is principally provided by grants to the Sports Council, a body originally set up by the Labour Government in February 1965 as an advisory body under the Chairmanship of Mr Denis Howell. In 1972 the Conservative Government gave the Council a Royal Charter, and executive and grant-giving powers with an independent chairman. There are also sports councils in Scotland and Wales. The Table below shows the grants received by the Sports Councils between 1972–3 and 1976–7:

	Annual grants-in-aid to Sports Councils 1972–3 to 1976–7		
	<b>Sports Council</b>	<b>Scottish Sports Council</b>	<b>Sports Council for Wales</b>
	£	£	£
1972–3	3,650,000	530,000	400,000
1973–4	5,000,000	870,000	570,000
1974–5	6,575,000	1,170,000	750,000
1975–6	8,325,000	1,493,000	934,000
1976–7	10,200,000	1,700,000	1,200,000

(Sources: Appropriation Accounts 1972–3 to 1974–5, and Supply Estimates 1976–7).

### **2. SPORT AND RECREATION**

On 7th August 1975 Mr Denis Howell, Minister for Sport, introduced a White Paper, *Sport and Recreation* (Cmnd. 6200). Its main policy proposals include:

- a. The replacement of Regional Sports Councils in England with Regional Councils for Sport and Recreation, bringing in conservation, farming and countryside interests.

- b. The development of centres of sporting excellence at universities and colleges to provide for the needs of selected gifted young athletes.
- c. Bursaries financed by a Sports Aid Foundation to enable established athletes to devote more time to sport.

The White Paper also discussed the question of rate relief for local activities to sports clubs which make facilities available to members of the public. But it made no specific recommendation.

Mr Hector Monro, Conservative spokesman on Sport, criticised the White Paper because:

“There has been no clear Government initiative on the question of rate relief for sporting clubs which make a contribution to local recreational provision .... There is no mention of the difficulties encountered by a number of sports with the new higher rate of VAT” (London, 7th November 1975).

On 14th April 1976 the Department of the Environment issued Circular 4/76 which gave further details of the establishment of Regional Councils for Sport and Recreation. It is clear from the appendix dealing with membership that the number of full members of the Regional Councils of Sport and Recreation representing sport has been drastically reduced to about one-eighth of the total.

### **3. THE SAFETY OF SPORTS GROUNDS ACT 1975**

In May 1972, Lord Wheatley submitted a Report on Crowd Safety at Sports Grounds (Cmnd. 4952), which recommended that local authorities should be responsible for issuing safety certificates to stadia and sports grounds. The recommendations of the Report were implemented in the Safety of Sports Grounds Act 1975.

The Act applies to all sports stadia with a capacity of more than 10,000, which will have to obtain safety certificates from the local authority. The authorities responsible are County Councils in England and Wales, and Regional and Island Councils in Scotland. They will be guided by a non-statutory code of practice based on the technical appendix to Lord Wheatley's Report. Before issuing a certificate, the local authority will have to consult with the principal fire officer, the building authority and the police. The certificate will indicate the maximum number of spectators to be admitted to the ground. Not all stadia will be dealt with at once. In the first instance International grounds, English First Division football grounds, and Scottish Premier Division football grounds will be affected.

The Government has indicated that no grants will be made available from public funds towards ground improvements, but arrangements have been made for a Football Grounds Improvement Trust to be financed by contributions from pools promoters. It is estimated that by November 1976 this fund amounted to about £1,000,000: clubs will be able to apply for grants.

### **4. ROYAL COMMISSION ON GAMBLING**

In its interim report published on 30th November 1976 (Cmnd. 6643) the Royal Commission on Gambling has not recommended any increase in revenue for sport from betting and gaming. The report argued that any increase in revenue for football from Pools profits above the £2 million already paid each year must depend on an inquiry into the way football was run. The report said:

“In our view any scheme for financial assistance to football must be accompanied by the creation of suitable administrative machinery to use the money in the most effective way. It is by no means clear to us that such machinery exists at present. Consequently we are unable to recommend any immediate action on financial assistance to football.”

The Report also recommended that sport in general should not be supported by revenues from gambling in general:

“We do not find it immediately obvious why casino gamblers or bingo players should be laid under contribution [*sic*] specifically to provide money for sport.”

## **5. CONSERVATIVE POLICY**

Mr Hector Monro, Conservative spokesman on Sport, speaking at a Central Council of Physical Recreation conference in November 1976, criticised the present Minister for interfering too much in the day-to-day running of Sport and said:

“The Minister should in our view assume a broader co-ordinating role covering sport, recreation, amenities, the countryside, the use of water space for recreational purposes, safety of sports grounds and youth recreation. This would leave the Sports Council to act as the initiator of policy and expenditure .... This will mean strong and forthright leadership in the Sports Council with members and officers taking the crucial decisions about allocation of resources which are at present being taken by the Department of the Environment.”

Mr Monro criticised the Labour Government's White Paper, in particular the new proposals for constituting the Regional Councils of Sport and Recreation:

“We regret the changes that the present Government has initiated in the composition of the Regional Councils of Sport and Recreation. They have reduced almost to a point of insignificance the voice of organised sport, in an attempt to widen the scope of the councils to cover other forms of leisure and amenity interests ... we will be bound to alter the balance of membership to strengthen the voice of sport on the regional councils when we return to Office.”

On the question of public expenditure on Sport, he said:

“It is a mistake to assume that the Government and the public sector can provide all the resources to support sport. There must be a genuine effort to encourage private involvement in sport, both in terms of the role of the volunteer and the attraction of sponsorship.”

Mr Monro also recommended several changes to local authority sport and recreation services:

“Local authorities will have to move to more realistic levels of charging for many of their recreational services, and they must accept that the building of any more lavish sports centres is for the time being out of the question. We want to see local authorities and sports clubs making better use of existing facilities including school buildings, private sports clubs, Football Clubs and service facilities .... In particular we are determined to see that Education Authorities make their sports facilities available to the public.”

Conservatives would be looking at ways of encouraging private sponsorship:

“In a more enlightened taxation system we must look at the possibilities of revising the tax system so that corporations and companies are positively encouraged to give support to sport and recreation” (Bournemouth, 15th November 1976).

## 15. TRANSPORT

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### Speaking Note

#### Under the Labour Government:

- Rail fares have gone up on average by 110 per cent.
- Bus fares have increased by up to 100 per cent.
- The cost of motoring has gone up by 60 per cent.
- Road Haulage costs have gone up by 75 per cent.
- Subsidies from the taxpayer to the nationalised transport operators have increased by 200 per cent.
- The losses of the public transport industries have reached record proportions.
- Cuts in expenditure, and the switch of resources to subsidies rather than capital investment, have wrecked the road programme and caused a deterioration of local transport services.

#### The Labour Party:

- Remains committed to extending State ownership of road haulage.

- Has rejected the Government's Consultative Document which repudiates the 1974 pledge to transfer freight from road to rail. But it is unable to agree on a coherent transport policy.

**Conservatives believe:**

- Transport cannot be treated primarily as a social service. As far as possible it should be paid for by the user, not the taxpayer.
- Decisions between modes of transport should be taken by and for the users—rather than the providers.

**The next Conservative Government will:**

- Eliminate subsidies to British Rail's freight operations, and aim to ensure that the National Freight Corporation returns to profitability.
- Halt Labour's policy of clobbering the motorist.
- Change the licensing system to allow new road passenger services to develop, including mini-bus services in rural areas and shared taxis in towns.
- Give full weight to environmental considerations.

## **(A) ORGANISATION OF INLAND SURFACE TRANSPORT**

In 1975–6 transport in Britain accounted for expenditure of £12,000 million, amounting to 13 per cent of Gross Domestic Product. Transport is also one of the nation's largest employers, with a labour force of three million (*Source*: British Road Federation).

### **1. ROLE OF CENTRAL GOVERNMENT**

Government is the main source of finance for Britain's transport. Trunk roads, comprising about 9,500 miles of the most important national routes, including the motorway network, are wholly the responsibility of central government, and the local authorities' road building and maintenance programmes are also supported by central government through the Transport Supplementary Grant (see p. 353). The Government also provides funds for the nationalised transport industries' investment programmes (given their inability to generate capital themselves) and, of course, meets the losses which they frequently incur.

From 1970 onwards transport, with the exception of Civil Aviation (see p. 370), which has remained part of the Department of Trade, was organised under the aegis of the Department of the Environment, but in September 1976 this arrangement was terminated and Transport became independent once more under its own Secretary of State. It is the Government's intention, however, that joint work on urban transport and land use planning should continue. Also, the highways inquiries procedure remains under the joint control of both Ministries.

In Scotland and Wales, responsibility for all transport matters lies with their respective Secretaries of State.

## 2. LOCAL GOVERNMENT

**Reorganisation.** As part of its general strategy for local government reorganisation, the last Conservative Government undertook a fundamental review of the relationship between local authorities and the transport services in their areas. The general principles underlying this review were enunciated in the February 1971 White Paper, *Local Government in England: Proposals for Reorganisation* (Cmnd. 4584):

“It is proposed that responsibility for highways, traffic management and public transport should lie wholly with the county (as opposed to district) authorities so as to end the difficulties which arise through the present division of responsibility for highways and traffic.”

Under Sections 202 and 203 of the Local Government Act 1972, therefore, the new County Councils were given broad responsibilities for transport planning. The Act provided for the devolution to the counties of extensive powers to plan for their own transport requirements, within financial limits laid down by the Department of the Environment—which retained control of British Rail and of the inter-urban trunk road network. The intention of these reforms was to promote comprehensive planning within a framework of financial responsibility, local accountability and democratic control.

The counties' plans take the form of Transport Policies and Programmes (TPPs) which are presented annually in July for the Secretary of State's approval. Approved expenditure under the TPP is eligible for the Transport Supplementary Grant (TSG). TSG allocations for the following financial year are announced in December.

**The TSG.** This is a block grant, paid under Section 6 of the Local Government Act 1974, which replaced a whole series of specific grants hitherto paid to local authorities under the terms of various previous Acts, mainly to cover expenditure on highways and public transport. The single block grant method was intended to remove the bias towards particular expenditure which is inherent in specific grants and, therefore, to further the objective of comprehensive planning. At the same time, the block grant is a means whereby the Department of the Environment retains strategic control over the quality of the counties' plans.

The grant is distributed to each county as a proportion (currently 70 per cent) of the total accepted expenditure by a county which falls above a threshold level. The threshold level for the first year was determined by reference (a) to population, and (b) to expenditure already committed on highway maintenance. Expenditure below the threshold level is eligible for the Rate Support Grant.

## 3. BRITISH RAIL

**Background.** The railways first came under government direction during the First World War, and by the Transport Act 1921 the 130 private railway companies were

amalgamated into four regional groups. After the Second World War, during which their capital equipment had suffered considerable depletion and deterioration, the railways were nationalised by the Transport Act 1947 and became a single entity, British Railways, under the auspices of the British Transport Commission.

**The Beeching Report.** However, the most significant development in post-war transport, the growth of private motoring, meant that the context in which railways operate was fundamentally altered. In the 1950s the number of private cars trebled, while the number of passenger miles travelled by rail slightly declined: it became apparent, therefore, that reorganisation and restructuring were necessary to bring what was still essentially a nineteenth century railway network into line with modern needs. In 1961, Dr Beeching was appointed Chairman of the British Transport Commission. By the Transport Act 1972, the Commission was wound up, and a new British Railways Board established to control the railways (now known as British Rail), and also other services—principally hotels and shipping—which were then considered as ancillary to the railways. This Act also provided for the financial reconstruction of the railways, writing off a substantial part of their capital liabilities and accumulated deficit.

In 1963 the Beeching Report, *The Reshaping of British Railways*, set out far-reaching proposals for streamlining and reorganising railway services. The post-Beeching reorganisation continued throughout the 1960s; although the Labour Government got rid of Dr Beeching himself in 1965.

**1968 and 1974 Transport Acts.** The Transport Act 1968 introduced an arrangement by which specific grants were paid to individual loss-making lines. It also made a further reduction in British Rail's capital liabilities.

In 1973, after a comprehensive review by the Board, a new investment programme was agreed, which provided the railways with almost £1,800 million to finance investment until 1981.

The 1974 Railways Act made a further cut in British Rail's accumulated liabilities. It also replaced the 1968 Act method of supporting individual loss-making lines by a new global provision for the railways' passenger deficit—£1,500 million—to last for five years. Since the introduction of this measure the Railways Board has ceased to publish figures showing the profit and losses made on individual lines.

**British Railways Today.** Britain's railway network currently amounts to 11,258 route miles. In 1975 the railways were responsible for a total of 715 million passenger journeys, and 176 million tonnes of freight traffic. On 1st January 1976 British Rail employed 230,000 staff. (*Source:* British Railways Board, Annual Report 1975).

**Investment.** Under the new arrangements introduced by the 1974 Act, rail infrastructure costs (i.e. track and signalling), hitherto treated as investment for accounting purposes, were from 1st January 1975 to be funded through the general allocation for the railways' passenger deficit. At the same time, the metropolitan counties became responsible for funding such investment in their own areas.

The figures for investment are as follows:



Rail Investment  
(£ million at 1976 Survey Prices)

1973-4	1974-5	1975-6	1976-7
222	236	259	242

(Source: Cmnd. 6721-II)

At present, in the case of any rail investment project costing over £2 million—i.e., 90 per cent of all rail investment—British Rail have to inform the Ministry of Transport, which has the option of subjecting these projects to scrutiny.

**Hotels and Catering.** Both of these activities are controlled by British Transport Hotels, a wholly owned subsidiary of the British Railways Board. In 1975 railway hotels made a profit of £757,000 on a turnover of £21.5 million. Station catering made a profit of £688,000, but catering on trains lost £2,301,000—so that, overall, catering was in deficit by £1,613,000 (British Railways Board Annual Report 1975).

**Shipping.** British Rail's shipping division (Sealink) is the world's largest carrier of sea-going passengers. It operates a fleet of 63 vessels, providing passenger and freight services on routes between Britain and Eire as well as on the short sea routes to the Continent.

In 1975 British Rail's shipping, hovercraft, and harbours lost a total of £5,893,000 (British Railways Board, Annual Report 1975).

## 4. ROAD HAULAGE

**Road Haulage and the Economy.** A healthy road haulage industry is of vital importance to Britain's economy. Using ton-miles as the standard of measurement, 65 per cent of all freight traffic goes by road: using vehicle miles, 85 per cent. The discrepancy between these two figures is explained by the fact that most railway freight traffic consists of heavy regular bulk flows—coal, steel, aggregate, etc.—generally in whole loads. Rail freight operates most efficiently when dealing with such flows: road haulage, on the other hand, has the overriding merit of flexibility, making it possible to move goods from factory to warehouse, warehouse to shop, and shop to door with a maximum of speed and efficiency.

**The Private Sector.** The British road haulage industry is largely controlled by the private sector. In all, there are 130,000 private hauliers, mostly operating on a small scale; the average size of a vehicle fleet is only four, although there are some large private firms. Many firms run “own account” goods vehicles: these carry about 36 per cent of all road ton mileage, but generally on far shorter hauls than the specialist firms.

**The National Freight Corporation.** The State-owned National Freight Corporation is by far the largest single road haulage firm, with approximately a 10 per cent share of the market. The NFC controls about 60 subsidiary companies, with total capital assets of about £110 million and had a turnover of £291 million in 1975. On 1st January 1976 it employed 44,600 persons. The best known of NFC's subsidiaries are British Road Services, National Carriers Limited, and Pickfords. In the last two years

the financial position of the NFC, and especially that of National Carriers Limited, has seriously deteriorated (see p. 358).

## 5. ROAD PASSENGER TRANSPORT

Britain's bus operators are still responsible for some 50 per cent more passenger mileage than the railways, and as a transport provider, the bus, which does not require its own track, has the supreme merit of flexibility.

**The Operators.** Public road passenger transport in Britain is largely provided by publicly-owned concerns. About 25,000 vehicles are operated by the National Bus Company and its associate the Scottish Transport Group; 11,000 by the seven Metropolitan Counties; 6,700 by London Transport; and a further 6,000 by other local authority undertakings. (Source: *Transport Statistics, GB, 1964–74*).

There are approximately 5,000 private operators, controlling 25,000 vehicles—but only a small proportion of these operators run scheduled bus services.

**Concessionary Fares.** County Councils have discretionary powers to provide cheap or even free bus transport for particular social groups such as the old and the disabled. Total expenditure on concessionary fares has more than doubled since 1973–4 to £58 million in 1976–7 (Cmnd. 6393) at 1975 Survey Prices. The Government announced in March 1976 that it had “no option but to check this trend”, and set up a joint working party with the local authority associations to examine how this could be achieved.

**Licensing and Traffic Commissioners.** All public road passenger services fall under the jurisdiction of the Traffic Commissioners, who were established by the Transport Act 1930, which sub-divided Great Britain into eleven areas, with three Commissioners for each. These Commissioners hold traffic courts which, as well as vetting licence applications and taking steps to maintain safety standards in public service vehicles, also exercise control over routes, timetables and fares.

## 6. PORTS

**Ports and the Economy.** Britain possesses some 250 port authorities or public wharf operations and about 1,400 other undertakings engaged in harbour operations. About 360 million tons of goods and 12 million passengers pass through the ports each year: they handle 84 per cent by value and 99 per cent by weight of Britain's foreign trade.

There are four main types of port authority in Britain: the nationalised sector, public or statutory trust companies, local authorities and statutory companies.

**The Nationalised Sector.** The Transport Act 1947 nationalised about a quarter of Britain's port capacity. The ports involved were controlled by the British Transport Commission until 1962, after which the bulk of the Commission's port holdings were transferred to the British Transport Docks Board and the remainder to the British Railways Board and the British Waterways Board.

The British Transport Docks Board (BTDB) controls 19 ports, which handle about a quarter of all port freight traffic. It is currently the most successful of the nationalised transport industries; it has remained profitable, and indeed manages to pay the interest due on its capital debts, as the following figures show.

	<i>£ million</i>		
	<i>1973</i>	<i>1974</i>	<i>1975</i>
Net surplus after replacement cost, depreciation and interest charges	3·3	1·5	1·7

*(Source: Annual Reports of BTDB)*

For most of 1976, of course, the Board was embroiled in an attempt to acquire the Port of Felixstowe (see p. 362).

**Statutory Trusts.** Trust ports are established by individual Acts of Parliament. The usual method of financing their operations is by fixed-interest borrowing. The most important Trust is the Port of London Authority, established in 1908 to control the Thames Estuary ports. Other major trusts are the Medway Port Authority, the Tees and Hartlepool Port Authority, the Clyde Port Authority and the Belfast Harbour Commission.

**Local Authority Ports.** The largest of these is the Port of Bristol: many of the others are very small in size.

**Company Ports.** The most important of these are Manchester, Liverpool and Felixstowe (see p. 362), the fastest growing port in the United Kingdom, which is now owned by European Ferries who also own Larne in Northern Ireland and Cairnryan in Scotland.

## 7. TRANSPORT AND THE EEC

**Background.** It is the stated objective of the European Community to move towards the harmonisation of transport policy throughout the member states. British Governments of both parties have adopted a cautious attitude to moves on harmonisation. Obviously, for international journeys, it is desirable to have uniformity of practice wherever possible; but this does not necessitate the imposition either of additional costs or of unsuitable regulations on member states' domestic transport industries.

There have been three main areas of disagreement over transport matters between Britain and the EEC Commission—axle weights, drivers' hours, and tachographs.

**Axle Weights.** The axle weight of a lorry determines the maximum load pressing down on the highway at any one point. The higher the axle weight, the greater will be the vibration and the wear and tear on the highway.

Most EEC countries favour limits of 11 tonnes (i.e. metric tons) for axle weight and 40 tonnes for gross weight. But British Ministers, supported by the Irish and Danish authorities, wish to retain our own present limits of 10 (British) tons for axles and 32

tons for gross weight on the grounds that the heavier limits would lead to substantially increased road maintenance costs.

Largely as a result of British opposition to the 11 tonne limit, negotiations on a common limit throughout the Community have remained deadlocked. However, a compromise has been suggested (EEC Document 276/76) which may form a basis for agreement. This would keep the axle weight limit at 10 tonne, but increase the gross weight limit to 40 tonnes (39·6 tons).

**Drivers' Hours and Distances Regulation.** The proposed EEC Drivers' Hours and Distances Regulation, first announced in Document 543/69 and revised most recently by 396/76, represents a grave financial threat to the future of Britain's road haulage and road passenger transport industries.

The scope of the regulations covers all aspects of a driver's working day—rest hours, hours on duty, stopover periods, etc., but their main effect would be to restrict the maximum hours of “wheel” time to 8 hours a day and four hours in any one stretch, and to 48 hours a week (reducing to 46 from 1st January 1979) (EEC Document 17/76). Also, any journey of more than 450 kilometres would require two drivers—although this rule might be waived if tachographs (see below) were fitted. This compares with present British regulations of 10 hours maximum for daily driving times, 5½ hours maximum for continuous driving time and 60 hours for weekly driving time.

No evidence has yet been offered that the present British hours limits are in any way unsafe.

In view of the damage which would be caused to road transport in this country—the Freight Transport Association estimate that the cost to road haulage would be about £350 million a year—both Conservative and Labour Ministers have consistently blocked the implementation of the EEC regulations.

**Tachographs.** A tachograph is an instrument fitted in the cab of road haulage or road passenger vehicles which records graphically time, distance and speed. Its primary purpose is to monitor the observance of the drivers' hours regulations (see above).

Although tachographs now have to be fitted on all British haulage or passenger vehicles for journeys to other member states (with the exception of Eire), attempts to make them compulsory on domestic journeys have met with strong resistance throughout the road haulage industry.

## **(B) THE CONSERVATIVE RECORD 1970–74**

**The Roads Programme.** The Conservative Government planned to complete a network of 3,500 miles of motorway or high quality trunk road by the mid-1980s with the aim of:

- (i) Creating a comprehensive network of strategic routes linking all the major population centres;
- (ii) Connecting the remote and less prosperous regions with this new national network;
- (iii) Providing access to all principal ports and airports;
- (iv) Freeing historic towns from through traffic—particularly of heavy goods vehicles.

Labour's cuts in the roads programme have resulted in (a) a lower target figure—now 3,100 miles, and (b) a postponement of likely completion until late in the 1990s.

**Road Safety.** Measures introduced included:

- The Green Cross Code, introduced in May 1971, to provide a safer way for children to cross the road, and thus to cut down child casualties.
- Crash barriers on motorways.
- The compulsory fitting of improved and more convenient seat belts on all cars registered after 1st April 1973.
- Raising the minimum age for motorcycling to 17 years.
- The doubling of expenditure on road safety publicity.

**Rural Transport.** The Conservative Government was particularly concerned to improve the quality of transport services outside the larger towns and cities. It promoted two detailed pilot studies on the transport requirements of rural areas and introduced two specific measures:

- i. Provision for financial support for uneconomic rural bus services.
- ii. As part of the 1973 Road Traffic Bill, lost in February 1974, it was proposed to ease licensing restrictions in rural areas, and thereby promote the growth of new and improved services.

**Railways.** The Conservative Government stabilised the rail network, after the post-Beeching reorganisation, and sought to provide a secure framework within which the railways could develop and flourish. Substantial funds were provided for railway investment which enabled, *inter alia*, the development of the Advanced Passenger and High Speed Trains (APT and HST).

## (C) LABOUR'S RECORD

### 1. TRANSPORT IN CRISIS

Three years of Labour Government have seen:

- (a) Heavy increases in the cost of private motoring: in February 1977 a 1000 cc car cost 60 per cent more to run than it did in February 1974 (*Source*: Society of Motor Manufacturers and Traders).

(b) Huge increases in fares: British Rail fares have gone up on average by around 110 per cent; and most bus fares have also increased considerably, in some areas by up to 100 per cent.

(c) A substantial growth in the deficits of the nationalised transport industries as shown below.

	<i>£ million</i>		
	<i>1973</i>	<i>1974</i>	<i>1975</i>
British Rail	143	312.1	506.9
National Bus Company	2.1	12.3	19.0
National Freight Corporation	+0.2*	15.8	31.0

\*after a Government grant of £1.6 million to National Carriers Ltd.

(d) The wrecking of the roads programme. The severe cutbacks made necessary by the Government's economic mismanagement will postpone completion of the 3,100 mile strategic road network until at least 1990, and will have serious consequences for the road construction industry. The extent of Labour's cuts in the roads programme can be seen from the table below:

Expenditure on Roads	
<i>(at 1976 Survey Prices-Cmnd. 6721-II)</i>	
<i>1970-1</i>	<i>1977-8</i>
£1,594 m.	£1,110 m.

(e) Considerable reductions in the financial support for local government provided through the Transport Supplementary Grant: the sum allocated for the TSG has declined in each year since its introduction, as follows:

<i>£ million at 1976 Survey Prices</i>		
<i>1975-6</i>	<i>1976-7</i>	<i>1977-8</i>
343	317	255

These cutbacks have fallen particularly heavily on new investment in transport infrastructure.

## **2. LABOUR'S RESPONSIBILITY**

The steep increases in fuel prices following the October 1973 Arab-Israeli War inevitably increased transport costs, especially for the private motorist. During the February 1974 Election, however, Labour leaders were reluctant to acknowledge this. On 13th February, 1974, at Stockport, Mr Edward Short (now Lord Glenamara), Deputy Leader of the Labour Party, said:

“Of the 47½p you now pay for four-star petrol, 22½p goes straight to Mr Heath in tax. A sensible Government who really wanted to restrain prices would reduce the tax.”

In February 1977, after almost three years of Labour Government, a gallon of four-star petrol cost about 82p, of which 39p was tax.

Far from protecting transport users from the effects of increased energy prices, Labour's policies in office and, in particular, their failure to control domestic inflation, have gravely and unnecessarily exacerbated the difficulties.

Transport is, above all, labour-intensive: the wages bill forms about 70 per cent of the transport industries' costs. They are, therefore, especially vulnerable to wage inflation, and will be suffering for years to come from the effects of the wages explosion in 1974–5. As will be seen from the table on p. 358, it was in 1974 that the transport industries' deficits began to go out of control. As Mr Norman Fowler, Conservative spokesman on transport, has said:

“The position is not identical in each area but the factor which is common is inflation. Inflation has pushed costs sky-high. ... Passengers and operators alike are now paying the appalling price of the Government's refusal to act early enough” (Eastbourne, 26th October 1976).

### **3. INFLATION AND SUBSIDY**

The Labour Government has given a higher priority to subsidies than to investment in an attempt to conceal the effects of inflation on transport. Public transport subsidies were responsible for 9.6 per cent of transport expenditure in 1970–1, but this proportion increased to 24 per cent by 1976–7—£645 million at 1976 Survey prices. There seems no likelihood of this figure diminishing, given current Government policies.

The provision of subsidies on a large scale has four main harmful consequences:

First, the effect of lowering the morale of management and workforce by depriving their activities of commercial impetus.

Second, the diversion of resources to subsidies and away from investment in improved services results in a progressive deterioration in the quality of public transport—which has its inevitable effect both on the public's attitudes (leading to further loss of revenue) and on staff morale.

Third, subsidies fossilize the existing transport systems, and prevent the growth either of more appropriate methods of meeting present needs or of new services to meet new needs.

Fourth, large-scale subsidies encourage the persistence of unrealistic attitudes on the part of consumers who are not aware of the true cost of the services which they use, and on the part of the workforce who are encouraged to believe that improvements in productivity are not necessary to long-term job security.

### **4. LABOUR'S CONFUSED POLICIES**

Against a background of crisis in every sector of transport, the Government is still unable to evolve a coherent transport policy.

The Labour Party has been committed from time immemorial to producing an “integrated transport policy”—indeed, this was generally the sum total of the intellectual luggage which Labour Transport ministers brought with them into office. The phrase has always been easier to use than to define, but it has generally implied a basic hostility to free choice or a free market in transport, and a yearning for top-heavy, subsidy-consuming, bureaucratic structures, and for further nationalisation.

**Labour's Manifestos.** The references to transport in Labour's two 1974 Manifestos are wholly in the mainstream of traditional Labour Party thinking on the subject. The main themes are nationalisation and restriction of consumer choice: both Manifestos contain a pledge to “move as much traffic as possible from road to rail ... (and to) develop public transport to make us less dependent on the private car”. There was also a commitment to the nationalisation of ports, and to further nationalisation of road haulage.

**The Consultation Document on Transport.** But it soon emerged that there were serious divisions within the Labour Party on the basic principles of transport policy. In April 1975, *Socialist Commentary*, a journal representing the views of the more moderate wing of the Labour Party, published a report on transport which represented a significant departure from traditional Labour thinking. The primacy of the motor car was acknowledged and the authors expressed doubt as to the social justification for most of the rail subsidy. The report was clearly a major influence on the Government's Consultation Document on Transport Policy, published in April 1976, which explicitly repudiated the Manifesto pledge to move more freight to the railways and tacitly abandoned the pledge to reduce dependence on the private car.

The main conclusions of the Document are set out below:

*Railways.* (i) Subsidies to rail passenger travel are regressive, and can only be justified in the case of the inner group of London commuters, and, possibly, commuters in the other conurbations.

(ii) There is no social or environmental justification for subsidising rail freight, or indeed any form of freight transport. Nor is it possible to move any significant volume of freight from road to rail, a notion dismissed as a “pipe-dream.”

(iii) A table of international comparisons on rail productivity is included, showing British Rail bottom in every section.

*Roads.* (i) Measured in terms of passenger kilometres travelled, the car is nearly four times as important as public transport.

(ii) The motorist fully covers his costs, and indeed yields the Treasury a substantial surplus of taxation over road expenditure.



(iii) It is acknowledged that, since 1970, “there has been a steady erosion of the (roads) programme ...” and that if the economy prospers, and forecasts of future increases of car ownership prove correct, the existing roads programme will prove inadequate.

*Bus Services* are in general much more important than railways in providing public transport for those without access to a car; and reliability and regularity of service are far more relevant in attracting travellers to use buses than a low fares policy.

*Nationalisation.* (i) Road haulage: Labour's commitment to the nationalisation of road haulage is reaffirmed. However, it is conceded that, in the present national economic situation, the upheaval of a major reorganisation in a service so important to the efficiency of industry would not be appropriate. Nevertheless, it is proposed to consider what steps might be taken to this end in the shorter term.

(ii) Ports: “In any case ... reorganisation of ports has priority for major legislation.”

The Document contains fundamental omissions which seriously impair its usefulness.

The need to restrain the growth of public expenditure makes it clear that no increase in expenditure on transport in real terms can be contemplated for the foreseeable future. This means that existing programmes will have to be subjected to the closest scrutiny. But the document provides only the sketchiest outline details of British Rail's finances, and virtually no financial information on the Bus industry. (Indeed, there is a bland reference to £100 million of British Rail's current losses as “unallocated overhead costs”.) In view of the fact that British Rail is currently costing the taxpayer £22 per second (£700 million per annum), if provision for investment is included, the paucity of material on British Rail contained in the Document is lamentable. Conservatives have pressed the Government to rectify this immediately, and to publish full information on every aspect of British Rail's finances and current performance.

**Subsidies.** The Document states: “How much net benefit an individual using a subsidised service genuinely obtains raises complex issues that this paper does not attempt to solve”. Conservatives do not accept this as a justification for avoiding discussion of it altogether. Indeed, a discussion of this basic question should logically have preceded the whole Policy Review exercise.

**Future of Labour Transport Policy.** The Consultation Document bore to a great extent Mr Crosland's imprimatur—but four days before it was due to be published, Mr Peter Shore, who is on the Left of the Labour Party, and much more sympathetic to those who prefer doctrinaire simplicities to objective analysis, took Mr Crosland's place at the Department of the Environment. It became clear early on that, as Mr Timothy Raison, then Conservative spokesman on the Environment, said, Mr Shore was,

“preparing the way for a flight from realism into Socialist fantasy, as he prepares the evacuation of the exposed position adopted by his predecessor, Mr Anthony Crosland, with his Consultation Document” (Newport, 23rd July 1977).

However, when the Department of Transport was created (see p. 352), responsibility passed to Mr William Rodgers, who is on the more moderate wing of the Labour Party. The inevitable uncertainties resulting from these Ministerial changes (three in under six months), as well as from the vacillations and sustained evasion or vagueness as regards policy definitions, added to the problems of the transport industries created by the earlier failures of this Government.

It is still by no means clear whether the Consultation Document will have any practical influence on the development of transport policy—or indeed to what extent it represents the policy of the Labour Party. When the Document appeared Mr Norman Fowler said:

“It merits one cheer. It has rejected the superficial arguments of Labour's last two election manifestos, and at last recognises that the Party's previous policy of shifting massive amounts of freight from road to rail is neither practicable nor desirable” (13th April 1976).

However, there have since been strong indications that the Labour Party is retreating from the more realistic sections of the Document. *Labour's Programme 1976* dissents from the Document's line both on freight subsidies and on the primacy of the motorcar; it also displays unrestrained enthusiasm for “integration”, bureaucracy, and nationalisation. On 5th August 1976, indeed, the NEC officially repudiated the Document as a statement of Labour Party policy.

A Transport White Paper has now been promised for June 1977, but it is not clear what, if anything, such a Paper would contribute. The most urgent need in transport policy today is not for a White Paper, nor for further large-scale legislation, but for tough executive decisions by government to ensure that the considerable resources currently being devoted to transport expenditure are well applied. The Document points the way to some of these decisions; it remains to be seen whether this Government will have the courage to follow the signposts.

## **5. FELIXSTOWE**

During 1976, the Conservative Opposition strongly resisted Labour's attempts to nationalise the Port of Felixstowe—the most important port remaining in private hands—by forcing through a Private Bill, the British Transport Docks Board (Felixstowe) Bill, which would have forced European Ferries to sell their shares in Felixstowe to the BTDB at a lower valuation than the price at which they acquired them.

The Conservative Party was determined that Felixstowe should remain in the private sector (a) because this was the best way to secure a prosperous future for the Port, and (b) because the acquisition of Felixstowe would not be in the interest of the BTDB. The records of other publicly-owned monopolies make it clear that competition is an indispensable stimulus to efficiency. It is at least arguable that one can attribute the BTDB having hitherto avoided the worst difficulties of the other nationalised industries to the existence of a healthy private sector in competition with it.

**Nationalisation.** That the Government's intention in supporting this Bill was to create yet another State-owned monolith was made apparent during the Second Reading Debate in the Commons. Dr Gilbert, then Minister of Transport, welcomed the Bill as an *hors d'oeuvre* to a general measure of ports nationalisation:

“The Government support the Bill because this merger would fit in very well with our general plans for reorganisation of the ports industry. . . . One essential objective will certainly be to bring commercially owned ports into public ownership, and the Dock Board's acquisition of Felixstowe would therefore be a step in the right direction” (*Hansard*, 24th March 1976, Col. 508).

The Bill was finally thrown out on Third Reading by the House of Lords on 22nd October 1976.

## **(D) THE CONSERVATIVE APPROACH**

### **1. GENERAL PRINCIPLES**

Conservatives believe that transport policy should be designed to serve the interests of the users of transport, and also of the taxpayer who at present has to provide massive financial support for most public transport services. From this conviction stem the basic principles of Conservative transport policy.

**Reducing Subsidies.** Conservatives reject the view that transport ought to be regarded primarily as a social service to which the taxpayer must be forced to contribute huge and continuing subsidies in order to secure social and political objectives selected by the Government. Mr Fowler has said:

“There has been increasing pressure to treat transport as another social service. I do not believe that it is right in principle—nor do I believe that in practice it is a view which can be sustained at a time when the nation faces the worst economic crisis since the war. The starting point should be that as far as possible transport should be paid for by the user” (London, 30th September 1976).

Conservatives believe it is wrong, for instance, that the Government should use taxpayers' money to provide substantial subsidies to the National Freight Corporation and to the freight operations of British Rail (see p. 364). At the same time, however, Conservatives recognise that government financial support is likely to remain necessary for some uneconomic passenger services. The economy cannot function efficiently, for example, if commuters are denied easy access to our large cities: continued subsidies may be necessary to ensure this does not happen. But where subsidies are paid out the public should be given accurate information showing precisely what they are paying for, and at what price.

**Consumer Choice.** The corollary of a policy of ensuring that transport services are in the main paid for by the user is that the user rather than the operator should make

decisions between different modes of transport. There has been much controversy about the relative merits of “road” and “rail”. Both have natural markets. Rail transport is ideal for much long distance bulk freight—like coal, cement, oil and aggregates—while road is better suited for many journeys of shorter distance. Conservatives believe that the choice is best left to the customer.

**Competition.** In transport, as elsewhere, the best way to secure the public interest is to promote free competition between the providers and free choice by the users. Conservatives opposed the Government's proposal to nationalise the port of Felixstowe (see page 362) precisely because it would have been a big step towards total State monopoly of the ports. Conservatives are also opposed to the Government's intention—stated in both of Labour's 1974 Election Manifestos and in the Government's Consultation Document (see p. 360)—to extend State ownership in the road haulage industry.

**Protecting the Environment.** A high priority needs to be given in transport policy to protecting the environment. Conservatives do not believe that this means adopting an attitude of hostility towards the private motorist. Without the greater mobility which car ownership confers, many people would be effectively deprived of the opportunity to visit and to enjoy Britain's outstanding countryside and historic towns. But sensible restrictions on road transport are essential. In particular there is a need for a national system of lorry routes (see p. 366).

**Consistency.** It is impossible for those who manage Britain's transport industries to achieve a high degree of efficiency or to plan effectively if government transport policy is continually changing. As Mr Fowler has said:

“Transport policy should be consistent. This is of particular importance in the nationalised industries field. Once the objects of policy have been agreed the management should be left as much freedom as possible. This is not only the best way of serving the taxpayer, but it is also the best way of meeting the interests of those who work in transport and serving the future of these industries” (London, 30th September 1976).

## 2. SPECIFIC POLICIES

The need to reduce public expenditure across the board, including expenditure on transport, makes it all the more important to use resources to maximum advantage. As Mr Fowler has said, in assessing transport prospects requiring Government assistance it is vital to establish priorities:

“The criterion should be the contribution that will be made to the economy. Roads and ports are obvious examples. As a nation we cannot afford to take any other course” (*Hansard*, 23rd January 1976, Col. 1757).

**British Rail.** Conservatives believe that there is an important future for the railways in Britain. But this will only be attained if British Rail is run on a commercially responsible basis. The overriding aim of policy must, therefore, be to reduce substantially British Rail's operating deficit.

The first task will be to discover which services are profitable and which are not. Since the Railways Act 1974 (see p. 354) financial support for the railways has been provided on a blanket basis, thus making loss-making lines and services no longer identifiable: only in the most general way is it possible to say which services are paying their way.

Detailed costing would no doubt be a complex task. But as Dr Stewart Joy, formerly British Railways Chief Economist, has pointed out: "If Ford or the British Steel Corporation can find the cost of their products so can the railways" (*The Runaway Train*, Ian Allen, 1973).

**Eliminating the Freight Deficit.** British Rail's accounts show that the Government is currently subsidising freight operations by almost £70 million a year. Conservatives agree with the statement in the Government's Consultation Document that there is no adequate social justification for subsidising rail freight (see page 360).

**Passengers.** Wherever possible passenger operations should cover their costs. It may well be that an accurate breakdown of costs would show that this is already the case with many Inter City and Outer Commuter services.

There is a major difficulty, however, with inner commuter services. Here, the need to gear staffing ratios and capital provision to peak-hour demand levels, and the impossibility of raising sufficient revenue from short-distance services to cover these costs, will mean continuing financial difficulties. It should be possible to achieve economies in these services by higher productivity (see below) but some continued subsidies will be essential.

But, as Mr Fowler has said:

"If the nation is to be asked to support specific uneconomic services then it is first essential that we should have reliable financial information. We must know how much such services are losing. Only then can we go to the next stage and ask questions like—are such services inevitably uneconomic? What benefits will accrue from support?" (Wellingborough, 1st October 1976).

**Productivity.** Two-thirds of British Rail costs are for labour, and reducing the rail deficit must, therefore, mean a reduction in the labour force. British Rail concede that they can reduce the labour force by between 30,000 and 40,000 by 1981, mainly by controlling recruitment and natural wastage (*An Opportunity for Change*, the Board's response to the Consultation Document).

**Rural Bus Services.** In many rural areas bus services have been deteriorating for many years as the use of the car has increased. Recently the problem of falling demand has been exacerbated by rapidly rising operating costs. Nevertheless, particularly for the elderly and the young, and for many housewives, some form of public transport is essential.

It would be wrong, however, to try to solve this problem by providing ever larger subsidies at the taxpayers' expense.

Conservatives would aim instead to enable new methods of meeting demand to develop; and to achieve better general use of specialised transport already provided in rural areas. This could be achieved by:

- i. Changing the licensing system to enable mini-bus services to develop and to permit private car owners to give lifts for payment. The last Conservative Government's Road Traffic Bill 1973 contained proposals for doing this. But the Bill's progress was interrupted by the February 1974 General Election, and Labour subsequently abandoned it.
- ii. Better co-ordination of existing transport services like school buses, post office vehicles and possibly non-emergency ambulance services.

**Urban Services.** Relaxation of the licensing regulations would also allow new methods of road transport to develop in urban areas—for instance, jitney services (vehicles running on loosely defined routes without fixed stopping places), shared taxis, and car pooling. As Mr Fowler has said about such services:

“They do not replace conventional public transport systems. They supplement them. There is no reason why they should not be allowed to develop here” (*Hansard*, 20th January 1977, Col. 727).

**Voluntary Organisations.** At present, if a charge is made by a voluntary organisation or school for a journey by mini-bus, then the mini-bus is subject to full Public Safety Vehicle licensing. A Private Member's Bill, the Passenger Vehicles (Educational and Other Purposes) Bill, has been introduced in the House of Commons by a Conservative Member, Mr David Hunt, MP for Wirral. Its purpose is to:

1. Exempt mini-buses operated by schools and voluntary bodies from road service and PSV licensing.
2. Introduce for such vehicles special safety requirements.
3. Define voluntary bodies to include charities, parent-teacher associations, church groups and national voluntary organisations.

**The Road Haulage Industry.** Almost alone among transport industries, the private sector of road haulage neither depends upon subsidy nor suffers from overmanning. Conservatives totally oppose Labour's plans for further nationalisation.

Moreover, as well as rejecting fiscal measures aimed at forcing freight from road to rail, a Conservative Government would also aim to eliminate the National Freight Corporation's current deficit of £31 million.

**Roads.** For environmental reasons, Conservatives would like to see an effective system of lorry routes. But, as Mr Fowler has said:

“Let us be clear on one point. If we are to have effective lorry routes the roads—for example, bye-passing villages and towns—will have to be built” (30th September 1976).

Good roads, especially roads to the ports and those connecting major industrial centres, clearly make an important contribution to the economy.

**The Motorist.** As Mr Fowler has said:

“We should remind ourselves that the motor car provides the mobility which is highly valued by the public generally and is a godsend to the disabled and the handicapped, while no one can surely dispute that the motorist pays dearly through taxes for the use of his car.... Transport policy should not be a crude exercise in clobbering the motorist; it should aim to get him a fair deal—like any other member of the travelling public” (Wellingborough 1st October 1976).

Conservatives will:

(i) End the confusion caused by the present speed limit system. There are no fewer than five different speed limits—30, 40, 50, 60 and 70 m.p.h.—and as a further complication, the 50 and 60 m.p.h. limits are unmarked. “A simpler system of limits will increase safety because such a system can be more effectively enforced”.

(ii) Oppose schemes like the GLC's proposed tax on office car parking space as a condition of planning permission. As Mr Fowler has said of this and similar schemes, which have been endorsed by the Government's Consultative Document:

“I do not suggest that there should be no restrictions on cars at all. I do suggest, however, that there is a balance to be achieved. There is scant evidence that any concern has been given to the motorist who needs his car for his business; or to the city centre businesses who need the custom of the car owners to survive” (Wellingborough, 1st October 1976).

**Road Safety.** There are some encouraging trends in road safety in Britain—as the following table shows, the number of casualties relative to the volume of traffic miles has declined since the war:

	<i>1938</i>	<i>1954</i>	<i>1964</i>	<i>1974</i>
Motor vehicle traffic volume (index)	100	144	304	443
Number of fatal accidents	6,648	5,010	7,820	6,876
Total number of casualties	233,359	238,281	385,499	324,602

(Based on *Basic Road Statistics*, 1965 and 1975).

Nevertheless, the casualty rate is still appalling. Conservatives believe that the law has a part to play here—for instance, it is right that there should be laws which require high standards in matters like tyre safety. But, as Mr Fowler has said:

“We must recognise the limitations of the law. The law does not improve driving standards. We must also recognise that each new law—if it is to be effective—must be enforced. Yet the calls on police manpower are such that we cannot add new duties indefinitely” (Wellingborough, 1st October 1976).

**Motor-cycle Training.** Over the last few years there has been a frightening increase in casualties among riders and passengers of motor cycles. In 1972 the total of casualties among this group was 43,600. The total for 1976 is expected to be 68,000.

The Conservative Party has called for an inquiry into motor-cycle training. As Mr Fowler has said:

“The present legal position is that there is no requirement that a new owner of a motor-cycle or moped should undertake training. ... An inquiry, therefore, should consider how best a national training scheme should be implemented. The enquiry should have an independent chairman and should be required to report as soon as possible” (29th December 1976).

## **(E) MISCELLANEOUS**

### **1. THE CHANNEL TUNNEL**

On January 20th 1975 Mr Anthony Crosland announced that the British Government had decided unilaterally to withdraw from the Anglo-French Channel Tunnel project. Conservative spokesmen were severely critical of the way in which the decision was reached. A few months previously, the Government had commissioned a report on the Tunnel project from a group headed by Sir Alexander Cairncross—the group had not yet reported when the decision was announced. Furthermore, British Rail were carrying out further studies on the cost of the rail link, and these still awaited completion.

### **2. SEAT BELTS**

The question as to whether motorists and front-seat passengers should be compelled by law to wear seat belts has proved highly contentious. It has never been a party issue: Conservative MPs have been prominent both as supporters and as opponents of compulsion, and in the Commons seat-belt measures have always been decided on a free vote. Those in favour of compulsion suggest that if the proportion of persons wearing seat belts could be raised from the present 30 per cent to 90 per cent, the annual death rate on our roads would fall by almost 1,000, and over 10,000 serious injuries would be prevented. (*Hansard*, 1st March 1976, Cols. 928, 933). Those opposing compulsion have tended to use two main arguments: (i) the difficulty of enforcement and the possible damage to police/motorist relations; and (ii) that the decision on whether or not to wear a seat belt affects only the individual concerned, and that the State's intervention would be an intrusion on personal liberty.

In 1975 the Government introduced a Bill providing for the wearing of seat belts to be compulsory, but it did not receive a Second Reading. It was, however, reintroduced in the 1975–6 Parliamentary Session, and on 1st March 1976 it received a Second Reading by 249 votes to 139. It subsequently completed its Committee Stage, but then fell a victim to the legislative logjam.

Although the seat-belts issue aroused much controversy, both opponents and supporters of the measure were agreed that it was a subject of great importance, worthy of full debate, and the Government's failure to provide time for the Bill to be debated was widely criticised.



### 3. HIGHWAY INQUIRIES

**Procedure.** The present procedure for Highway Inquiries at which the public is given the opportunity to object to new road schemes, derives essentially from Schedule 1 of the 1959 Highway Act. A Statutory Instrument (No. 721, 5th January 1976), which came into force on 10th June 1976, codified existing practice based on the principles laid down in the 1959 Act.

After the separation of Transport from the Department of the Environment, it was announced that, in future, Highway Inquiries would be the joint responsibility of the Transport and Environment Secretaries.

The Inspectors who conduct Highway Inquiries are appointed by the DoE—a matter which has occasioned some concern: it is felt that the Department should not be judge and jury in its own cause. However, Inspectors' reports are merely advisory: it is the Secretary of State who makes the final decisions.

**Disruption.** Certain individual Highway Inquiries—particularly those concerning the Aire Valley road, the M3 at Winchester, and the Archway Road in North London—have become the subject of controversy. In all three instances mentioned, the Inquiry procedure itself was impeded by the disruptive tactics of demonstrators opposed to these schemes.

**Objections to Present Procedure.** Two main criticisms have been levelled at the present highway inquiry procedure. First, there is considerable concern that the present procedure does not sufficiently protect the rights of those whose property is directly affected by a proposed new road, and that it does not allow amenity societies, conservationists etc., sufficient scope to develop their criticisms of the Department's proposals. Disquiet has been expressed that individual objectors are inevitably at a considerable disadvantage against the full resources of a government department.

Second, objectors have complained that inquiry procedures provide inadequate opportunities to question the *need* for a new road, rather than the merits of alternative routes for it. Complaints have also been made about the validity of statistics and projections offered by the authorities.

**Review of Inquiry Procedure.** In January 1976, Mr John Silkin, then Minister for Planning and Local Government, announced that the Government proposed to hold a review of procedures in connection with highway schemes. When this review is eventually published, Conservatives will be concerned to ensure that everything possible is done to safeguard the rights of those whose interests are in any way affected by proposed schemes. As Lord Mowbray and Stourton, Conservative spokesman on transport in the House of Lords, said:

“It is very important that local interests be given ample notice of forthcoming Inquiries and also all the information they could possibly require” (*Hansard*, House of Lords, 2nd July 1976, Col. 992).

It is hoped that from this review a revised procedure will emerge which will restore public confidence in future Highway Inquiries.

## 4. DRINKING AND DRIVING

**The Blennerhasset Report.** In July 1974 a Committee was appointed under the Chairmanship of Mr Frank Blennerhasset, Q.C., to review the operation of the law relating to drinking and driving. The background to the Committee's appointment was the decreasing effectiveness of the Breathalyser tests introduced under the Road Safety Act 1967 in deterring drunken driving. Whereas before the Act 25 per cent of drivers killed in accidents had over 80 mg/100 ml of alcohol in their blood, this proportion fell to 15 per cent in 1968, but was back to 26 per cent by 1971 and had in fact risen to 35 per cent by 1974. The proportion among young drivers was even higher—45 per cent in 1974.

The Committee's report, *Drinking and Driving*, was published on 28th April 1976. Its main recommendations were:

1. The present artificial limitations on the power of the police to stop and test drivers should be removed.
2. Blood alcohol levels should be determined by means of breath-analysis devices at police stations—with blood analysis as an optional final test.
3. Offenders in “high risk” categories should be required to apply to the courts for restoration of their licences, and show that they were taking steps to control their drinking.
4. There should be a permanent programme of publicity and education.

The first recommendation was potentially the most controversial in the report: prior to publication, concern had been expressed from various quarters as to the possibility of random breathtests being recommended. Opposition spokesmen were particularly opposed to random tests, both because they are inefficient and because they would impair relationships between the police and the motorist.

However, the Report concluded that random tests, as such, would not be an effective use of police time, since the rate of positive tests would be low compared with that from selective testing, but the police should be given full discretion as to the circumstances in which they tested drivers. The present state of law was unsatisfactory because:

“There have been cases where the officer has not been able to convince the court that the instance of bad driving or of unusual behaviour ... which he observed was a reasonable ground for requiring a breathtest.... In these cases the defence has secured an acquittal despite the clear results of the analysis ... (this) fostered the delusion that it is ‘safe’ to drink and drive ... so long as one believes one can avoid an accident.”

## 5. SIKHS AND CRASH HELMETS

Regulations imposed under Section 32 of the Road Traffic Act 1972 require all motorcyclists to wear a crash-helmet. This section occasioned considerable opposition

among the Sikh community, and in 1976 an all-party group of MPs introduced the Motor Cycle Crash Helmets (Religious Exemption) Bill, which would have had the effect of exempting any follower of the Sikh religion from the regulations on crash helmets.

After long and careful consideration of the issues involved, the Conservative Party decided to give the Bill their support, for two main reasons:

- a. The Sikhs are an easily defined and distinctive group who have been consistent in their objections, on religious and conscientious grounds, to the wearing of crash-helmets.
- b. During the last war, Sikh troops in the British Army were not forced to wear steel helmets. We were prepared to defer to their religious scruples when they were risking their lives in fighting for this country: it does not seem unreasonable, therefore, to make an exception for them now as regards motorcycle helmets.

This Bill received the Royal Assent on 15th November 1976.

## **(F) CIVIL AVIATION**

### **1. CONSERVATIVE RECORD 1970–1974**

**Civil Aviation Act 1971.** Following the Report of the Edwards Committee on *British Air Transport in the 1970s*, published in April 1969, the Labour Government published a White Paper (Cmnd. 4213) incorporating its main recommendations. It was left to the Conservative Government to implement the proposals by means of the Civil Aviation Act 1971. As a result:

- a. The British Airways Board was created, charged with the merger of BEA and BOAC. The corporations were officially dissolved and reformed as British Airways on 1st April 1974.
- b. The Civil Aviation Authority (CAA) was established, to be responsible for safety, air traffic and licensing.

**The Private Sector.** The Conservative Government also acted on the recommendations of the Edwards Committee to encourage the creation of a privately-financed “second force” airline. It transferred certain routes from the state corporations to British Caledonian Airways Ltd., formed by the merger of British United Airways and Caledonian Airways in 1971. The special position of the independent second-force airline was set out in the Conservative White Paper, *Civil Aviation Policy Guidance* (Cmnd. 4899), published in February 1972.

### **2. LABOUR RECORD**

**“Spheres of Influence”.** The Labour Government has sought to avoid competition between British carriers on the main routes by defining distinct destination areas for British Airways, and for British Caledonian. In the wake of the Government's White

Paper, *Future Civil Aviation Policy*, published in February 1976 (Cmnd. 6400), Labour's hostility to the independent airline was demonstrated by the announcement in February 1976 that British Caledonian was to lose its licences to fly to New York, Los Angeles, Chicago, Toronto, Bahrain and Singapore. (*Hansard*, 11th February 1976, Col. 442). This implied a loss of £300 million in revenue over nine years. British Airways thus hold 90 per cent of the routes from the UK in terms of revenue, compared with British Caledonian's 10 per cent.

**The Laker “Skytrain”.** In February 1976 Mr Shore, then Secretary of State for Trade, revoked the licence granted by the CAA to Laker Airways for a low-fare service between London and New York. (*Hansard*, 11th February 1976, Col. 445). On appeal in July 1976 a High Court judge ruled that Mr Shore had acted beyond the powers conferred upon the Secretary of State by the Civil Aviation Act 1971. The decision also called into question the validity of Mr Shore's action in revoking British Caledonian's licences.

On 15th December 1976, the Appeal Court dismissed an attempt by the Department of Trade to overturn this ruling. Lord Denning, Master of the Rolls, said that there came a time when the courts had to declare that a Minister of the Crown had exceeded his powers (*Financial Times*, 16th December 1976).

Mr Dell, Secretary of State for Trade, announced in February 1977 that he would not appeal against this judgement, and pledged that he would ask the United States Government “to act on the designation of Laker Airways” under the Bermuda Agreement (*Hansard*, 14th February 1977, Col. 28). Mr John Nott, Conservative spokesman on Trade, welcomed the fact “that at least one Socialist Minister accepts that the rule of law applies to Labour Ministers as well as to every other citizen of this country” (*Hansard*, 14th February 1977, Col. 32).

**The Bermuda Agreement**, made in 1946, governs the allocation of traffic on the North Atlantic routes between British and US carriers. In June 1976, the Labour Government served a year's notice of termination of the agreement, and entered negotiations aimed at increasing the British carriers' share, and reducing the total number of services. Agreement has already been reached on two routes.

**Charter and Tour Operators.** On 20th June 1974 dealings in the shares of the Court Line group were suspended after the company, involved in holidays, aviation and shipping, had got into financial difficulties. It was agreed that the Government would acquire the entire shipbuilding, shiprepairing and engineering interests for £16 million, in the hope that the holiday and aviation divisions might continue in business. Mr Benn, then Secretary of State for Industry, told the Commons:

“This should stabilize the situation in respect of Court Line's interests including the holidays booked for this summer.... It was thought right that holiday-makers, who had holidays booked this summer should have some reasonable security” (*Hansard*, 26th June 1976, Col. 1556–8).

Subsequently, when Court Line went into liquidation on 15th August 1975, about 100,000 people lost their summer holidays, about 50,000 were stranded abroad, and 65,000 lost deposits on their winter holidays. A Department of Trade Report on Court

Line thought that Mr Benn's statement was a “subsidiary reason” for intending holidaymakers to continue to make bookings after Court Line's predicament was known.

Following the failure of the Court Line Group amongst others, the CAA has tightened the regulations governing charter flight operators, in order to protect the public against future bankruptcies. The Air Travel Reserve Fund Act 1975 set up a fund to be financed initially by Government loan, and subsequently by the bonds provided by the tour and charter flight operators. In future, customers whose bookings are lost owing to the failure of an operator may expect compensation.

**Concorde** entered service simultaneously with British Airways and Air France on 21st January 1976, operating on the routes between London and Bahrain, and Paris and Rio de Janeiro. Operations on the prized transatlantic routes were delayed while a public hearing under the chairmanship of the then American Secretary for Transport, Mr William Coleman, considered evidence from opponents of Concorde, as well as from the airlines, and from Mr Gerald Kaufman, Minister of State at the Department of Industry. Mr Coleman authorised Concorde flights to Washington D.C. and New York on the basis of a 16 month trial, to enable the environmental hazards of Concorde to be assessed. Services from London and Paris to Washington began on 24th May 1976, but the New York Port Authority refused Concorde landing rights at Kennedy Airport. Negotiations on this point were continuing in February 1977. Mr John Nott assured the Secretary of State, Mr Dell, “that he has the full support of the Conservative Party in getting Concorde into New York and we wish him the best success in his endeavours” (*Hansard*, 14th February 1977, Col. 20). British Airways also wishes to extend its Bahrain service to Singapore and Melbourne, but has encountered difficulties in its application for rights to cross the sparsely populated southern tip of India at supersonic speeds.

### **3. AIRPORT LOCATION**

**Maplin.** In 1968 the Labour Government abandoned its plan to develop Stanstead as a major London airport, and set up the Roskill Commission. Its majority report favoured the construction of an airport at Cublington in Berkshire, but a minority report by Professor Buchanan expressed alarm at the environmental impact, and recommended a coastal site at Foulness.

Mr John Davies, Secretary of State for Trade and Industry in the Conservative Government, announced in April 1971 that the new airport would be built at Foulness and Maplin Sands, (*Hansard*, 26th April 1971, Cols. 30–38). The Maplin Development Act 1973 established an Authority charged with land reclamation, to provide for a seaport and airport. The cost of the project was estimated at £825 million (at 1972 prices).

In March 1974, Mr Shore, then Secretary of State for Trade, set up the Maplin Review, and in July 1974 he announced that the scheme was to be abandoned. This was accomplished by The Maplin Authority (Dissolution) Act 1976.

**The Government's Airport Strategy.** In the wake of this decision, the Department of Trade has published a consultation document, *Airport Strategy for Great Britain* (Part I in November 1975, Part II in June 1976) on the problem of coping with the expected increase in passenger movements without building a new London airport. The oil price rises of 1973–74 caused a recession in the growth of air traffic, providing London's airports with a short breathing-space.

The document states that the gradual introduction of quieter jet aircraft will in time bring some relief to those resident near airports. With larger aircraft coming into service, fewer “movements” are required, so that the problem becomes less one of a shortage of runway space, and more one of insufficient passenger terminal facilities. A rise from about 30 million passenger movements through London in 1974, to between 63 and 104 million in 1990, is forecast. A £70 million project has greatly enlarged Gatwick Airport, and a fourth terminal is planned at Heathrow. Until now, however, most airlines have shown little enthusiasm for a transfer of their operations to Gatwick. The Government further plans to ease congestion by developing the regional airports.

## 16. EDUCATION

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### Speaking Note

**Labour's Broken Promises.** Labour's Election Manifestos both in February and October 1974 gave the impression that Labour would continue to expand education, and specifically promised increased provision for nursery education. But the Government's failure to control inflation and the mismanagement of the economy have meant that these promises have had to be broken:

- The February 1976 Public Expenditure White Paper revealed that expenditure on education is now planned to fall in real terms in each of the three years

after 1976–7. Less will be spent on education in each of the years 1978–9 and 1979–80 than was spent by the Conservative Government in 1973–4.

- The capital allocation for nursery education is planned to be reduced by nearly 70 per cent by 1978–9 compared with 1974–5. A standstill has been imposed on the number of children in nursery schools.

**Socialism Before Standards and Choice.** At a time when there is widespread concern about standards and lack of parental choice and influence in education, Labour have concentrated instead upon doctrinaire and damaging changes in the structure of secondary education:

- Labour's doctrinaire Education Act compelling local councils to turn all their secondary schools into comprehensives will lower standards (a) by destroying good schools without any guarantee that there is a better alternative; and (b) by forcing councils to waste scarce resources, which ought to be used to improve existing schools, on makeshift comprehensive schemes.
- Labour's policy of phasing out the direct grant schools will also damage the quality of education, for many of these schools have a record of high academic attainment.
- By closing grammar and direct grant schools Labour is reducing the already too limited parental choice in education even further. Those who will suffer most are the able children of poor parents who will now be left no alternative but the neighbourhood comprehensive.

**The Conservatives' overriding purpose is to improve standards and extend choice.**

**Standards.** Conservatives will:

- Concentrate available resources on improving existing schools rather than impose makeshift comprehensive schemes;
- Preserve good schools of whatever type and reopen the Direct Grant list;
- Initiate a sustained programme to ensure that every child who enters secondary school has the basic skills of reading, writing and arithmetic;
- Reintroduce national standards of reading, writing and arithmetic, and see that performance in meeting these standards is effectively monitored;
- Encourage more emphasis in teacher training on the teaching of literacy, numeracy and the maintenance of discipline.
- See that teachers are given clear guidelines so that they know how and by whom discipline can be enforced.

**Parental Choice and Involvement.** Conservatives have already drawn up a *Parents' Charter* setting out existing and additional rights for parents regarding the education of their children. This would:

- Impose clear obligations on government and on local authorities to take account of the wishes of parents.
- Give parents the right to representation on school boards whose powers should be reviewed.

- Help parents make their choice of school by requiring schools to publish prospectuses with a simple annual report explaining the school's aims and achievements and the curriculum.

## (A) INTRODUCTION

### 1. POST-WAR GROWTH

For many years past there has been a continuous and dramatic increase in public spending on education both in cash terms and also as a percentage of gross national product.

	Education Expenditure	
	<i>£ million Percentage of GNP</i>	
1950	370	3·1
1960	917	4·0
1965	1,585	5·0
1970	2,640	6·0
1974	4,864	6·6

### 2. TRADITIONAL ASSUMPTIONS OF EDUCATION POLICY

This huge increase in spending reflects three main assumptions which have shaped the attitude of both major parties towards education since the war.

*The first assumption* has been that for the foreseeable future there will be a continuing and substantial increase in the school population. Until recently this expectation has been well founded. In 1960 the number of children of school age in England and Wales was about 7 million; by 1973 the post-war “bulge” in the birth-rate had raised the figure to about 8 million; and by 1976 the school population was over 9½ million (*DES Statistics*). Moreover, as late as 1972 demographic trends appeared to point to yet further increases leading to a school population of about 10 million in 1990.

*The second major assumption* influencing nearly all those responsible for post-war education policy has been the belief that the problem of improving the range and quality of educational opportunities in Britain is primarily a problem of scale, which can in the main be solved by the provision of extra material and human resources.

In nursery and higher education, for instance, the central thrust of policy has been the provision of better physical facilities, and a spectacular expansion in the number of places not only in absolute terms but also as a percentage of an increased population.

Similarly, in primary and secondary education the main emphasis of policy has been upon providing additional resources: more new buildings, more advanced and better equipment and—most expensive of all—more teachers per head of the school



population. In 1951 there were 260,000 teachers in maintained and assisted schools in England and Wales. By 1974 there were almost 500,000, with striking consequences for the size of classes: in 1957 the pupil-teacher ratio in primary and secondary schools in England and Wales was 26·3:1; by 1974 it had fallen to 21·1:1 (*Hansard*, 5th March 1976, WA, Cols. 771–2).

As teachers' numbers have risen so have their salaries which now cost around £2,000 million, about one-third of the total education budget.

In recent years great expense has also been incurred in the attempt to reduce the administrative burden on teachers by expanding the “administrative tail” of the educational service. In 1964 administrative and non-teaching staff accounted for only about 40 per cent, and teachers for about 60 per cent, of those employed in education. By 1974 the figures had changed to 49 per cent and 51 per cent respectively out of a total of 1·4 million employees (*Times Educational Supplement*, 28th November 1975).

*The third and final assumption* underlying high spending policies in education has been that steady annual economic growth will ensure that extra resources will be readily available. It is true that sometimes mistakes have been made. The Labour administration of 1964–70, for instance, greatly over-estimated the future rate of growth and was obliged, when this became apparent, to cut its educational and other social spending programmes severely; but hitherto such set-backs have nearly always been seen as merely temporary deferments of the Government's plans. Confidence that necessary resources could be secured in the fairly near future has remained.

### 3. RADICALLY ALTERED CIRCUMSTANCES

Recent developments have meant that these three main assumptions about education can no longer be confidently accepted:

**The Birth-rate.** The latest demographic projections indicate that predictions of a continued increase in the school population up till 1990 were mistaken. The school population has now probably reached a peak at 9·65 million this year and will sharply decline to about 7·5 million in 1986, probably flattening out thereafter (*DES Report on Education* No. 85, June 1976).

**Mounting Anxiety about Standards.** Just as the conventional demographic assumptions are no longer tenable, so, too, the once orthodox assumptions about the automatic benefits of increased resources are now widely discredited. Since about the middle 1960s there has been growing concern, voiced by parents, employers, and many teachers that, despite the ever-more massive injections of taxpayers' money, there has been a serious and widespread decline in academic standards.

Faced with this paradox many people are now asking whether perhaps governments of both parties have been directing their attention to the wrong issues. Perhaps it would have been better, for instance, if instead of concentrating almost exclusively upon reducing the pupil-teacher ratio as a means of improving academic standards, governments had pursued as their main aim the less costly policy of establishing and encouraging the practice of the most reliable teaching methods.

Another question that is widely asked is why the huge post-war expenditure on education, particularly on higher education, has not enabled British companies to recruit skilled engineers and scientists on the same scale as their more successful foreign rivals.

Furthermore, alongside growing scepticism about the relevance to the problem of academic standards or even technological training of a policy of ever higher educational expenditure, there has also emerged increasing doubt about the relevance of changes in the structure of secondary education. The transition to comprehensives that has been taking place since the 1950s is now almost complete. 75 per cent of all secondary school-children now attend comprehensive schools. Thus the non-selective system has been in operation for long enough and extensively enough for it to be possible to assess its practical success. But although comprehensives, in some areas, undeniably offer a greater range of educational opportunities, it is now apparent to say the least, that their introduction has not been accompanied by the conspicuous advance in educational attainment which the more uncritical proponents of reorganisation promised.

**The Economic Crisis.** But, of course, the most important recent development affecting education is the present and in many respects unprecedented economic crisis. Labour's mismanagement of the economy has led to record levels of inflation and this in turn has placed great strains both on education and on other social services, which find they require substantial additional resources merely to maintain existing standards.

Belatedly the Government has acknowledged that inflation can only be controlled if public spending is cut and that this is bound to affect education. Unfortunately, however, Labour's determination to continue with costly and doctrinaire measures of nationalisation means that education has had to bear a perhaps disproportionate share of the reductions in expenditure so far announced (see p. 380)—amounting to about a quarter of the total in 1978–9. But, although education has not been fairly treated, Labour's continuing economic mismanagement means that it may not be possible to reverse this reduction in the education budget for many years ahead. For the appalling level of government borrowing means that perhaps for a decade much of the extra revenues generated by an eventual restoration of economic growth will have to be used to pay off our debts, rather than to finance increased social spending.

## 4. NEW PRIORITIES

The radically changed position regarding both the demands that are likely to be placed on the education system in the future, and the resources available to it—combined with the salutary lessons of experience on the subject of academic standards—make it necessary to approach educational policy afresh. New questions must be asked, and there is need of a much more searching, open and, if possible, bi-partisan discussion of objectives and priorities than hitherto. As Mr Norman St. John-Stevás, chief Conservative spokesman on Education, wrote to the Prime Minister:

“Against a background of financial stringency the question that should be asked is not how much more should we have, but are we getting value for what we have already

got? And, if not, how can we improve things? These are questions which ought to be discussed intelligently and objectively” (Open Letter, 18th October 1976).

The Conservative Party does not claim to have all the answers to the questions posed by the radical changes of the last few years. But the detailed proposals described later in this chapter have all been formulated in the light of the new conditions, and are offered as an apposite and practical response to the challenge which they present. In particular these proposals offer a way of improving educational standards within the constraints of greatly reduced expenditure.

## **(B) CONSERVATIVE AND LABOUR AIMS AND ACHIEVEMENTS CONTRASTED**

### **1. THE CONSERVATIVE RECORD 1970–4**

The last Conservative Government achieved substantial expansion in every sector of education. Furthermore, in the December 1972 White Paper, *Education: A Framework for Expansion* (Cmnd 5174), the Conservatives set out detailed plans for further growth and development during the rest of the 1970s.

**Nursery Education** was made available to over 130,000 more children in maintained nursery and primary schools between January 1970 and January 1974. This was the biggest increase in nursery schooling in the history of the service. The White Paper proposed a further expansion, so that by 1981 nursery education on a part-time basis would be provided free of charge for all children whose parents wanted them to benefit from it, with priority being given to deprived areas during the early years of the expansion programme.

**A school building programme** was put in hand for the replacement or improvement of nearly 2,000 out-of-date primary schools in England and Wales. By 1974 about 1,000 primary schools had been or were being dealt with. In the three years to 1973–4 the overall school building programme totalled over £868 million (1973 Survey Prices).

The 1972 White Paper further indicated that by the mid-1980s many more of the oldest primary schools would have been replaced or improved and a secondary school improvement programme would have been launched in 1975–6. More emphasis would also have been given to the building of special schools for handicapped children.

**School-leaving Age.** With effect from September 1972, the school leaving age was raised to 16.

**Smaller Classes.** There was a marked drop in the average size of school classes. In 1970 the pupil-teacher ratio in primary and secondary schools was 22·7:1. In 1974

when the Conservatives left office, the ratio was 21:1:1 (*Hansard*, 5th March 1976, WA, Cols. 771–2). The White Paper proposed an increase in the number of teachers from 364,000 in 1971 to about 510,000 in 1981, so that in that year, on the basis of the estimates of demographic trends then available, the pupil-teacher ratio would be reduced to 18½:1.

**Improvements in Teacher Training.** In December 1970 a Committee was appointed under the chairmanship of Lord James of Rusholme to examine teacher training. The Committee reported in January 1972, and in accordance with its recommendations the Conservative Government initiated action to extend in-service training and to bring about an all-graduate teaching profession. The 1972 White Paper proposed that, starting in 1974–5, there should be regular in-service training for teachers for periods equivalent to one term every seven years; and that much more help should be given to teachers during their probationary period, at least one-fifth of which should be spent on in-service training.

The Conservative Government also intended to encourage the development of a new three-year training course leading both to qualified teacher status and to a B.Ed degree. The first two years of the B.Ed degree course were to be devised so that those completing it could obtain a new Diploma of Higher Education (Dip. H.E.).

**The Bullock Report.** In May 1972, in response to concern about falling standards of English in schools, **Mrs Thatcher**, when Secretary of State for Education and Science, set up a Committee under the chairmanship of Sir Alan (now Lord) Bullock to investigate standards of English writing and reading in our schools. It reported on 18th February 1975 and many of its proposals are much in line with Conservative policy. However, despite repeated attempts by Conservatives to have the Bullock Report debated in the House of Commons, the Government has still not allocated time for this purpose.

**Higher and Further Education.** Between 1969–70 and 1974–5, the number of full-time and sandwich course students in higher education rose from 430,000 to 516,000, and in further education from 261,000 to 674,000. The 1972 White Paper envisaged that by 1981 the number of students in Great Britain taking full-time or sandwich courses in higher education should total about 750,000. This would have meant that by 1981 some 22 per cent of 18 year-olds would be taking higher education courses as against 15 per cent in 1971 and 7 per cent in 1961. The fastest rate of expansion was intended to take place in non-university further and higher education.

**Economies in Education.** Following the energy crisis in December 1973 the Conservatives announced a general cut in public expenditure intended to take effect in 1974–5. A reduction of £182 million (at 1973 survey prices) in spending on Education and Libraries, Science and the Arts was planned. The main effects were on the programme for improving and replacing out-of-date primary schools which was to be slowed down, and on the planned increase in the number of places in further and higher education, with the target for 1981 being revised from about 750,000 full-time places to about 700,000 (*Hansard*, 28th January 1974, Cols. 43–7).

These cuts were part of an overall strategy to tackle the economic crisis. If, instead of being so busy electioneering in 1974, the Labour Government had followed the lead

given by the Conservatives in controlling public spending and inflation, the financial outlook for education and for other social services today would be nothing like so bleak.

## 2. LABOUR'S BROKEN PROMISES

On 28th January 1974 the Labour Party moved a motion of censure in the House of Commons deploring the Conservative Government's intention to reduce planned increases in educational expenditure. Labour's General Election Manifestos of February and October 1974 gave the impression that there would be continued expansion of the education service. The February 1974 Manifesto specifically promised to "expand the education service by the introduction of a national scheme of nursery schools, including day care facilities, and by a big expansion of educational facilities for 16–18 year olds". The October 1974 Manifesto also promised "increased provision of nursery education" and "to give priority to nursery school and day care provision, full-time and part-time".

These promises have been broken. First, far from giving priority to nursery education, the capital allocation for nursery provision is planned to be reduced by 66·7 per cent by 1978–9 compared to the allocation for 1974–5. Second, the promised "big" expansion of educational facilities for 16–18 year olds and young school leavers is a five-year programme designed only to provide 1,000 places by 1982 to train school leavers for work (*Times Educational Supplement*, 26th February 1976).

Moreover, as the February 1976 White Paper on Public Expenditure (Cmnd. 6393) revealed, total expenditure on education is now planned to fall in real terms in each of the 3 years after 1976–7 so that less will be spent on education in 1979–80 than was spent by the last Conservative Government in 1973–4.

## (C) LABOUR'S ECONOMIES

### 1. WRONG PRIORITIES

Labour's 1976 White Paper on Public Expenditure (Cmnd. 6393) outlined extensive cuts in educational spending compared with the 1975 White Paper (Cmnd. 5879) as shown in the following table:

Expenditure on Education, Libraries, Science and the Arts					
<i>£m at 1975 Survey Prices</i>					
	1974–5	1975–6	1976–7	1977–8	1978–9
1975 (Cmnd. 5879)	5,972·9	6,136·7	6,317·8	6,472·2	6,642
1976 (Cmnd. 6393)	6,103·7	6,164·3	6,233·6	6,141·1	6,024
Change	+130·8	+27·6	–84·2	–331·1	– 618

It will be seen that the Government is planning to reduce the level of spending on education in real terms over the three years 1976–7 to 1978–9 by over £1,000 million. The cuts revealed in the White Paper for 1978–9 account for more than one-quarter of

the total cuts in public expenditure and represent the largest single area of cuts in planned expenditure in that year.

Moreover, on 22nd July 1976 the Chancellor of the Exchequer announced additional cuts in education of £30 million in 1977–8, falling mainly on university and other educational building programmes, and also in the budget for science and the arts (*Hansard*, 22nd July 1976, Col. 2015). On 15th December 1976 he announced further cuts in education, totalling £83 million in the two years 1977–9 (*Hansard*, 15th December 1976, Col. 1528). These cuts will take place in the school building programme (£33 million) and in the administration of school meals (£50 million).

Conservatives accept that cuts in expenditure are necessary and that education must accept its fair share. But three points need to be made about the economies Labour has so far introduced. First, if the Labour Government had followed the lead given by the Conservatives, and acted earlier to tackle the excessive rate of public spending and inflation, the damage to education and other social services would not have been so great. Second, it is a dismal reflection on the Labour Government's ideological rigidity that while cutting back on education it is going ahead with an immensely expensive programme of nationalisation. Third, it is an equally revealing comment on Labour's priorities that within a greatly reduced education budget, they are still determined to squander large sums on their doctrinaire scheme for the universal imposition of comprehensive schools.

## **2. NURSERY EDUCATION**

In January 1975 (the latest date for which figures are available) there were 320,000 full-time and 127,300 part-time nursery pupils in maintained schools in England and Wales. The net cost per pupil at nursery school in 1974–5 was £478 at 1975 survey prices (*Hansard*, 5th February 1976, WA, Col. 697).

The latest expenditure White Paper envisages a standstill on the number of children in nursery schools so that only four-fifths of the last Conservative Government's target for 1980 will be met. In each of the two years 1978–9 and 1979–80, capital expenditure on the new nursery programme will be only one-third of what was spent in 1974–5 and less than one-fifth in real terms of that spent in 1975–6.

## **3. PRIMARY AND SECONDARY EDUCATION**

In January 1975 (the latest date for which figures are available) there were 5,097,329 full-time pupils in maintained primary schools and 3,826,646 full-time pupils in maintained secondary schools in England and Wales. There were a further 94,600 part-time pupils at maintained primary schools in England and Wales. The current revenue costs per pupil in the financial year 1974–5 were:

	<b>£ (1975 survey prices)</b>
Primary school pupils	215
Secondary school pupils	345

Current and capital expenditure on primary and secondary schools in 1977–8 and 1978–9 will now be less in real terms than the amount spent in 1972–3 and 1973–4 under the Conservatives. Expenditure in 1977–8 will be £2,999 million and in 1978–9 £2,928 million. These figures compare with £3,061 million in 1972–3 and £3,041 million in 1973–4 (all figures are at 1975 survey prices).

These cuts are being made while in England and Wales there are still an estimated 11,200 primary schools (55 per cent of the total number) and about 2,000 secondary schools (40 per cent of the total) built before 1946. In Wales some 27 per cent and in England about 20 per cent of primary schools were built before 1903; in Wales an estimated 5 per cent and in England 4 per cent of secondary schools were built before 1903 (*Hansard*, 22nd October 1975, WA, Col. 207).

#### 4. TEACHERS

In January 1976 there were an estimated 432,000 teachers in maintained schools in England and Wales. In January 1975 the pupil/teacher ratio in primary schools was 24·2:1 and in secondary schools 17·2:1 (DES Press Release, 11th October 1976).

A fall in the birth-rate since 1975 means that the objective in the Conservative 1972 White Paper of a pupil/teacher ratio of 18·5:1 by 1981 no longer requires the 510,000 teachers originally estimated. But the new Expenditure White Paper shows that the Government now plans for only 464,000 teachers in 1979–80 which means that the pupil/teacher ratio in that year will be no better than in 1975–6.

#### 5. FURTHER AND HIGHER EDUCATION

The following table shows the distribution of students amongst the institutions of further and higher education in 1975 (latest available figures).

Students in Further and Higher Education	
<i>Institution</i>	<i>No. of Students ('000s)</i>
Open University	49·0
Universities	
Undergraduates	213·9
Postgraduates	49·5
Polytechnics	177·8
Other Non-University Further and Higher Education	1,764·1
Evening Institutes, etc.	1,981·7
Total	4,236·0

(DES Press notice, 2nd November 1976)

The Conservative Government's target of 700,000 students in full-time and sandwich courses in higher education by 1981 has been reduced to 600,000. A virtual standstill has been placed on staff appointments after 1976–7. The 1976 White Paper (Cmnd. 6393) states:

“There will be little if any scope for increasing total staff numbers after 1976–7. Capital expenditure on new buildings, including new purpose-built student residences, will continue to be severely restricted and more intensive use of available premises will accordingly be required.”

## 6. SCHOOL MEALS

All pupils of compulsory school age in maintained schools are entitled to receive school meals at a charge of 15p per meal with remission in cases of hardship. The real cost per meal in November 1975 (the latest date for which figures are available) was 49p (*Hansard*, 30th November 1976, WA, Col. 117). The gross cost of supplying school meals in 1975–6 was estimated at £476 million. Income was estimated at £145 million, giving a net subsidy of £331 million (*Hansard*, 5th February 1976, Col. 697).

The 1976 Public Expenditure White Paper stated the Government's intention progressively to increase the charge for school meals. It proposed to commence with an increase from 15p to 20p in September 1976, and by 1980 to reduce by about half the present average subsidy of over 60 per cent. However, on 5th May 1976 Mr Healey announced his intention not to proceed with the 5p increase in September 1976 (*Hansard*, 5th May 1976, Col. 1306). This change in policy, which will cost the taxpayer £35 million in the current year, was part of the Government's deal with the T.U.C. over pay limits. However, after the T.U.C. had accepted the pay limits, Mr Healey announced that the charge for school meals would be raised from 15p to 25p per meal in September 1977, thus saving an estimated £28 million a year (*Hansard*, 22nd July 1976, Col. 2015).

## (D) ORGANISATION OF SECONDARY EDUCATION

### 1. DISTRIBUTION OF PUPILS

The following table shows the distribution of pupils among the different kinds of secondary school in England and Wales:

	1965		1975	
	<i>Schools</i>	<i>Pupils</i>	<i>Schools</i>	<i>Pupils</i>
Special Schools	882	74,299	1,603	131,900
Direct Grant (excluding special)	185	115,578	174	122,000
Maintained middle secondary schools	NONE		473	207,300
Comprehensive	262	239,619	2,596	2,459,650
Grammar	1,285	718,705	566	346,650
Modern	3,727	1,555,132	1,216	697,850
Technical	172	84,587	29	18,050
Total secondary school pupils		3,240,700		4,405,050



## 2. CONSERVATIVE ATTITUDE

As the table above shows, most secondary pupils at maintained schools—70 per cent—now attend comprehensive schools, many of which were introduced by Conservative councils. The Conservative Party, therefore, believes that one of the main objects of policy should be to ensure that existing comprehensives realise their full potential.

But while Conservatives believe that the majority of comprehensives offer a wide range of educational opportunities, they do not believe that they should be the only kind of secondary school available, and they oppose Labour's policy of the *compulsory* and *universal* imposition of comprehensives regardless of local needs and parental wishes—not least because such a policy distracts energy and resources from improving the comprehensives we already have.

**The Eleven-Plus.** Conservatives are against the rigid system under which a child who did not gain admittance to a grammar school under what was known as the 11-plus exam often went to a school where there was little choice of courses and no chance of taking the GCE. This was wrong, for it amounted to deciding a child's educational future at the early age of 11. However, in most areas retaining grammar schools there are now also good comprehensives. The great merit of comprehensives is that they can offer a wide variety of courses, including many for GCE. This means that an able pupil who is not selected for a grammar school need not be unfairly deprived of the opportunity to develop his academic potential. As Mr St. John-Stevas has said:

“Do not be deceived by talk about the 11-plus. Nobody now believes that final decisions about a child's education should be taken at the age of 11, or indeed, at any other age. What is needed is a continuous process of assessment designed to ensure that a child's abilities are developed to the full” (Chelmsford, 5th July 1975).

**Co-existence.** Labour, however, argue that a secondary school cannot be genuinely comprehensive if it co-exists with a grammar school in the same area, on the grounds that this prevents it from providing a sufficiently wide range of courses particularly at sixth form level. But this argument ignores the fact that many of the most successful comprehensive schools, such as those in Essex are already co-existing with grammar schools.

It is interesting that many educationalists are recognising that the doctrinaire policy of going comprehensive at all costs does not make good educational sense. Mr Stuart Maclure, Editor of the *Times Educational Supplement*, has written:

“There is good evidence that the full, unadulterated comprehensive gospel is not held by many in the educational world, and by few except ardent party ideologists anywhere” (18th April 1975).

Dr Harry Judge, Director, Oxford University Department of Educational Studies, and a former comprehensive school headmaster, has stated:

“It is idle to pretend that there survives, in secondary schools, in colleges and departments of education, in local education authorities, even in the hearts of bruised sociologists, any powerful conviction that the present phase of comprehensive planning will bring great educational improvement, or even be worth doing at all. A great deal of progress (and I mean progress) has been made, and now is the time for consolidation and settlement” (*Times Educational Supplement*, 2nd May 1975).

The Conservative attitude has been set out by Mr Norman St. John-Stevas:

“The position now is that over 70 per cent of children of secondary school age go to comprehensive schools, many of which were started by Conservative Local Councils with the approval of successive Conservative Governments. What Conservatives have argued is that there are no educational grounds for insisting that comprehensives should be the only type of secondary schools, and that is only plain common sense. The tragedy is that the present government are much more concerned with the use of comprehensive schools as a means of social engineering to further the egalitarian society which they favour, than they are with the educational merits or otherwise of comprehensive schools” (*London*, 19th July 1976).

**Improving Comprehensive Schools.** Mr St. John-Stevas has also put forward proposals for improving our comprehensive schools:

“*First*, stop treating comprehensive schools like ‘political footballs’. They must be judged on their educational merits and must not be used as a means of creating the egalitarian type of society favoured by the Socialists.

“*Second*, a sustained and determined effort must be made to assess the educational achievements of the different types of comprehensive schools so that we can make a reasonably informed judgement as to which is producing the best results.

“*Third*, stop spending money on turning all secondary schools into comprehensive schools, for this means the destruction of many good grammar schools. Spend the money instead on improving existing comprehensive schools to the level of the best. This is the way to enlarge educational opportunity and improve standards.

“*Fourth*, bring about a real partnership between home and school by giving parents the right of representation on boards of governors so that they can influence the development of the different types of schools. I would hope also that we could find ways and means of giving boards of governors more effective powers than they have at present.

“*Fifth*, find out more about the problem of size of schools which worries many people. We need to find the right balance between a school large enough to provide a range of courses sufficient to justify being called “comprehensive” and not so large that there is little genuine personal contact between teachers and pupils, and the head teacher becomes a remote administrator.

“*Sixth*, make sure that the examination system fulfils the aim stated by Lord Crowther when he said examinations provide a means of “showing pupils where they stand, of

providing them with an incentive to continue, and of raising habits of work and standards of attainment.”

This means examinations should provide a real test for all those in the ability range for whom they are intended. It is therefore better to have more examinations covering the different ability ranges than to attempt to have one single examination to be taken by pupils over a very wide range of ability.

“I want to see comprehensive schools acknowledged by parents, teachers, the universities, industry, commerce and the professions to be successful on their educational merits” (*London*, 19th July 1976).

### 3. THE EDUCATION ACT

In a press release on 17th September 1975 Mr Mulley, then Secretary of State for Education, ‘invited’ local education authorities who had not already done so to submit plans for turning all their secondary schools into comprehensives, and warned that if they refused, legislation would be introduced to compel them to do so. By 14th October 1975, 7 local authorities had stated that they did not intend to comply with the Minister's request; and one third of local authorities had failed to submit plans for going completely comprehensive by the end of the decade (*Hansard*, 14th October 1975, Col. 633). At the opening of the 1975–6 session of Parliament, the Government announced its intention of introducing legislation to compel all local authorities to establish only comprehensive secondary schools in their areas, and on 17th December 1975 an Education Bill for this purpose was presented to Parliament. (The Bill received the Royal Assent on 22nd November 1976.)

**Conservative Opposition.** Conservatives opposed this legislation because:

(a) **It will endanger standards.** First, it will involve the destruction of many schools of proven academic worth without any guarantee that the alternative is any better. Second, as Lord Alexander, Secretary of the Association of Education Committees, has indicated:

“If the resources are not available, resulting in makeshift schemes, in buildings separated sometimes by substantial distances, is there a danger that the principle itself (of comprehensive secondary education) will be threatened?” (*Education*, 2nd January 1976).

The chief sufferers from the abolition of grammar schools will be the able children of parents living in disadvantaged areas who will now have to go to the neighbourhood comprehensive school which is unlikely to be able to cater for their needs as well as a grammar school could.

(b) **It will weaken local government.** The Act will destroy the concept of partnership in the administration of education, embodied in the 1944 Education Act, between local authorities and the Government. Local authorities will be compelled to organise all their secondary schools on comprehensive lines, without regard to the wishes of parents, teachers or local councils. The Government should certainly satisfy itself that

any proposals submitted by local education authorities which involve a major change in the character of their schools, make good educational sense and have been adequately discussed with parents, teachers and other interested parties. But it is utterly wrong for the Government to force local education authorities to submit proposals for organising their secondary schools so that only one type of school—a comprehensive—will be acceptable.

(c) **It will diminish parental choice and involvement.** At present there is admittedly too little choice in education, but the Act will restrict that choice still further by abolishing the maintained grammar schools. The Act also empowers the Government to stop local education authorities from giving grants to help parents who wish to send their children to independent schools.

(d) **It will undermine the independence of voluntary schools.** These schools are mostly run by religious denominations and, under the 1944 Act, before any change can be made in their character, the approval of their boards of governors is required. The Act will force the governors of voluntary aided schools either to accept comprehensive status or to leave the maintained system. Some voluntary aided schools, where the foundation members have a majority on the board of governors, have already decided to go independent, which means the loss of good schools from the local authority sector.

For all these reasons Mr St. John-Stevas has pledged that the next Conservative Government will repeal the Education Act (Conservative Party Conference, 5th October 1976).

**Concessions.** The Conservative Opposition managed to obtain some concessions from the Government.

*Choir Schools.* Choir schools were admitted as exempt from the provisions of the Act together with schools for music and dancing.

*Banding.* In its original form the Bill prohibited selection for entry to almost all State secondary schools. But the Government has now agreed to permit ‘banding’—that is, selecting children for particular comprehensive schools by taking account of ability in order to ensure a reasonable spread of academic talent—to continue for three years in the first instance.

*Places at Independent Selective Boarding Schools.* Section V of the Act gives the Secretary of State powers to forbid local authorities to take up places at independent boarding schools. However, under Conservative pressure, the then Minister of State for Education, Mr Gerry Fowler, promised that places would still be available to pupils from the maintained sector on the grounds of boarding need (Standing Committee E, 12th Sitting, 18th March 1976, Col. 612).

**Lords Amendments.** Conservatives in the House of Lords, often with the support of cross-bench and Liberal Peers, managed to pass sixteen further amendments to the Bill. The principal amendments were as follows:

1. The principles laid down by Sections 8 and 76 of the 1944 Education Act—that the wishes of parents in educating their children are to be respected and that education is to be provided in accordance with the age, ability and aptitudes of children—were written into the Bill.
2. A third exception for specialist schools allowed to remain selective was added to those of music and dancing, namely mathematics.
3. Provision was made for an independent inquiry into secondary schools.
4. Local authorities were not to be compelled to reorganise on completely comprehensive lines unless the necessary financial resources are available.

These constructive amendments were ‘an acid test’ of whether the Prime Minister meant what he said on 18th October at Ruskin College, Oxford, (see p. 398) when he drew attention to widespread concern about standards in education and the need of industry for more and better qualified scientists and technologists. As Mr St. John-Stevas pointed out:

“The education of children is far too important to be treated as a political football. I appeal to both the Prime Minister and Mrs Williams to put education and the national interest before party dogma and to accept these reasonable modifications of their Bill which we are putting forward” (*London*, 8th November 1976).

However, in the House of Commons on 8th November the Government succeeded in obtaining a guillotine motion on the Education Bill, and when the House of Lords amendments were debated on 9th November the Government rejected all the Conservative amendments. On 7th November 1976 Mrs Shirley Williams, Education Secretary, announced that she intended to use her powers under the Act to oblige local authorities which had not already done so to submit schemes for comprehensive reorganisation within six months (*Times*, 8th November 1976).

## **4. TAMESIDE**

In the local elections on 6th May 1976 Conservatives gained control of Tameside Council in Greater Manchester having pledged in their Election Manifesto that the plans for comprehensive reorganisation drawn up by the previous Labour council would not be implemented.

Within a fortnight of their victory the Conservative councillors announced details of their plans for the retention of selective secondary schools in Tameside, making it clear to parents, schools and teachers that (i) all teachers' contracts would be honoured, (ii) selection for unallocated grammar school places would be entirely voluntary and conducted by a procedure of consultation and guided parental choice, and (iii) no child already allocated to a school would have this allocation changed unless his parents so requested.

Despite the Conservative council's clear mandate, the main teachers' unions, and subsequently members of NALGO in the council's own office, refused to co-operate in the implementation of their plans. And, on 11th June, siding with these unions, Mr Mulley, Secretary of State for Education, declared the Conservative proposals “unreasonable” and used his powers under the 1944 Education Act to direct Tameside

Council to continue comprehensive reorganisation. This encroachment on local authority freedom caused widespread concern. As Mr St. John-Stevas said on the same day:

“The Government has once again shown its contempt for constitutional processes and parliamentary democracy ... They have used administrative powers to defeat the wishes of the democratically elected Council of Tameside returned to office on a clear pledge not to implement the proposals for universal comprehensive schools of their predecessors” (Statement, 11th June 1976).

On 18th June Mr Mulley obtained leave from the Queen's Bench Divisional Court to seek an Order to compel Tameside Council to abolish its five grammar schools. The Divisional Court granted the Minister a Mandamus Order requiring the Council to comply with his direction of 11th June. Tameside Council brought their case to the Court of Appeal which overruled the Divisional Court's ruling on 26th July and refused Mr Mulley leave to appeal to the House of Lords. Lord Denning, Master of the Rolls, said the Minister had “misdirected himself” over whether it was unreasonable for Tameside Council to retain some form of selective education (*Times*, 27th July 1976).

On 27th July Mr Mulley applied again for leave to appeal to the House of Lords and was granted this on 29th July. However, on 2nd August the House of Lords handed down their decision against Mr Mulley, and vindicated both the stand taken by Tameside Council and the previous decision of the Court of Appeal (*Times*, 3rd August 1976). On 21st October 1976, the Law Lords published their reasons for their judgement. They repeated that Mr Mulley had misdirected himself in coming to the belief that the Conservative controlled education authority was acting unreasonably in not going ahead with plans to go comprehensive, pointing out that existing plans for comprehensive reorganisation in Tameside had been rushed through and were ill-thought out, and that the Conservatives won the local elections in May on a mandate to retain the metropolitan district's grammar schools (*Times*, 22nd October 1976).

Their judgment obviously has important implications for the future use by Ministers of their discretionary power to intervene where they think a local authority is acting “unreasonably”, and it may go some way towards preserving the proper balance between local and central government.

## **5. DIRECT GRANT SCHOOLS**

In January 1976 there were 170 direct grant schools providing about 104,000 secondary school places. The schools received a grant direct from the Department of Education and Science of £79 a year for each of their pupils, plus an extra grant of £84 for every sixth former. To qualify for a grant schools had to offer at least 25 per cent of their places—and a further 25 per cent of places if required—to local education authorities. No charge was made to parents in respect of these places; the local authorities concerned paid the fees. Where parents did not obtain a place paid for by a local authority, they paid fees which were graded according to their incomes.

In March 1975, Mr Reg Prentice, then Secretary of State for Education and Science, announced that direct grants to schools would be abolished in September 1976. Commenting on Mr Prentice's statement, Mr St. John-Stevas said that the Government's policy was:

“An unprecedented step of educational vandalism ... it will lower educational standards ... it will decrease parental choice and by driving many direct grant schools into the independent sector, it will deprive parents of modest means of educational opportunity.”

He reaffirmed the Conservative Party's pledge to reopen the direct grant school list and said:

“We shall see that the schools are not only restored, but restored on a legal basis which will make it impossible for them to be destroyed again by ministerial edict” (*Hansard*, 11th March 1975, Col. 272).

Direct grant status could either be restored on the basis of the present arrangement (whereby some 25 per cent of places are paid for by LEAs and therefore are free to parents, with fees payable according to parental means for the remaining places), or alternatively all places could be available on a fee-paying basis with parents paying what they can afford. *The Right Approach* also states:

“A complete system of assisted places might usefully be introduced to be operated by both central and local government. The new status should be based on statute and open to voluntary aided, county and independent schools which wish to apply.”

**Advantages of Direct Grant Schools.** These can be summarised as follows:

1. They provide an invaluable and necessary bridge between the independent and the maintained sectors.
2. They are a contribution to variety of schools and enable parents to have an element of choice in the education of their children.
3. They are centres of academic excellence, and as such help to raise standards throughout the maintained and independent sectors. No less than 32 per cent of direct grant school-leavers gain university places as compared to 24 per cent from the independent schools; 17·6 per cent from maintained grammar schools and 3·4 per cent from comprehensive schools. Another 29 per cent of pupils at direct grant schools go on to other forms of higher and further education (*Statistics of Education*, Vol. 2, 1974).
4. They contribute about 9,000 places to the provision of boarding accommodation, which is not normally available in the maintained sector.
5. They make a special contribution to girls' education, providing an option of single sex schools for those who want them.
6. They save public money because many parents pay fees which amounted to just over £10 million in 1974.
7. They offer a unique educational opportunity for clever children from poor families who would often otherwise have no alternative but to go to a neighbourhood comprehensive which could not cater so fully for their needs.

**Labour's Obduracy.** The Labour Government ignored all these arguments and the protests of parents, teachers and local authorities against the abolition of the direct grant system. On 1st May 1975 Mr Prentice sent a letter to all governors of direct grant schools and all local education authorities asking them to declare their intention of opting into the maintained system as comprehensive schools or opting for independence by the end of July 1975. This time limit was later extended to December 1975. The Government followed this up on 21st July 1975 when Mr Mulley issued the "Direct Grant Grammar Schools (Cessation of Grant) Regulations" which detailed the abolition of the direct grant system by September 1976.

In the House of Commons on 27th October 1975, the Conservative Opposition opposed this Regulation. During the debate, Conservatives pressed the Government to give the following safeguards:

1. That where a direct grant school enters the maintained system existing pupils at the school would not have their courses of study interrupted.
2. That teachers at a direct grant school opting to enter the maintained system would have their position and careers safeguarded.
3. That where a direct grant school opts for independent status, parents of existing pupils would not have to pay more in fees than they would have done if the school had retained its direct grant status.

The Government gave only partial assurances on these points, and the Conservative motion was defeated with ten Liberals voting with the Government.

By January 1976 as a result of Labour's doctrinaire policy, 119 direct grant schools had elected to go independent and 51 to join the maintained system.

## **6. INDEPENDENT SCHOOLS**

In January 1975 (the latest date for which figures are available) there were 2,363 independent schools (excluding nursery schools) with 421,658 pupils. Of these, 1,370 schools were recognised as efficient by the D.E.S.

**Labour's Attitude.** The Labour Party at its 1975 Annual Conference reaffirmed its intention to abolish independent fee-paying schools. *Labour's Programme 1976*, approved at last October's Party Conference, stated:

"We reiterate that our long-term aim is to abolish fee-paying in schools and to bring all children of compulsory school age into the national education system."

It has been estimated that the cost of such a policy over a five-year period would be about £1,000 million (*Daily Telegraph*, 30th September 1975). Furthermore, such a policy is a denial of basic human liberties and contradicts Section 13 of the United Nations Covenant on Economic, Social and Cultural Rights in which the signatories:

"Undertake to have respect for the ability of parents to choose for their children schools other than those established by the public authorities, which conform to minimum educational standards laid down or approved by the State, and to ensure the



religious and moral education of their children in conformity with their own convictions.”

**Conservative Policy.** In contrast to Labour, Conservatives would ensure the continued existence of independent schools, allowing local authorities to retain their right to take up places at these schools if they wish.

The existence of an independent sector is a safeguard against a State monopoly in education. Independent schools have an excellent academic record and have made possible a wide range of experiments in special education. If our independent schools are abolished by Labour, we shall become the only country in the free world where the State has a monopoly of primary and secondary education. Moreover, the freedom of parents to choose the type of education they consider best suited for their children would be greatly diminished.

Of course, the opportunity to send their children to an independent school at present exists in the main only for those parents who can afford the fees, although many are able to do so only by making great sacrifices; but policies surely should be directed towards extending the freedom to choose private education, not to eliminating it altogether.

## **(E) FURTHER AND HIGHER EDUCATION**

In 1975 there were 47 universities in the United Kingdom, including the Open University, and 31 polytechnics. In England and Wales there were in addition 155 colleges of education, and 534 institutions of further education. 30 universities and 12 polytechnics also had Departments of Education. The table on p. 000 shows the numbers and distribution of students in further and higher education in England and Wales.

### **1. UNIVERSITY FINANCE**

Government grants for the universities are paid to the Universities Grants Committee which is responsible for their subsequent distribution. The recurrent grant to the UGC is settled on a quinquennial basis, usually with supplementary provision for inflation. The agreed allocation for the present quinquennium, 1972–7, was originally as follows:

#### *£m at 1972 Survey Prices*

1972–3	295·0
1973–4	314·6
1974–5	328·5
1975–6	346·6
1976–7	365·3

(UGC Report, *University Development 1967–72*, 1974)

However, on 25th March 1975, the Government announced a reduction of the grant for 1975–6 of 4 per cent in real terms. On 11th March 1976 a further reduction of 8·5 per cent for 1976–7 was announced; and the Government made it clear that there would be no supplement in that year for inflation.

The 1976 Public Expenditure White Paper reveals that the Government proposes further restraint after the present quinquennium:

“There will be little if any scope for increasing total staff numbers after 1976–7. Capital expenditure on new buildings, including new purpose-built student residences, will continue to be severely restricted and more intensive use of available premises will accordingly be required.”

## 2. POLYTECHNICS

In May 1966 the Labour Government published a White Paper, *A Plan for Polytechnics and Other Colleges* (Cmnd. 3006), setting out plans for establishing a limited number of polytechnics as the main centres for the future development of full-time higher education within the further education system. The polytechnics are primarily teaching institutions and they have close links with local business and industry. Their students include many people in employment attending on a part-time or day-release basis, as well as full-time and sandwich course students. There are now 30 polytechnics in England and Wales with about 177,800 students in 1975 of whom about 86,300 followed full-time and sandwich courses, and about 91,500 were on part-time, evening and day-release courses.

**Finance.** Polytechnics, like other establishments providing advanced further education courses, are financed out of a national pool to which all LEAs contribute—the size of their contributions being based on their school populations and non-domestic rateable values, with the aim of ensuring that an equitable charge is made on each authority. Authorities then draw from the pool the expenditure they have incurred in providing advanced further education courses. In *The Right Approach* Conservatives have argued that since polytechnics have now become national institutions their method of financing might usefully be reviewed.

**Conservative Policy.** The 1972 White Paper (Cmnd. 5174) stated the Conservative Government's policy that the major part of the 1981 total of higher education places should be provided by the polytechnics. The Labour Government has accepted this policy.

Mr St. John-Stevas has drawn attention to the need, especially in a period of financial restraint, to rationalise the organisation of over 700 degree courses offered in institutions of non-university further and higher education:

“Within non-university further and higher education the wasteful duplication of too many courses in too many institutions needs to be rationalised. One way for this to happen would be by increasing co-operation between institutions, possibly with joint courses being developed and encouraging feeder relationships.

“If we raise standards, as we must, we must be prepared for greater entry to further education after school. Therefore we must make the best possible use of resources and avoid the wasteful overlapping of courses and institutions that is now developing” (London, 25th June 1976).

### 3. UNIVERSITY AND POLYTECHNIC TEACHERS' PAY

**Polytechnic Teachers' Pay.** In June 1974 the Government set up a committee under the chairmanship of Lord Houghton of Sowerby to inquire into non-university teachers' pay. The committee's report (Cmnd. 5848) was published on 23rd December 1974. It recommended an overall 29 per cent increase in teachers' pay. The Government broadly accepted the committee's recommendations, and on 6th January 1975 polytechnic teachers were awarded a 27 per cent increase in pay backdated to 24th May 1974. A comparison with the old rates of pay reveals the extent of this increase.

	<i>Pre-Houghton</i>	<i>Houghton</i>
Lecturers	£1,800–£3,474	£1,869–£4,476
Senior lecturers	£3,525–£4,212	£4,206–£5,412
Principal lecturers	£3,837–£4,824	£5,001–£6,429

On 16th June 1975 the Burnham Committee (which negotiates teachers' pay agreements) approved a further 14.3 per cent increase in non-university teachers' pay backdated to 1st April 1975 and a £229 threshold increase so that polytechnic teachers now receive:

Lecturers	up to £5,493
Senior lecturers	£5,031–£6,417
Principal lecturers	£5,940–£7,578

**University Teachers' Pay.** In November 1974 negotiations were begun between the university teachers' unions and the Government over university teachers' pay. These negotiations broke down and, as a result, went to an arbitration tribunal under the chairmanship of Mr Peter Leggatt, QC. On 14th June 1975 the tribunal awarded university teachers a 24.6 per cent salary increase to take effect from 1st October 1975, with provision for a cost-of-living bonus expected to be about 22 per cent, but still to be negotiated. The Government dragged out these negotiations so that after the 11th July 1975 announcement of the £6 a week pay limit, university teachers' cost-of-living bonus was limited to £312 per annum, amounting to only about 5 per cent overall. The new salary scales were as follows:

	<i>Old</i>	<i>New</i>
Lecturers	£2,118–£4,896	£2,778–£6,362
Senior lecturers	£4,707–£5,976	£5,838–£7,658
Professors	av. £7,257	av. £8,884

The effect of the Government's bungling of this pay award has been to erode the differential between university and polytechnic teachers so that many university teachers are now being paid less than their polytechnic counterparts.

## 4. STUDENT GRANTS

Under the existing arrangements for student grants, local education authorities are required to provide maintenance grants for all students taking first degree and comparable courses, and for students at colleges of education. The maximum grant payable varies for different institutions, while the actual amount received is determined by a parental means test—the student's parents are expected to contribute the balance between the grant received and the maximum grant payable.

The last Conservative Government increased the limit of grants for most students by £105 p.a.—or over 27 per cent—from £380 in 1970–1 to £485 in 1973–4. This increase was about the same as the increase in prices during this period, and may be contrasted with the present Labour Government's increase of 43·6 per cent for university students which has not kept pace with the rise in prices of over 60 per cent between February 1974 and October 1976, as the following table shows:

Maximum Maintenance Grants since 1970

	<i>London and Oxford and Cambridge Universities</i>	<i>Elsewhere</i>	<i>Students Living at Home</i>	<i>College of Education Students in Residence</i>
	£	£	£	£
1970– 1	420	380	305	170
1971– 2	465	430	345	190
1972– 3	480	445	355	200
1973– 4	520	485	390	220
1974– 5	665	605	475	260
1975– 6	820	740	570	325
1976– 7	955	875	675	380

In addition to increasing grants the Conservative Government also improved the scale for determining parental contributions, thereby providing particular help for students from poorer homes. The starting point for contributions was raised from £900 in 1970–1 to £1,500 in 1973–4. It should be remembered that the incomes used to determine grants are not gross incomes but net incomes after allowances have been made for certain items such as mortgage interest, superannuation payments, and the cost of educating other children.

**Higher Tuition Fees.** On 5th July 1976 Mr Fred Mulley, then Secretary of State for Education and Science, announced his intention substantially to increase tuition fees from September 1977 for all students, but at the same time to end the practice of charging a higher fee to overseas students. He also announced that British students in receipt of a mandatory award, whatever their parents' income, would in future have all their tuition fees paid for them. As a corollary the £50 minimum grant would be withdrawn.

On 25th November 1976 Mrs Williams announced a change in these proposals so that tuition fees for home students will not now be increased by so much, and a substantial fee differential between home and overseas students will be maintained (*Hansard*, 25th November 1976, Cols. 187–191).

Tuition Fees For Students				
	<i>Current Fee</i>	<i>First Proposal</i>	<i>New Fee</i>	<i>New Fee Percentage Increase</i>
	£	£	£	£
<i>Overseas Students</i>				
University				
Postgraduates	416	750	850	104·3
Undergraduates	416	650	650	56·2
Further Education				
Full-time advanced	416	650	650	56·2
Full-time non-advanced	260	325	360	38·5
<i>Home Students</i>				
University				
Postgraduates	182	750	750	312·8
Undergraduates	182	650	500	174·6
Further Education				
Full-time advanced	150	650	500	233·3

**The Social Security Miscellaneous Provisions Bill** which had its Second Reading in the House of Commons on 2nd December 1976, provides that students will no longer be able to claim supplementary benefit during the Easter and Christmas vacations, but will continue to be able to claim benefits during the Summer vacation. This will save an estimated £1 million in the first year of operation.

## (F) TEACHERS

### 1. NUMBERS

The last Conservative Government increased the teaching force by nearly 80,000 between 1970 and 1974. Conservative plans as expressed in the 1972 White Paper (Cmnd. 5174) suggested that about 15,000 extra teachers would be wanted to staff the expanded nursery programme that was planned, and another 20,000 to meet the needs

of the Government's policy for in-service training and the induction of new teachers. It also announced the Government's broad policy objective of recruiting by 1981 a teaching force of 510,000—10 per cent above the number needed to maintain 1971 staffing standards.

However, the decline in the birth-rate and the Government's decision not to improve further the pupil/teacher ratio (see p. 381) have meant that this target has now been reduced. On 20th March 1975 Mr Prentice announced a revised upper limit to the number of teachers in 1981 of 480,000 to 490,000 (*Hansard*, 20th March 1975, Col. 472). The 1976 Public Expenditure White Paper (Cmnd. 6396) revised this limit further, and forecast only 474,000 teachers in maintained schools in 1979.

**Teacher Unemployment.** Labour's period of office has seen a serious rise in teacher unemployment: the National Union of Teachers estimated that by October 1976 there were 20,000 qualified teachers involuntarily out of work. In part this is a consequence of causes for which the Government cannot be blamed, including (a) demographic changes which make fewer teachers necessary than was planned a few years ago, and (b) increases in teachers' salaries as recommended in the report of the Houghton Committee, (see also p. 391) which have encouraged many (who would normally have left) to stay in the teaching profession.

	<i>Pre-Houghton Scale</i>	<i>Houghton Scale</i>
Teachers	£1,449–£3,612	£1,677–£4,611
Senior teachers	£2,940–£3,840	£3,609–£4,977
Heads	£2,565–£6,456	£3,381–£8,523

But to some extent reductions in teacher employment reflect the Government's mismanagement of the economy. The financial difficulties created by continuing high inflation mean that local authorities simply cannot afford to employ the number of teachers they would like.

In these circumstances it is a sad reflection on Labour's priorities that the Government should nonetheless be prepared to force local authorities to take on expensive extra staff to administer the Community Land Act (see Chapter 14 page 338) and also to continue to encourage councils to expand loss-making direct labour departments.

## 2. COLLEGES OF EDUCATION

The Conservative Government's 1972 White Paper on Education made it clear that there would have to be a reduction in the number of places provided for teacher training, and consequently the reorganisation of colleges of education involving a number of closures. The reduction in places was necessary because, although the Conservatives intended to increase the total number of teachers in service, this increase did not require a rate of output from the colleges as high as that achieved in the preceding period. When this policy was announced **Mrs Thatcher**, then Secretary of State for Education, explained that all changes would be made on the basis of full consultation:

“There must be, and will be, detailed consultations with all concerned; the local authorities, the voluntary bodies and, of course, the colleges themselves. It is important that we lose no time in drawing up plans for future development. Consultations have already begun on questions of compensation for teaching staff of the colleges of education who might be adversely affected by these changes. There is a lot of experience in the public service, and in particular in local government, of the sort of problems which arise, and fair and acceptable solutions have usually been negotiated” (Manchester, 2nd January 1973).

Labour's reduced target for teacher supply means that there will now have to be considerably more closures than were previously intended. In contrast with the last Conservative Government, Labour have pushed ahead with mergers and closures without proper consultation. By the end of October the Government had told 20 colleges to close completely; 31 to merge with polytechnics; 22 to merge with other colleges of further education; 26 to merge with other colleges of education; and possibly another 2 to merge with universities. Furthermore, on 9th November 1976 Mrs Shirley Williams, the present Education Secretary, told a meeting of the Department of Education and Science Advisory Committee on Teacher Training and Supply that the Government plans to close or amalgamate 30 more of the 155 colleges of education. As Mr St. John-Stevas said of this proposal:

“This latest lurch in the Government's educational policy is another example of how, through bad planning, the Government has been blown off its educational course. I hope that before any further decisions are made there will be the closest possible consultation with the colleges concerned, so that their views are taken fully into account, which was certainly not the case in the first phase of closures. Second, I hope that the programme of induction and in-service training will not be destroyed by the Secretary of State, since it is vital if we are to raise standards in our schools” (Statement, 9th November 1976).

## **(G) SCHOOL TRANSPORT**

At present, local authorities are required to provide free transport for children under 8 who live more than 2 miles from the nearest maintained school and for older children living more than 3 miles away.

**Labour's Consultation Document on School Transport.** In October 1975 the Government issued a Consultation Document on school transport. This proposed the abolition of statutory walking distance, and that local authorities should arrange transport wherever in their view circumstances warranted it, at a uniform charge (suggested to be 7p per single journey) with provision for remission of charge in cases of hardship and handicap.

Conservatives however pointed out that the proposals in the Consultative Document would discriminate against:

1. Children who under the present system are able to attend denominational schools (which may not be the nearest to their home) and receive transport;

2. Children in rural areas who would have to pay for transport (hitherto received free of charge because of the mileage rule).

These arguments have induced the Government to drop the scheme. Miss Margaret Jackson, Under-Secretary for Education and Science, has explained that:

“If we decide to pursue the idea of new school transport arrangements there will be a need for further consultations” (*Hansard*, 24th May 1976, Col. 240).

## (H) STANDARDS

### 1. DECLINE IN EDUCATIONAL STANDARDS AND DISCIPLINE

**Evidence of Decline.** Ever since the late 1960s there has been growing evidence of a serious decline in academic standards and discipline in our schools, and the resulting concern has led to continuous and widening public discussions. Among the more authoritative and disturbing studies on standards is the report of the National Foundation for Education Research, *The Trend of Reading Standards*, published in March 1972, which showed that, although reading standards improved for the first 20 years after the war, they subsequently declined. Based on a survey of more than 7,000 children in 300 schools, the report indicated that of an average class of 30–35 children leaving their primary school in 1970 five would have been considered only semi-literate by 1938 standards; and that one in every 30 would have still been semi-literate by these standards when leaving secondary school four years later.

**Informal Teaching.** There can be no doubt that one of the major causes of the alarming decline in literacy and numeracy has been the increasingly common use of the new informal teaching methods. A number of recent academic studies, notably the report of Dr Neville Bennett of Lancaster University on teaching methods in primary schools published in April 1976, and an earlier report from Keele University, have reinforced the commonsense conclusion that informal teaching methods are unlikely, except in the hands of exceptionally skilled teachers, to provide children with as good a grasp of the basic skills of reading, writing and arithmetic as did the traditional methods they have widely replaced.

Indeed, a recent survey of primary school teachers' attitudes carried out by the Schools Council shows that many teachers now attach very little importance to the three “R's” at all. Top in a list of more than 70 priorities listed in this survey was “making children happy and cheerful”. Arithmetic came 20th. “Writing clear and meaningful English” came 44th. And the mastering of “basic grammar” was 51st (*Daily Mail*, 18th October 1976).

**Discipline.** As well as a decline in academic standards, there has also been increasing evidence of mounting indiscipline and truancy. In 1974 Mr Ernest Armstrong, then Parliamentary Under-Secretary of State for Education and Science, gave the House of Commons figures from a survey on violence on behalf of the Government. More than



2,000 violent incidents were reported in schools in the year 1971–2 and nearly 1,000 threats of violence in the same period (*Hansard*, 23rd July 1974, WA, 399–400).

Growing concern over the related problem of truancy led the last Conservative Government to commission a survey into truancy in January 1974. The results, made available in July the same year, showed that on a given day 9.9 per cent of all pupils in middle and secondary schools were absent and that schools were able to find no legitimate reason for the absence of 2.2 per cent (87,400 pupils). The highest proportion of unjustified absenteeism was 4.8 per cent for boys and girls between 15–16 years.

William Tyndale. The most notorious example of a breakdown in discipline, and a subsequent and serious deterioration of academic standards took place at the William Tyndale Junior School in London between 1973 and 1975. In October 1975 a public inquiry into events at the school was launched by ILEA under the chairmanship of Mr Robin Auld, Q.C. In his report, published on 16th July he condemned (a) a number of teachers at the school for being more concerned with ideologies than with the children in their care; (b) Mr Harvey Hinds, Labour Chairman of the ILEA schools subcommittee, for ignoring warnings and appeals for a full inspection of the school; (c) Managers of the school for unprofessional conduct in using local Labour Party political machinery instead of ILEA to try and solve the school's problems; and (d) the School Inspectors for not sounding the alarm early enough.

As a result, Mr Terence Ellis, the Headmaster, and other members of his staff, are being disciplined by ILEA; Mr Harvey Hinds has resigned as Chairman of the ILEA schools subcommittee; and the Managers of the school have also resigned.

## **2. THE LAST CONSERVATIVE GOVERNMENT**

The last Conservative Government was acutely aware of the need for urgent action to restore and improve academic standards and discipline. Consequently, in addition to providing extra resources for every sector of our education system, the Conservatives also took action to ensure that these resources were used to better advantage. For instance, recognising that educational research had shown that a good nursery education enabled many children to benefit much more fully from the later stages of their schooling the Conservative Government placed particular emphasis upon creating extra nursery provision, particularly in the deprived urban areas where 13,378 extra nursery places were created in just 2½ years.

Above all, however, the standard of education depends upon the quality of teaching. The Conservatives therefore not only set up the Bullock Committee of Inquiry into the teaching of English but also the James Committee on teacher training. Furthermore, in December 1972 the Conservative White Paper, *Education: A Framework for Expansion* (Cmnd. 5174) committed the Government to many of the latter's proposals including more regular in-service training and the eventual creation of an all-graduate teaching profession (see also p. 378).

## **3. CONSERVATIVE POLICY**

Labour's accession to office in March 1974 meant an immediate shift in the whole emphasis of government education policy. Instead of concentrating upon improving academic standards, Labour has been almost exclusively preoccupied with doctrinaire changes in the structure of secondary education.

Conservatives, however, have continued to campaign vigorously for action to improve the quality of education in all schools of whatever type, and they have consistently argued that time, energy and scarce resources should be directed to maintaining and improving standards in existing schools and not to destroying schools of proven academic worth. As Mr St. John-Stevas has said:

“The debate which the Government should be initiating today should be one centring on what is going on in our schools, how children are being taught, instead of one along old sterile lines of types of schools. We should be getting on with the job of improving schools, not discussing systems” (London, 28th January 1976).

In a series of speeches Mr St. John-Stevas has outlined positive proposals to improve standards in all schools despite the constraints imposed by the present cool financial climate. These proposals include:

1. A sustained programme to ensure that every child who enters secondary school has the basic skills of reading, writing and arithmetic.
2. The reintroduction of national standards (abandoned by Labour in 1966) and the monitoring of schools' performance by a strengthened Schools Inspectorate.
3. The establishment of closer contact between education and industry by allowing representatives of industry to sit on the Schools Council and to have some influence on the curriculum.
4. An immediate inquiry into secondary education to examine such questions as the most appropriate size of schools and the role of streaming, mixed ability teaching and sixth form colleges.
5. Greater emphasis on training teachers to cope with problems of discipline and to teach the basic skills of literacy and numeracy. Student teachers should not be taught new methods of teaching till these have been properly tested and evaluated. As soon as economic circumstances permit the Government should implement the recommendation of the James Report to extend in-service training.
6. Help for teachers in service to maintain order by ensuring that they are given clear guidelines so that they know by whom and on what occasions discipline may be enforced.
7. The retention of rigorous examinations which provide teachers and pupils with an objective to aim at as an integral part of our school system. In the words of the late Lord Crowther examinations offer a means “of showing pupils where they stand, of providing them with an incentive to continue, and of raising habits of work and standards of attainment” (Central Advisory Council for Education Report 1959).

### **A Common Examination?**

Unlike the Government, which has equivocated on this matter (see p. 399), the Conservatives opposed the Schools Council proposal that the Certificate of Secondary

Education examination and the General Certificate of Education 'O' level examination should be replaced by a common examination to be taken at the age of 16 plus (*Examinations at 16 plus: Proposals for the Future*, October 1975). Mr St. John-Stevas has listed five objections to a common examination:

“First, how can an examination which would cater for such a wide range of ability do justice either to children of high ability or the less able children? It would either contain too many questions that the less able children were unable to answer or it would not provide a sufficient challenge for the really able children ...

“Second, ... a common examination which was more like the CSE than GCE 'O' levels would mean a lowering of standards in the case of those who at present take GCE 'O' levels ...

“Third, there is the question of cost. A change of this magnitude is bound to be a costly business, but we hear little or nothing from the Schools Council, or the Government, on this point ...

“Fourth, I have a strong suspicion that the real reason for this proposal for a common examination at 16 has much more to do with social engineering than with any desire to improve the education system ...

“Fifth, a common examination at 16 under virtually complete control of the schools themselves—and this seems to be the aim of the Schools Council Report ... would substitute subjective judgments for a uniform and objective assessment over the country as a whole. Employers would despair of getting any true assessment of what the certificate really meant” (London, 14th July 1976).

## 4. LABOUR'S ATTITUDE TO STANDARDS

Mr Callaghan's **Speech**. The mounting anxiety of parents about standards and the vigorous campaign of the Opposition have created a climate of opinion which no government could afford to ignore. It is, therefore, not entirely surprising that Mr Callaghan should have chosen to devote a major speech at Ruskin College, Oxford, on 18th October 1976 to the problems with which the education service is faced.

**Areas of Concern.** Mr Callaghan expressed concern about three main issues:

1. *Teaching Methods*. He pointed to the unease felt by many parents and others about the informal methods of teaching now common in many schools. And he suggested that while such methods produced good results when they were applied by well-qualified teachers they were much more dubious when they were not.
2. *Standards and Monitoring*. Although Mr Callaghan said he did not intend “to become enmeshed in such problems as whether there should be a basic curriculum with universal standards”, he drew attention to the divided state of opinion on this important topic. He also raised the related issue of the proper role of the Inspectorate, and emphasised the need to find the best means of

“monitoring the use of resources in order to maintain a proper national standard of performance”.

3. *Education and Industry*. The Prime Minister said that he was disturbed by complaints he had received from industry that new recruits from the schools sometimes did not have the basic tools to do the job that was required. He also expressed dismay that many of Britain's best students preferred to stay in academic life or to find their way into the Civil Service rather than work in industry.

**No Specific Proposals.** Disappointingly, Mr Callaghan's recognition of the seriousness of the problem of education was accompanied by virtually no specific proposals for putting matters right. The single practical initiative announced in the Prime Minister's speech was the Government's decision to give further thought to the Schools Council's plan for a common examination at sixteen (see p. 398). And, indeed, there remains a strong possibility that this ill-thought-out proposal will nonetheless eventually be implemented. According to Sir Alex Smith, Chairman of the Schools Council, the idea of a common examination is still “very much alive” (*Daily Telegraph*, 13th November 1976).

A particularly striking omission on Mr Callaghan's part was his failure to recognise that one of the problems he identified—the failure of graduates to go into industry—can only be resolved if his own Government drastically alters its present economic policies. It is surely ironic that expressions of surprise at the preference of many qualified students for employment in the Civil Service rather than in manufacturing industry should come from a Prime Minister whose own Government has, on the one hand, raised industrial unemployment to its highest post-war level and, on the other, increased the numbers working in the Civil Service by nearly 50,000 in just two years.

**Labour's Programme.** If, despite the Prime Minister's reticence, the Government does have some new educational measures in mind, perhaps a clue is provided by Mr Callaghan's favourable reference to *Labour's Programme 1976*. Of this document he said: “It contains many important statements which I certainly agree with”.

If this remark indicates the future direction of the Government's educational policy, then many parents may feel that the remedy will be worse than the disease; for Labour's extreme Left-wing policy statement (a) reaffirms the Labour Party's commitment to using education for the purpose of social engineering, stating that “our objective is to establish a comprehensive system of education from the nursery schools up to and beyond school leaving age”; (b) criticises examinations on the grounds that they “reinforce social divisions”; (c) suggests that the Secretary of State should be allowed to change the curriculum not for academic reasons but in order to promote “democratic values”; and (d) restates Labour's long-term aim of eliminating all forms of education independent of the State.

## **(I) PARENTAL CHOICE AND INVOLVEMENT**

# 1. A PARENTS' CHARTER

An important means of helping to raise standards in schools is to create a genuine partnership between home and school. Conservatives have drawn up a **Parents' Charter** setting out existing and additional rights for parents regarding the education of their children.

**Boards of Governors.** Parents should have the right to substantial representation on school boards of governors which should have wider powers. Parents of children currently at school should elect representatives from among their members. As Mr St. John-Stevas has said:

“It is the parents who will be an excellent counter to these left-wing theorists who see the opportunity for enforced social engineering.” (Chelmsford, 5th July 1975).

On 27th January 1975, in response to Conservative pressure, the Government announced the setting up of an inquiry into the government and management of schools. Mr Tom Taylor, CBE, JP, was appointed Chairman on 27th February 1975, and a Committee was formed on 15th April. The Committee took evidence from 21st July to the end of November 1975, but has still not reported back.

**Parent-teacher Associations.** The formation of effective parent-teacher associations should be encouraged in order to ensure that home and school work together rather than against one another. This could be of considerable help in the tackling of truancy and indiscipline.

**Prospectuses.** Schools should be required to publish simple prospectuses with an annual report explaining the schools' educational aims and achievements and the curriculum. In this way, parents would be provided with the necessary information with which to make an effective choice of school for their children.

**Choice of School.** Section 76 of the 1944 Education Act enunciated the general principle that local authorities should take account of parental wishes in education. Court cases on parental rights have made it clear that it is doubtful if this section gives parents any positive right to choose a school. Conservatives would therefore place a clear obligation on education authorities to follow the wishes of parents unless the cost or educational needs of other pupils makes it unreasonable to do so. Zoning arrangements could also be made more flexible—for example to enable parents to send their children to a single-sex school outside the catchment area in which they live.

**Local Appeals Boards.** Conservatives are considering establishing independent local appeals boards to which parents, dissatisfied with a local education authority's decision on a choice of school, could appeal.

# 2. VOUCHERS

Under the voucher system, parents would be given an educational voucher which would normally be equivalent to the average cost of educating their child at any

school within the maintained system. The purpose of this system is to provide parents with an effective choice of school on the grounds that they would be able to take the voucher to any school they wished. There are, however, a number of practical problems. In many areas there are one, or perhaps two, schools which are generally considered to be the best: for those parents whose children were rejected by these schools because there were too many applications there would be no effective choice. It is argued that those schools which did not attract vouchers would be replaced by new and improved schools; but this would take time and meanwhile there would be the problem of those children already attending these schools. If a voucher system were extended to cover parents sending their children to independent fee-paying schools, it would of course add considerably to public expenditure.

As *The Right Approach* states, “the whole subject needs a thorough inquiry and it would be helpful if local education authorities were to initiate a limited number of experiments.”

Kent County Council is at present costing a feasibility study with the aim of introducing a voucher experiment in part of the county.

## **(J) RELIGIOUS EDUCATION**

The Education Act 1944 provided for the school day to begin with a corporate act of worship and for religious instruction to be part of the curriculum of all schools. Parents can withdraw their children from both religious instruction classes and the corporate act of worship if they wish to do so.

Conservatives stand by this settlement agreed by all religious denominations at the time. In March 1975 fierce controversy was aroused by the decision of the Labour controlled education committee of Birmingham City Council to approve a new ‘religious education’ syllabus which includes the study of Communism and humanism (*Daily Telegraph*, 13th March 1975). Expressing Conservative concern about this proposal, Mr St. John-Stevas called for an inquiry into the state of religious and moral education in our schools (*Conservative Monthly News*, March 1975).

## **(K) SCHOOL-LEAVING AGE**

With effect from September 1972, the last Conservative Government raised the school leaving age from 15 to 16. The case for raising the school leaving age had long been accepted by all political parties and was initially planned to take effect in 1970–1. However, the change was postponed by the Labour Government in 1968 despite a clear election commitment.

**Work Experience for Children at School.** As a result of the raising of the school leaving age from 15 to 16, local authorities were not able, without fresh legislation, to continue to arrange for 15-year olds to participate in work experience schemes as part of their education. The purpose of these schemes is to provide children with a useful introduction to the conditions and circumstances of adult work. The last Conservative Government therefore decided to give local authorities the power to arrange work

experience for children in their last year of compulsory schooling by means of the Education (Work Experience) Act 1973.

**School-leaving Dates.** The Education (School-leaving Dates) Act 1976 established two school leaving dates, one at Easter and one at the end of the summer term, for pupils aged 16. Conservatives feel that this Act has not gone far enough. There is still too large a group of senior pupils who throughout the school year are educationally uninterested or positively hostile to schooling and feel they could be doing more productive things. *The Right Approach*, therefore, proposes that head teachers should be able to allow selected pupils, with the consent of their parents, to leave school early, for example when they are going into an apprenticeship or a further education course.

## (L) YOUTH SERVICE

The aim of the Youth Service in Britain is to promote the social and informal education of young people by offering them opportunities in their leisure time to mix socially, to broaden their interests, and to pursue recreational activities. The service is provided by a partnership between public authorities and voluntary organisations.

Expenditure on the Youth Service

*£m at 1975 Survey Prices*

	<i>Current</i>	<i>Capital</i>	<i>Total</i>
1970–1	41·1	14·6	55·7
1971–2	42·9	15·2	58·1
1972–3	49·0	18·5	67·5
1973–4	52·8	19·9	72·7
1974–5	50·3	14·1	64·4
1975–6	53·3	19·3	72·6
1976–7	54·6	17·8	72·4

(Source: Cmnd. 6193)

The Government is shortly to establish a Youth Service Forum for England and Wales in which to discuss national policy for the Youth Service. It will be chaired by the Under-Secretary of State for Education and its membership will include representatives of local authority associations, voluntary youth organisations, and young people themselves (*Hansard*, 25th November 1976).

## (M) THE ARTS

### 1. GOVERNMENT EXPENDITURE

Total public expenditure on the Arts has risen from about £25·5 million in 1970–1 to £52·9 million in 1974–5.

Government support for the Arts is given to museums and galleries, the performing arts, and film and crafts; about half is paid by grant-in-aid to the Arts Council of Great Britain. The table below shows the Government grants to the Arts Council, and the grants included in the Arts Council budget for Scotland and Wales, the National Companies (Royal Operal House, Royal Ballet, English National Opera, National Theatre and Royal Shakespeare Company), and the English Regional Arts Associations.

Year	<i>Arts Council Grants</i>				
	<i>Total Arts Council grant-in-aid</i>	<i>To Scottish Arts Council</i>	<i>To Welsh Arts Council</i>	<i>To Regional Arts Associations in England</i>	<i>To National Companies</i>
	£ m	£ m	£ m	£ m	£ m
1970–1	9·3	1·06	·58	·31	2·88
1971–2	11·9	1·33	·96	·47	3·46
1972–3	13·7	1·42	·99	·78	3·46
1973–4	17·3	2·17	1·55	1·41	4·19
1974–5	21·3	2·42	1·89	1·79	5·77
1975–6	28·8	3·10	2·34	2·07	8·10
1976–7	37·1	4·32	2·75	2·50	8·72

In addition to the Arts Council, grants are made to the British Film Institute (£2·514 m. in 1976–7), and the Crafts Advisory Committee (£670,000 in 1976–7) (*Arts Council Annual Reports and Estimates*).

The Arts are particularly vulnerable to the effects of wage inflation because of the large number of people involved in producing certain art forms (e.g. theatre, opera, ballet) and, in addition, there have been steep increases in the cost of materials used for the Arts. Moreover, there is obviously less scope in art than in industry for countering the effects of inflation by improvements in productivity. The scale of increase in grant for 1976–7 reflects the critical impact of inflation on the Arts after two years of Labour government.

The Arts Council has over 1,200 clients and it is important that they should have early notice of the amount of grant available in each financial year. Under Labour since 1974, however, the Arts Council has received formal notice at later and later dates, sometimes after the start of the financial year.

The Conservative Party supports continued assistance for the Arts. *The Right Approach* states:



“We intend to publish a discussion paper on the problems facing all the arts, with a view to establishing a sensible framework for finance, training, and co-operation between public and private bodies.”

## **2. PUBLIC LENDING RIGHT**

The Public Lending Right Bill, which received a Second Reading in the Lords on 5th April 1976 and in the Commons on 27th May 1976, provides for the establishment of a public lending right in respect of books lent by public libraries, which would be based on the loan sampling method of determining each author's entitlement. The provisions of the Bill were criticised by Conservatives on the following grounds:

1. The definition of ‘books’ in the bill excluded a range of material in the form of recordings, tapes and video material.
2. The bill does not extend the Public Lending Right to reference books held in public libraries.
3. No provision is made for a Public Lending Right Advisory Committee.
4. £1 million p.a. was made available for the PLR. It would cost about £400,000 to administer the scheme, leaving only £600,000 for disbursement to authors in the first full year of operation.

In the Second Reading debate Mr St. John-Stevas said:

“It is the policy of the official Opposition to support the Bill ... the Bill has not only my assent but the assent of the entire Shadow Cabinet and the vast majority of the Parliamentary Conservative Party. Subject to its improvement in Committee along the lines I have suggested, I wish the Bill a speedy passage” (*Hansard*, 26th May 1976, Col. 584).

On 16th November 1976 the Bill, as amended by the House of Lords, was debated on Third Reading in the House of Commons. Although the Bill enjoyed all-party support and was a Government measure, the Government failed to muster sufficient backing from Labour MPs and decided to allow the Bill to lapse after 8½ hours of debate. The Government has not offered to bring forward another Bill in the present Session. Mr Michael Foot, Lord President of the Council, has said that the Government hopes that a Private Member's Bill will be introduced instead (*Hansard*, 25th November 1976, Col. 174).

## **3. IMPACT OF A WEALTH TAX ON THE NATIONAL HERITAGE**

The Government's proposals for a Wealth Tax have now been deferred (see p. 98). Nevertheless, Labour's plans still represent a serious threat to the future of our national artistic heritage which is already suffering severely from the existing burden of taxation.

The Government's Wealth Tax Green Paper (August 1976) recognises:

“the danger that the Wealth Tax could lead to the dispersal of the National Heritage: (the Government) intend to ensure that this does not happen and that instead our heritage becomes more readily available to the public generally. Accordingly any special arrangements which are made for historic houses or works of art etc. should be conditional on the house being open to the public or the work of art etc. being on public display.”

But in many cases this proposal would be ineffective since some houses are either inaccessible or difficult to open to the public, and many works of art in private hands are situated in small homes where public display would be inconvenient. Furthermore the valuation of works of art for wealth tax purposes might persuade some owners to ‘hide’ works of art which therefore would be less accessible to the public than they are now.

In November 1975 the First Report of the Select Committee on the Wealth Tax included a minority report prepared by Mr Maurice Macmillan, Mr Robin Cooke, and other Conservative MPs. On the National Heritage it proposed that:

1. Historic houses, their important contents and amenity lands should be treated as exempted objects. All that part of the heritage which is relieved of Capital Transfer Tax should be relieved of Wealth Tax.
2. Owners should be encouraged to set aside specific agricultural land or other assets to maintain their heritage assets.
3. Works of art and other valuable objects privately owned but not held in historic houses should not be subject to wealth tax except in cases where reasonable public access is unreasonably refused.

# 17. HEALTH AND SOCIAL SECURITY

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## Speaking Note

### **A Major Deterioration in the NHS under Labour**

- Nurses, consultants and junior doctors have all been provoked into industrial action.
- Emigration of doctors has increased and patient queues have grown longer.
- Cutbacks in hospital building—made necessary by inflation and by Labour's preference for spending on nationalisation and on indiscriminate subsidies—have further reduced morale and standards of health care.
- The rights of private patients and the independence of the medical profession are being curtailed.

### **The Poor have become Poorer under Labour**

- Inflation has greatly reduced the savings of the retired and those on fixed incomes.

- The Christmas Bonus for pensioners has been abolished.
- The poor are being taxed on a scale without precedent since the war.
- The disincentives to work have been increased and this is demoralising to those in employment.
- The full Child Benefit scheme, designed to reduce family poverty and based upon the Conservative Tax Credit plan, has been needlessly postponed although a Labour Minister has admitted that the level of support for families is now substantially below that obtaining under the last Conservative Government in 1970, 1971 and 1972.

**Conservatives will:**

- Provide greater stability in the NHS and better management.
- Protect the rights of all patients, both NHS and private, and safeguard medical independence.
- Develop community and voluntary services where they are cheaper and more humane than institutional care.
- Help safeguard the savings of all people, especially the retired, by giving first priority to reducing the rate of inflation.
- Abolish the earnings rule as circumstances allow.
- Reduce the disincentives to work and provide fairer treatment for families in employment.
- Introduce, as resources allow, a Tax Credit scheme to simplify the tax/welfare system and ease the poverty trap.

## **(A) PROBLEMS OF THE NATIONAL HEALTH SERVICE**

### **1. ORIGIN OF THE NHS**

Despite the persistent and misleading claims made by Socialist propagandists on behalf of the 1945–50 Labour Government, the basis of Britain's National Health Service was in reality laid by the war-time Coalition Government which published not only the Beveridge Report (Cmd. 6404) in 1942, but also two years later a White Paper (Cmd. 6502) containing proposals for a comprehensive national health service.

By June 1945 plans were sufficiently advanced for the then Prime Minister, Mr Churchill, to make the following pledge in his *Declaration of Policy to the Electors*:

“The health services of the country will be made available to all citizens. Everyone will contribute to the cost, and no one will be denied the attention, the treatment or the appliances he requires because he cannot afford them.

“We propose to create a comprehensive health service covering the whole range of medical treatment, from the general practitioner to the specialist, and from hospital to convalescence and rehabilitation, and to introduce legislation for this purpose in the new Parliament.”

In the event, it fell to the Labour Government to introduce the National Health Service Act 1946 to provide a comprehensive system of medical care available to all.

## **2. BEVERIDGE'S MISTAKEN FORECASTS OF EXPENDITURE**

The achievements of Britain's National Health Service in the last quarter of a century have in many respects been impressive. But from its inception it has had to face difficulties which the Beveridge Report did not anticipate. These have now become so serious that there is widespread anxiety about the Service's future.

Perhaps the gravest error of the Beveridge Report was its underestimate of the future demand upon, and therefore the cost of, a health service which is free at the point of use. Beveridge saw a comprehensive health and rehabilitation service as the “logical corollary” of provision of sickness and injury benefit, for such a service would reduce “the number of cases for which benefit is needed”, thus reducing the total cost of the benefit system. But, less justifiably, Beveridge also believed that as medical knowledge advanced the greater success of the health service in preventing and curing disease would mean that the demands made upon it would be reduced. On this assumption Beveridge estimated that expenditure on health and rehabilitation would still in 1965 be at roughly the level of his estimate for 1945—£170 million (at constant prices).

In the event, of course—even allowing for inflation—this prediction has proved wildly mistaken. By 1975–6 the cost of the NHS alone had reached £5,458 million (*Hansard*, 2nd November 1976, WA, Col. 551). According to Dr David Owen, then Minister of Health and Social Security, between 1949 and 1974 the volume of resources used by the NHS doubled; the NHS's share of GNP rose from 4 per cent to 5.3 per cent; and the number of NHS staff in England rose by 75 per cent (Reading, 2nd April 1976).

The paradox is that these vast increases in financial and human resources have not produced a corresponding increase in standards of health care. The waiting lists which exist for all non-urgent operations, some of them stretching for years ahead, are now larger than at any time since 1948; there is a serious shortage of geriatric beds; and many of our hospitals are old fashioned and inadequate.

## **3. RISING DEMAND**

The main explanation for the continuing inadequacy of the health service is that, although resources have risen fast, the demands upon the service and the cost of providing for them has risen even faster. There are four main reasons for this:

- (1) Beveridge failed to foresee that making the health service largely free at the point of use was bound to encourage much greater reliance on its facilities.
- (2) While many of the medical techniques developed since the war have made it possible to effect cures both more swiftly and more effectively, the financial savings

accruing from the earlier discharge of patients from hospital have been more than offset by the very high cost of the new drugs and medical equipment involved. Extra expense, too, has been incurred because improved medical techniques have made it possible to cure both serious and minor ailments for which in the past doctors were unable to provide treatment.

(3) As old needs have been met, new or neglected ones have been uncovered. It is instructive to note that in the Manifestos of both major parties in 1964 there was virtually no mention of the needs of the disabled. This was not due to callousness, but to widespread ignorance of a problem which must always have existed, yet has only fairly recently begun to receive the attention it deserves. It seems reasonable to assume that there are other groups at present neglected whose needs will become apparent in the years ahead.

(4) But the most important factor behind rising demand is that population changes have moved very dramatically against the NHS. One of the most significant issues of our times is the growing number of elderly people, often handicapped, which means that the health service must continually expand in terms of staff numbers and in terms of public expenditure merely to maintain existing standards.

The number of people over retirement age in the UK has risen as follows:

1901 2.4 million

1951 6.9 million

1974 9.5 million

Within this fourfold increase there is concealed a further significant development. Those aged 75 or over naturally take a higher proportion of NHS expenditure, and their numbers have increased from 1.8 million in 1951 to 2.8 million in 1974, with a predicted further increase to 3.6 million by the end of the century (*Social Trends* 1975).

Already some 40 per cent of all NHS beds are occupied by those aged 65 and over (22 per cent by those aged 75 and over) although they represent only 13 per cent of the population as a whole. The Government has estimated that the increasing number of elderly patients will mean that an annual growth in NHS resources of about 1 per cent over the next 5 years will be required merely to maintain current levels of service (Dr Owen, *ibid*; and *Hansard*, 29th June 1976, WA, Col. 121).

## 4. FINANCING THE HEALTH SERVICES

The table below shows the sources of finance for the health and personal social services in Great Britain 1973–4:

	<i>£ million</i>
<i>Central Government Services</i>	2,859
Consolidated Fund	2,519
NHS contributions	226

	<b>£ million</b>
Charges to recipients	99
Miscellaneous	15
<i>Local Authority Services</i>	<i>744</i>
Rates and Consolidated Fund Grants	677
Charges to recipients	67
<i>All Services</i>	<i>3,603</i>

*(Health and Personal Social Services Statistics, 1975)*

As can be seen, charges for services form a minute fraction of total revenue and even the NHS contributions (which in turn come out of the National Insurance contributions) are relatively small. In essence, the health service is financed out of general taxation.

The problem of finding sufficient resources to meet the ever rising demand described above has been made more acute by the present economic crisis. It is now more urgent than ever to examine alternative sources of finance for the NHS. *The Right Approach* states:

“The Royal Commission on the Health Service should be looking at other ways of increasing the funds available to the service, including systems of health service that exist in other countries.”

Conservatives, therefore, welcome the fact that Sir Alec Merrison, Chairman of the Royal Commission (see also p. 414), has made it clear that new forms of finance will be studied (*The Task of the Commission*, HMSO, October 1976).

**Foreign Comparisons.** The experience of foreign countries demonstrates both the obstacles and the opportunities for raising a greater proportion of revenue for the NHS from sources other than general taxation.

Most European countries accept that it would be wrong to make charges upon certain categories of patient, including the mentally ill, the mentally handicapped, geriatric patients, the younger disabled and the very poor. Since in all European countries these categories comprise a very high proportion of the total number of patients this imposes significant restrictions on the money that can be raised in this way. Nonetheless, unlike Britain, most European nations do have a significant proportion of their health service expenditure raised from sources other than taxation. In Germany, for example, 88 per cent of the population are compulsorily insured.

Mr Patrick Jenkin, Conservative spokesman on the Social Services, has expressed the hope that:

“They (the Royal Commission) will ask themselves this question—‘Britain is the only country in the world which runs a highly centralised health system, financed largely by taxation, which is free at the point of service. Britain is the only advanced country in the world where patients have to face the torments of the waiting list. Is this pure coincidence, or is there a link?’

“Madame Calvet of Calais, Frau Kohl of Cologne, Mrs Cooley of Cork—they can all get their varicose veins treated within days or at least within a week or two. Mrs Cartwright of Cambridge may have to wait months or even years. Why?”

“If the Royal Commission can come up with the answer to this conundrum, they will have done more for patients than almost any other thing they could do” (*Wisbech*, 22nd October 1976).

## **(B) CONSERVATIVE RECORD IN HEALTH AND WELFARE**

Increased economic growth under the last Conservative Government helped it to give greater support than ever before to the health and welfare services. As Sir Keith Joseph, then Secretary of State for the Social Services, pointed out at the 1973 Conservative Party Conference:

“The real buying power of the National Health Service and the local authority Social Service Departments in our current four years, is rising from year to year at a rate 40 per cent higher than it was in Labour's central four years, year by year. In other words, we are spending more in real terms than Labour ever managed to do” (*Blackpool*, 12th October 1973).

High priority was given to building new hospitals and improving existing ones. The capital programme for hospitals and community health services was higher in real terms in each year of Conservative government than in any of the years of the Labour Government of 1964–70. And the Conservatives massively expanded the personal social services, increasing expenditure by 48 per cent in real terms, between 1970 and 1974.

Special emphasis in these spending programmes was placed on areas of previous neglect, the “Cinderella” sectors of the health service—providing greater care whether in hospital or within the community for the elderly, the mentally ill and handicapped, the physically disabled and the chronic sick.

In 1971 the Government issued a White Paper, *Better Services for the Mentally Handicapped* (Cmnd. 4683), which strongly supported the development of local authority provision for the mentally handicapped and their integration with the community. Between 1970–4 the number of homes and hostels for the mentally handicapped provided by local authorities in England rose from 229 to 339, providing 6,473 places in all. In 1972 the Government set up a £3 million fund to help parents of very severely congenitally handicapped children to be administered by the Joseph Rowntree Memorial Trust; those eligible for help are parents of children under 16 who are very severely congenitally disabled, physically or mentally, either before, during or immediately after birth.

Sir Keith Joseph summarised the achievements of the Conservatives:



“We are doubling the number of home helps ... this decade. One-third more meals-on-wheels are being served this year than 3 years ago. There are 30,000 more nurses in our first 2 years of office compared with only a third of that number in Labour's last 2 years...

“We are beginning to improve the hospitals, the staffing and the conditions within them. We are beginning to provide a network of community and voluntary services for them ... we are trying our best ... to bring help to the less glamorous afflicted people in our community” (Blackpool, 12th October 1973).

## **(C) LABOUR'S MISMANAGEMENT OF THE NHS**

While the NHS has faced difficulties under governments of both major Parties (see p. 407–8), the charge against Labour is that its economic policies have caused immense damage to the social services, resulting in an unnecessary crisis of confidence in the NHS.

### **1. INFLATION AND REDUCED SPENDING**

The mishandling of the economy since March 1974 and the unleashing of massive wage inflation meant that labour-intensive organisations like the NHS had to use ever more financial resources in order to stand still. When the former Secretary of State, Mrs Castle, claimed that the proportion of GNP spent “on the NHS last year (rose) from 4.92 per cent to 5.41 per cent” (Official Statement, 18th October 1975) she was claiming credit for very little. As was pointed out two months earlier in the Government's own pamphlet *Attack on Inflation—A Policy for Survival*:

“£600 million extra was provided by the Government in the last financial year for the health services. But no extra hospital was built as a result of this money. Virtually every penny had to go to meet rising costs.”

Indeed, the capital programme for hospitals and community health services has fallen dramatically since Labour came to office and is due to be reduced still further as the table below clearly indicates:

#### Capital Expenditure on Hospital and Community Health Services

<i>Conservative</i>	<i>£m</i>
1970–1	349
1971–2	388
1972–3	460
1973–4	457
<i>Labour</i>	
1974–5	371
1975–6	378

1976–7	329
1977–8	300
1978–9	299

(All figures at 1975 Survey Prices. *Cmnd.* 6393, February 1976)

In addition, Mr Healey has announced further cuts of £30 million in 1977–8 in the capital expenditure programme of the NHS and local authority personal social services (*Hansard*, 22nd July 1976, Col. 2016; and 15th December 1976, Cols. 1557–8).

**Conservative Policy.** While Conservatives accept the need, at a time of economic crisis, for reductions in capital expenditure on the health service, they strongly oppose Labour's priorities which have led the Government massively to reduce spending in the heartland of the Welfare State, but to continue with high spending on their doctrinaire programme of nationalisation. Conservatives also believe that the Government's financial priorities *within* the health service are mistaken: it is surely wrong at a time when the Government is having to reduce its financial support to the NHS to insist on phasing out pay beds at a cost to the Service of £30–£40 million a year.

Future Conservative policy on NHS expenditure was outlined by Mr Patrick Jenkin on 12th October 1976:

“In the consideration of public expenditure which we on this side of the House are giving, we are not currently looking for further cuts in spending in this area. It is true that we have in mind charges, as I am sure, does the Secretary of State ... But at the moment we are not looking for cuts. The National Health Service needs all the resources that it can get” (*Hansard*, 12th October 1976, Col. 286).

## 2. INDUSTRIAL ACTION

Labour has also provoked continued industrial action within the NHS by pursuing incompetent and divisive policies. In 1974 the nurses took industrial action because the Labour Government refused an inquiry into their pay (which was later conceded). In 1975–6 the dogmatic attack on independent medicine (see p. 414) provoked a major confrontation with the doctors and Royal Colleges. And in November 1975 it was the turn of the junior hospital doctors who took industrial action because they claimed (rightly as it turned out) that in renegotiating their contract of service the Government had underestimated the amount of overtime that was worked.

There have also been frequent stoppages by ancillary staff. These have included lightning strikes against the use of pay beds in NHS hospitals as well as against cuts in health service expenditure. Strike action in the health service whether by doctors or others inevitably harms patients and has been consistently condemned by Conservatives.

## 3. REALLOCATION OF NHS RESOURCES

In May 1975 the Government appointed a Resources Allocation Working Party (RAWP) to “review the arrangements for distributing NHS capital and revenue to Regional Health Authorities, Area Health Authorities and Districts respectively with a view to establishing a method of securing, as soon as practicable, a pattern of distribution responsive objectively, equitably, and efficiently, to relative need”. RAWP produced an interim report in August 1975 which made a number of suggestions about how some degree of greater equalisation in resources could be achieved in 1976–7. In February 1976 the Government made clear that it had adopted a number of these when it announced the final allocations to the Regional Health Authorities in the forthcoming financial year.

RAWP's final report, which was presented in September 1976, recommended that a much larger share of available resources be given to the North-Western, Trent, Northern, Yorkshire, Wessex, and West Midlands regions; and also that there be a rather smaller increase in the share of the South-Western, East Anglia and Mersey regions. These increases would be at the expense of the four South-Eastern regions—North-East, North-West, South-East, and South-West Thames—and the Oxford region.

Combined with general cutbacks in planned NHS expenditure (see p. 410–11) these proposals have inspired fears of possible hospital closures, including nationally known teaching hospitals, throughout London and the South-East. Conservatives believe it is right that resources be more evenly distributed throughout the country; but, at a time of shrinking resources, redistribution must proceed carefully and gradually if disruption and hardship are to be avoided. As Mr Patrick Jenkin has said:

“The difficulties (have) become so intense that the Government must think again. The resource allocation exercise, though right in principle, is much too fast. The Government must take account of the very real cries of woe from areas within the four Thames regions” (*Hansard*, 25th November 1976, Col. 314).

## 4. WORSENING STANDARDS OF HEALTH CARE

The consequences of Labour's mismanagement of the NHS have been a serious fall in morale, and a worsening in the standards of health care for all patients. This is reflected in:

(1) **An Increase in Hospital Waiting Lists.** The number of patients in England awaiting admissions to NHS hospitals rose from 509,000 in 1973 to over 580,000 in 1975, the highest figure since 1948 (*Source*: DHSS Annual Reports).

(2) **A Higher net Outflow of Doctors born in Eire and the UK.** Provisional figures indicate that in 1974–5, 1,000 doctors left the UK and only 550 returned—i.e., a net outflow of 450, which the country can ill afford and is higher than in any of the 4 previous years (*Hansard*, 29th June 1976, Col. 171). With the free movement of doctors between member states of the EEC, which came into force on 19th December 1976, the situation may worsen unless confidence in the NHS is restored.

As the Review Body on Doctors' and Dentists' Remuneration concluded in May 1976 (Cmnd. 6473):

“Since 1972–3, the net outflow of UK and Irish-born doctors has increased substantially and, in the last 2 years, has more than doubled ... Although the total complement of UK and Irish-born doctors continues to increase slightly each year as the number of graduates from medical schools rises as a result of the 1969 expansion programme, the continued increase in the number of UK-born doctors who leave this country and do not return is a disturbing trend”.

Against this background it was somewhat strange of Mrs Barbara Castle to claim that she was sacked by the Prime Minister in April 1976 because he was a male chauvinist rather than through any fault of her own (*Woman*, 28th September 1976). Others may think differently.

## **(D) ADMINISTRATIVE STRUCTURE OF THE NHS**

### **1. REORGANISATION**

The National Health Service Reorganisation Act 1973 (which applied to England and Wales) replaced the former complicated structure of Hospital Boards and Management Committees, Executive Councils and Local Authority Committees with a unified administration responsible for the total health care of the community in each area. New administrative bodies were established at regional, area and community level:

#### *(1) Regional Health Authorities*

There are 14 Regional Health Authorities in England, with boundaries approximately the same as the previous Regional Hospital Boards. The Regional Authorities are responsible for major planning decisions and co-ordination between areas, for the general supervision and allocation of resources in hospital and community health services, and for provision of certain services too specialised to be provided by individual areas.

#### *(2) Area Health Authorities*

There are some 90 Area Health Authorities in England and 8 in Wales. They are the key units of the new service, and have the duty of identifying health needs and, through their constituent districts, based on district general hospitals, of organising resources and meeting those needs.

#### *(3) Community Health Councils*

Community Health Councils are being established for each area, or part of an area, covered by an Area Health Authority. These Councils represent a mechanism by

which the public, as users of the services, can make their voice effectively heard. The Act laid down that half a council's members will be appointed by local authorities, one-third by voluntary organisations with an interest in the Health Service, and the remainder by the Regional Health Authorities.

## **2. FUTURE CONSERVATIVE POLICY**

The Health Service clearly requires a period of stability and competent administration, but this is not to argue for ossification. Although reorganisation was praised by Mrs Castle as providing “an improved administrative framework within which it is now possible to look at priorities more comprehensively and to plan the allocation of resources more effectively both at local and national levels” (*Prevention and Health*, a consultative document issued in March 1976), further changes in the light of experience are still needed. As Mr Jenkin told the Institute of Health Service Administrators:

“It is often argued that there are too many tiers, and that it takes far too long to reach decisions. There is mounting criticism of the detailed day-to-day interference by the Department of Health and Social Security.

“A Conservative government would be very ready to encourage Health Authorities to experiment with changes in their own Regions and Areas. I have never seen why all parts of the country should have a uniform pattern imposed on them, or even why health boundaries should necessarily always be co-terminous with local authority boundaries.

“In some parts of the country, it may be possible to eliminate a management tier, or to break down an Area into smaller Districts. In others, it may be possible to devise clearer lines of responsibility and to avoid duplication of responsibility ...

“Perhaps most important of all, there is urgent need to look very hard at the DHSS itself...

“... the concept of devolving much more direct operating responsibility on the Regions or Areas, leaving the Secretary of State answerable to Parliament for funding the service, allocating resources, setting objectives and monitoring performance, is one to which I am greatly attracted” (Southborough, Kent, 18th September 1976).

The need to secure further improvements in the administration of the health service is another reason why Conservatives have welcomed the announcement by the Prime Minister (20th October 1975) of a Royal Commission to examine the financial and manpower resources of the NHS (see also p. 408), although, as **Mrs Thatcher** pointed out, it was absurd not to refer the abolition of pay beds to the Royal Commission when this was the most contentious issue of all (*Hansard*, 20th October 1975, Cols. 35–38).

## **(E) PRIVATE MEDICINE**

# 1. LABOUR'S ATTACK

**Labour's Initial Proposals.** On 11th August 1975 the Government issued a Consultative Document, *The Separation of Private Practice from NHS Hospitals*, which proposed the complete abolition of pay beds in NHS hospitals (which total about 4,500 in Great Britain) and a new licensing system to control the total amount of private medical treatment. This quantitative control was designed to ensure that private medical care would not be allowed to grow beyond that “which obtained within and outside the NHS in March 1974”.

The Consultative Document provoked a powerful reaction. In a Memorandum of 25th September 1975, the BMA Council, nine Royal Colleges, the Junior Hospital Doctors Association and other professional bodies unanimously condemned the Government's proposals as unsound and a threat to fundamental freedoms.

**The Health Services Act 1976.** Under pressure from the doctors and the Conservative Opposition, the Government came forward with a modified scheme which was incorporated in the Health Services Act and provides for:

- (1) The abolition of 1,000 pay beds within a 6-month period and abolition of all other beds as and when alternative private medical facilities become available.
- (2) The implementation if practicable of common waiting lists to NHS hospitals.
- (3) A Health Services Board, from which authorisation will be needed before new private hospitals of over 75 beds (100 in Greater London) can be built.

In the Second Reading debate on 27th April 1976 Mr Jenkin emphasized that the retention of NHS pay beds was part of the original agreement reached between government and doctors when the health service was created. Furthermore, at a time when the Government is having to reduce spending on the health services, the abolition of pay beds means that Labour is needlessly throwing away revenue of between £30–£40 million a year.

Pay bed revenue in England alone in 1976–7 was estimated by the Government at £23 million (*Hansard*, 27th April 1976, Col. 326). Moreover, a large number of part-time consultants will be forced to work on a full-time basis once pay beds are eliminated. The annual cost of all part-time consultants taking up whole-time employment would be about £13 million per annum in England and Wales (*Hansard*, 9th December 1975, WA, Cols. 163–4).

Taking up whole-time contracts will mean a fall in their income for many consultants and this is bound to increase the already high emigration of doctors. Another important factor is that at present a part-time consultant can treat both his NHS and private patients under the same roof. Once pay beds are abolished any consultant who still undertakes some part-time work may have to spend a considerable time each day travelling between his private patients in one hospital and NHS patients in another. The total time he can devote to medical care will be considerably reduced.

A final absurdity is that the Government is retaining pay beds for foreigners. As Mr Jenkin asked the former Secretary of State, Mrs Castle:

“Will she now explain why it is immoral for the British to be in pay beds but perfectly all right for Arab Sheikhs?” (*Hansard*, 23rd March 1976, Col. 193).

**Further Socialist Measures.** Since April 1976 the Government has taxed employees for belonging to private medical schemes operated by their employers. Clearly this measure is designed to discourage firms from providing for their employees, although such provision should be encouraged as a means of obtaining better employer/employee relations and relieving the strain on the NHS.

Labour's ultimate aim is a State monopoly. At Labour's 1971 Party Conference a resolution was passed unanimously calling for the abolition of private medical schemes and requiring all private nursing homes to be brought within the National Health Service. This policy was subsequently reaffirmed at Labour's Party Conferences in 1975 and 1976, as well as at the TUC Conference in 1976.

## **2. CONSERVATIVE POLICY**

*The Right Approach* states that, precisely because the National Health Service is short of funds for priority tasks, private medical provision should be encouraged not deterred. Increasing numbers of people have shown that they are ready to provide for themselves—private medical insurance has doubled and redoubled over the last 20 years—and the Conservatives will aim to encourage this trend.

Mr Jenkin has promised that:

“A future Conservative Government will therefore reverse the policy of phasing out pay beds. We want to keep the best consultants in the National Health Service and not drive them out. We want to increase the flow of money to the National Health Service hospitals, not to reduce it. We want to ensure that the best care for all National Health Service patients is available in National Health Service hospitals” (*Hansard*, 13th October 1976, Col. 567).

He has also suggested that pay bed revenue should be paid specifically to the hospital concerned and should be spent on identifiable projects or items of equipment so that the benefit of pay beds to the NHS is identified more clearly and openly (*Hansard*, 27th April 1976, Col. 233).

Conservatives see no reason why there should be quantitative controls over the private sector outside the National Health Service. Moreover, as *The Right Approach* states:

“We are examining ways of providing greater financial incentives to employer-employee medical insurance schemes, for example by restoring income-tax relief”.

## **(F) COMMUNITY CARE**

Since the implementation of the Local Authority Social Services Act 1970, these services have been administered by Social Service Departments, each of which is headed by a Director of Social Services.

Under the last Conservative Government good progress was made in matching resources to demand, especially that created by the Chronically Sick and Disabled Persons Act 1970. This was confirmed by Dr Owen, then Minister of State, Department of Health and Social Security, when he told Parliament:

“I need hardly remind the House how rapid has been the expansion of expenditure in real terms in social services over the past few years. In real terms, the growth was 11 per cent in 1971–2, was 17 per cent from 1971–2 to 1972–3, and is estimated at 15 per cent from 1972–3 to 1973–4” (*Hansard*, 1st November 1974, Col. 643).

The Labour Government, however, has engineered an abrupt reversal of this growth. Total real expenditure in 1976–7, in 1977–8 and in 1978–9 is now planned to be less than in 1975–6 (*Public Expenditure White Paper*, Cmnd. 6393, February 1976). No other sector of the Welfare State, after growing so quickly, has had its expectations cut back so sharply.

The practical consequences of the Government's policy were well illustrated by a survey of 116 Social Service Departments by the British Association of Social Workers (BASW), which found that up to 150 homes for children, the elderly and the mentally handicapped could remain empty or be closed in 1976–7, and expenditure on home helps, meals-on-wheels and aids for the disabled was also likely to be cut (*Social Work Today*, 8th January 1976). A second survey published in October 1976, also carried out by BASW, confirmed that the cuts were falling particularly heavily on care for the mentally disordered, as well as on voluntary organizations and aids for the disabled.

## **2. CONSERVATIVE PRIORITIES**

Mr Jenkin has called upon the Government to take a fresh look at their Social Service priorities:

“Where is the sense, for instance, in forcing councils to cut back on services for children in care while cheerfully finding more money to subsidise the price of school meals—a subsidy which by definition gives no extra help to the poorest, for they get free school meals already?

“Where is the sense in subsidising council rents indiscriminately if in consequence you have no money for special housing for the physically handicapped?

“Where is the sense in spending hundreds of millions on general food subsidies while cutting back on meals-on-wheels for the very old?

“There is neither logic nor compassion in such priorities.



“They are the result of the so-called Social Contract with the Trade Unions who, quite naturally, are more concerned with the welfare of well-heeled trade unionists than with the needs of disadvantaged children, or the handicapped, or the very old. ...

“You may properly ask, ‘What will be the attitude of a Conservative Government to levels of spending on personal social services? Will you have to face further cuts?’

“Obviously, I cannot commit a future Conservative Chancellor of the Exchequer, whose decisions must depend on the situation as we find it. But what I can say is this.

“My colleagues and I are very well aware of the severe constraints on Local Authorities' personal social services spending.

“We recognise, too, the developing needs of our community. While we certainly are looking for major economies in public expenditure as a whole—essential to reduce Public Sector Borrowing Requirement, and lessen the burden of debt interest—our present intention is to look at other areas where current levels of spending have less justification” (Speech to Kent County Council Conference, 10th September 1976).

**Voluntary Services.** Conservatives believe that not only the State but also the community has a role to play in helping the disadvantaged, and the Party strongly supports the valuable social work performed by Church organisations and voluntary services. The last Conservative Government encouraged the development of closer working links between statutory and voluntary services in the health and social security field.

Voluntary societies are often less bureaucratic, more personal and more flexible than their statutory counterparts. They are also frequently cheaper and are, therefore, more important than ever at a time when statutory authorities are short of funds. Consequently, Mr Jenkin has appealed to local authorities to recognise that “this is not the moment to cut grants to voluntary agencies” (Bradford, 26th March 1976).

It is of interest that Mr Terry Bamford, Assistant General Secretary of the British Association of Social Workers, has written that:

“Conservative thinking on social services appears more sophisticated and, in some ways, more innovative than that of the other two parties” (*Social Work Today*, 12th October 1976).

## **(G) HEALTH SERVICE CHARGES**

### **1. PRESENT LEVEL OF CHARGES**

Since 1971–2 the charge per item on a prescription form has remained at 20p. In January 1976 the maximum charge for a course of dental treatment, excluding dentures, was raised to £3.50; and for single-vision lens a new charge of £2.25 for each lens was introduced.

Exemption from all prescription and dental charges and from most optical charges is given to children under 16; those in receipt of supplementary benefit or family income supplement; and those on low incomes. In addition, there are exemptions from:

(1) *Prescription charges*—for men and women over retirement age, people suffering from specific medical conditions, and war or service disabled, expectant mothers and mothers with a child under one year old.

(2) *Dental charges*—for older children still full-time at school (but not at further education establishments), young people between 16 and 21 who have left school (except for dentures and alterations to dentures), expectant mothers and mothers with a child under one year old.

(3) *Optical charges*—for older children still full-time at school (but not at technical colleges or other further education establishments) provided standard NHS lenses are used in NHS frames from the children's standard range.

## 2. LABOUR'S HYPOCRISY

Labour's official policy on charges has once again been contradicted by their action in government.

On 28th March 1974 Mrs Castle proclaimed that “our goal is a free health service” (*Hansard*, Col. 650) and Labour's October 1974 Manifesto praised the Labour Government for “freezing the level of dental charges for patients”. This was despite the fact that prescription, dental and optical charges are an important source of revenue—bringing in £78 million in Great Britain, in 1973–4.

However, this policy was soon to be reversed. On 20th November 1975 Mrs Castle announced higher optical and dental charges to take effect from 1st January 1976, bringing in an extra £16 million a year; and on 22nd July 1976 Mr Healey announced that they would be increased again in 1977–8 to provide a further £20 million a year.

**Crash Tax.** Mr Healey also outlined proposals for obtaining £20 million in 1977–8—£40 million in a full year—by recouping from motorists (through their insurance companies) the full cost to the NHS of treating road accident patients (*Hansard*, 22nd July 1976, Col. 2016).

Contrary to what had been expected, this proposal is not a form of insurance. It is quite simply a flat-rate tax on motor vehicles, irrespective of type, to be collected from insurance companies (Mr Ennals, Press Statement, 14th October 1976). The RAC has estimated that, in a full year, this will add an average of £3 to each premium.

Mr Jenkin attacked the scheme in a statement on 15th October 1976 on the grounds that:

1. It has nothing to do with the Health Service, as the crash tax is not related to the cost of treating individual cases.
2. It will fall indiscriminately on guilty and innocent drivers alike.

3. There will be a new bureaucracy to collect the tax—both in the insurance industry and the DHSS.

As Mr Jenkin put it to the Government in the Debate on the Queen's Speech:

“If as a matter of policy they have decided that that must be part of the tax increases necessary to bridge the Budget deficit and that they need to put more of that burden on the motorist, why cannot they add another £3 to vehicle excise duty? That would have exactly the same financial effect and would not require extra staff for collection or add an extra penny to the cost of collection” (*Hansard*, 25th November 1976, Cols. 308–9).

## **(H) MENTAL HEALTH**

The last Conservative Government laid particular emphasis on improving hospital services for the mentally ill and the mentally handicapped and in building up community care facilities. This development was advocated in the White Paper, *Better Services for the Mentally Handicapped* (Cmnd. 4683), published in 1971.

For the mentally ill the intention was for the specialist mental illness hospitals to be gradually phased out and replaced by psychiatric units in district general hospitals, day centres and residential accommodation.

On 16th October 1975 the Labour Government published a White Paper, *Better Services for the Mentally Ill* (Cmnd. 6233), which endorsed this aim and set out guidelines for health and local authorities. The Government, however, is giving greater priority to the abolition of pay beds, at a cost of £30 million–£40 million per annum, so that the funds needed to implement the capital development set out in the White Paper—£38 million per annum—are not available and there will be virtually no progress.

## **(I) MISCELLANEOUS HEALTH MATTERS**

### **1. ABORTION**

The Abortion Act 1967 originated as a Private Member's Bill introduced in 1966 by Mr David Steel, Liberal MP for Roxburgh, Selkirk and Peebles. The Act permits the medical termination of pregnancy on the following grounds:

1. That the continuation of the pregnancy would involve risk to the life of the pregnant woman, or of injury to the physical or mental health of the pregnant woman or any existing children of her family, greater than if the pregnancy were terminated; or
2. That there is substantial risk that if the child were born it would suffer from such physical or mental abnormalities as to be seriously handicapped.

In February 1971 the Secretary of State for the Social Services, Sir Keith Joseph, said:

“While the Act has operated to the benefit of many people, there is cause for real concern about the way in which certain of its provisions are working in practice” (*Hansard*, 23rd February 1971 Col. 313).

He therefore announced the setting up of a Committee under Mrs Justice Lane to review the working of the 1967 Act. The Committee was expressly charged not to concern itself with the principles underlying the Act.

The Committee reported in April 1974 (Cmnd. 5579) and made a number of recommendations to tighten up the existing rules. While the Government was still considering what action to take a Private Member's Bill, the Abortion (Amendment) Bill was introduced by Mr James White, Labour MP (for Glasgow, Pollok) and received a Second Reading on 7th February 1975 by 203 votes to 88. It was then referred to a Select Committee. The Bill subsequently lapsed at the end of the 1974–5 Session but, as is possible under Parliamentary procedure, the Select Committee continued in being.

The Select Committee's Third Special Report contained recommendations which largely coincided with those of the Lane Committee and on 21st October 1975 the Secretary of State for Social Services made a statement to the House of Commons accepting all the Select Committee recommendations.

The main points were as follows:

- i. Only private nursing homes with adequate facilities would be authorised to carry out abortions after the twentieth week of pregnancy.
- ii. A review would be carried out of the arrangements made by nursing homes for the reception, counselling and after care of foreign patients.
- iii. A list of approved bureaux would be drawn up and the Government would not approve clinics which accepted patients from unlisted bureaux.
- iv. Doctors who certified that the conditions of the Abortion Act were met in a particular case would be required to examine the patient.

## **2. FLUORIDATION**

Under the National Health Service Reorganisation Act 1973 the Secretary of State is empowered to make regulations delegating responsibility for fluoridation to Area Health Authorities. (Previously this was a local government responsibility.) What normally happens is that proposals for adding fluoride—which is a natural constituent of water and is in some areas already at a level to fight dental decay—are initiated by Area Health Authorities and are made to Water Authorities, who then introduce fluoride under the Water Act 1945.

The addition of minute traces of fluoride to water in areas which lack it, as a means of combating dental decay, has been strongly endorsed by the Royal College of Physicians in the report *Fluoride, Teeth and Health* (January 1976). But since this is still a matter of some controversy, successive British Governments have left it to the

discretion of individual Area Health Authorities to decide on the action appropriate in their area.

## **(J) THE MAIN SOCIAL SECURITY PROBLEMS**

As stated in *The Right Approach*, Conservatives will continue to concentrate on the needs of the retired, the disabled, the sick and the very poor. It is clear, however, that there is a number of problems concerning the Social Security system on which urgent action is needed. First, there is something wrong with a system under which it is possible for a growing number of families either to be better off by not working or to have no incentive to earn more. For these families any increase in earnings is cancelled out by a combination of increased taxation and loss of means-tested benefits like rent or rate rebates and free school meals. Second, it is wrong that many of those who really need help are not getting it either because they dislike the idea of being means-tested and therefore do not apply for benefit, or because they are not aware of their rights.

The lack of incentive to work or to earn more has until recently affected only a very few families where there are several children and earnings are low; but more and more families are now finding that the incentive to work and earn more is being steadily reduced. The main reason for this is that Labour have doubled the level of public spending which in turn has meant excessive taxation of people in work. Thus about one million low-earners have been drawn into the Income-Tax net for the first time. In 1976–7 the absurd situation was reached whereby people whose income was *below* the supplementary benefit level were liable for tax (see also Chapter 4). As *The Right Approach* points out: “In the shorter term, this problem will only be solved by raising the tax threshold and reducing the basic rate of tax. There is also a strong case for taxing short-term benefits, as Labour originally intended thirty years ago”.

But in the longer term the most effective solution lies in the adoption of a Tax Credit scheme on the lines of the proposals published by the Conservatives in 1972. Such a scheme would ensure that extra help was provided automatically to those in need, thus remedying one disadvantage of the present system—that many people do not apply for the help they need—as well as ending the unacceptable situation where for many families there is no incentive to earn more or indeed to work at all.

There is also the question of the position of the self-employed under the National Insurance Scheme. The various ways in which the Labour Government have discriminated against the self-employed, who include small traders and shopkeepers, are discussed in Chapter 7. As stated in *The Right Approach*:

“Labour have also discriminated against the self-employed for whom social security arrangements, in respect of both contributions paid and benefits received, are thoroughly unsatisfactory. We intend as resources permit to do everything possible to meet the legitimate grievances of self-employed people in all sectors of the community. Their contribution to the economy is invaluable and their independence is essential to a balanced society”.

## **(K) IMPROVEMENTS IN SOCIAL BENEFITS, 1970–4**

Pensions and all other main benefits were increased three times by the last Conservative Government. After the third increase in October 1973 their purchasing power had gone up by over 14 per cent, which was more than the improvement in the previous six years of Labour Government and broadly in line with the increase in average earnings.

**Six New Benefits** were introduced to help over 2 million people most in need who previously got either inadequate help or no help at all. These were:

1. Pensions for over 80s who previously got no pensions as of right.
2. An extra 25p a week (50p for a married couple) on top of the normal retirement pension for those who had reached the age of 80.
3. A special invalidity allowance for chronic sick wage earners and their families.
4. Special tax free allowances for the very seriously disabled needing a good deal of attention.
5. Sliding scale pensions for women widowed between the ages of 40 and 50.
6. A special Family Income Supplement to help low wage-earning families with children including one child families.

**An Annual Review.** Pensions and benefits were reviewed every year instead of every two years as under the previous Labour Government. The Social Security Act 1973 gave statutory backing to an annual review.

**Second Pensions Scheme.** The Social Security Act 1973 provided that all employed people would have a second pension on top of the basic state pension. This second pension was to be provided mostly through occupational schemes but there was to be a reserve state scheme for those not covered by a scheme run by their firm.

**Tax Credits.** In 1972 comprehensive proposals for a Tax Credit scheme were published (see p. 431). These proposals would have brought more help automatically, without the need for individual application and means-testing, to pensioners and poorer families and at the same time would have increased incentives to work and to earn more.

## **(L) RECENT CHANGES IN PENSIONS AND BENEFITS**

The following table shows the increases in the main national insurance benefits, together with similar increases in industrial injuries benefits which were incorporated into the main National Insurance Scheme as from April 1975, and in war pensions since the Conservative Government's increases of October 1973.

	<i>(Weekly Rates)</i>				
	<b>October 1973</b>	<b>July 1974</b>	<b>April 1975</b>	<b>November 1975</b>	<b>November 1976</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<i>Retirement Pension*, Widow's Pension, Invalidity Pension†</i>					
Single	7.75	10.00	11.60	13.30	15.30
Married couple	12.50	16.00	18.50	21.20	24.50
<i>Unemployment and Sickness Benefit</i>					
Single	7.35	8.60	9.80	11.10	12.90
Married couple	11.90	13.90	15.90	18.00	20.90
<i>Injury Benefit</i>	10.10	11.35	12.55	13.85	15.65
<i>Disablement Benefit (100% assessment)</i>	12.80	16.40	19.00	21.80	25.00
<i>War Widow's Pension (Standard rate)</i>	10.10	13.00	15.00	17.20	19.80
<i>War Disabled Pension (100% assessment)</i>	12.80	16.40	19.00	21.80	25.00

\* If the pensioner or his wife is 80 or over, an age addition of 25p is also payable.

† Paid after the first six months of illness.

These increases in National Insurance benefits have been accompanied by increases in the weekly contributions and in the grant to the scheme from the Exchequer. However, the extra £910 million burden on employers due to start in April 1977 under the guise of an increase in the employers' contribution has nothing to do with paying for increased benefits (see p. 100).

**Supplementary Benefit.** The Supplementary Benefits scheme provides that anyone whose weekly income, after allowing for "disregards" (certain items of income or savings which are not taken account of), is assessed at less than the appropriate scale rate will receive an allowance which is sufficient to bring his weekly income up to the scale rate. Rent and rates are treated separately because they are such variable factors, and this means that those whose incomes are above the scale rates can often qualify for help with rent or rates. People on supplementary benefit who are getting a rent allowance cannot qualify for a similar rent rebate or allowance through the national rent rebate and allowances scheme. People in full-time work cannot get supplementary benefit.

Similar increases to those for insurance benefits have taken place in the weekly scale rates of supplementary benefit. The current weekly ordinary scale rates which started in November 1976 are £12.70 plus rent/rates for a single householder and £20.65 plus rent/rates for a married couple; the long-term weekly scale rates payable to those over pensionable age are £15.70 plus rent/rates for a single householder and £24.85 plus rent/rates for a married couple.

# (M) PENSIONS AND SAVINGS

## 1. PENSIONS AND INFLATION

In many ways what Labour have done is similar to what occurred in their last period of government between 1964–70. Then, as now, they gave a considerable increase in pensions on coming to office but subsequently provided increases which only just kept pace with prices. For example, between the July 1974 and October 1976 upratings the retirement pension went up by 53 per cent and prices by 49 per cent, which meant virtually no improvement in real terms. Again, the November 1976 uprating of 15 per cent will probably only just keep pace with prices until the next uprating in late 1977.

In addition the Labour Government has withdrawn the tax-free Christmas bonus, introduced by the last Conservative Government, which proved immensely popular. The bonus was paid in 1972, in 1973 and, by Labour, in 1974 for the last time; it was, of course, no coincidence that 1974 was an election year and Labour did not wish to incur unpopularity by announcing its withdrawal until the October election was safely out of the way.

**November 1976 Pension Swindle.** Under the National Insurance Act 1974 Labour provided for certain benefits such as retirement pensions (which were already linked to increases in the cost of living) to be uprated in line with average earnings if these should prove more favourable. In their October 1974 Manifesto Labour made great play of its claim to have linked pension increases to “the rise in wages and not just prices”.

The hollowness of this guarantee was revealed in 1976. Under normal procedure, pension increases are based on the historic rate of inflation—i.e., the rate of inflation prior to the announcement of the uprating. Thus the November 1975 uprating, which was announced in May 1975, was based on the rate of inflation up to March 1975.

If this same procedure had been followed, the November 1976 uprating (which was announced in April 1976) would have been based on the twelve months to March 1976, when prices rose by almost 22 per cent. In the event Mrs Castle dispensed with the normal method of calculation, as she admitted to *The Times* on 7th April 1976, and provided an increase of only 15 per cent. This discrepancy is explained by the fact that she simply altered the basis of calculation to the likely movement of earnings and prices in the twelve months November 1975–November 1976.

In this way, as Mr Jenkin pointed out, the Government:

“has effectively eliminated any protection for pensioners and others against the peak months of inflation which were between March and November last year ... (it is) a disreputable attempt to conceal the harsh but *inevitable* fact that she cannot honour the pensions promises on which she and her party went into the last two elections” (*Hansard*, 7th April 1976, Cols. 428–430).



## **2. SAVINGS AND INFLATION**

Although the Government has managed to protect the real value of State pensions, inflation has nonetheless inflicted great hardship on the retired, because it has reduced both the capital value of their savings and the income derived from them.

The initial report of the Royal Commission on the Distribution of Income and Wealth (Cmnd. 6171, July 1975) contains sufficient information to make it possible to arrive at a rough estimate of the effect of inflation on the savings of the retired in the last two years. For purposes of simplicity the analysis below is confined to fixed interest holdings such as bank and building society deposits, central and local government bonds and fixed interest company securities. This necessarily excludes income from property and from shares or unit trusts, although in neither case is such income likely to have kept pace with inflation.

At the end of 1973 total financial assets held in fixed interest securities amounted to £50,583 million, and financial liabilities excluding mortgages (very few retired people have mortgages) came to £17,995 million (Table 27 of the Report). On the assumption that 30 per cent of the personal wealth in Britain is still owned by people over 64 (Table 42) it follows that their net financial assets held in fixed interest securities came to £9,776 million or around £2,600 per retired couple.

Making the conservative assumption that the rate of interest on fixed interest securities is the same as the gross rate of interest paid by the building societies, the income on savings can be compared with the rate of inflation over the same period. Between March 1974 and March 1976 prices rose by almost 47 per cent, whereas gross building society interest increased by only 22 per cent. So interest payments over this period compensated investors for less than half the loss in capital value caused by rising prices.

This means that as a group retired people suffered a loss on their savings of about 25 per cent or £2,400 million over the 2 years (£977 million in 1974–5). For almost all retired people this loss completely dwarfed any increase in the value of their pension. The average retired couple will have suffered a loss of £650 out of their savings of £2,600 and even retired people on supplementary benefit with savings of just under £1,250—which are disregarded for benefit purposes—will have shown little or no gain from the retirement pension increases.

The truth is that under the Labour Government there has been a massive reduction in the living standards of many of the retired. The growing anxieties and impoverishment of those who should be able to look forward to retirement after working all their life are a damning indictment of Socialist policy.

## **(N) EARNINGS RULE FOR RETIREMENT PENSIONS**

On 29th January 1975 the Conservative Opposition inflicted a major defeat on the Government by carrying an amendment to the Social Security Benefits Bill. This raised the amount that a pensioner can earn without having his pension reduced, from £20 to £35 per week in April 1976 and to £50 per week as from April 1977. A second Conservative amendment actually abolishing the rule by 1980 was defeated, but Mr Kenneth Clarke, then Conservative spokesman on Social Security, confirmed that abolition remained the ultimate aim of the Conservative Party (*Hansard*, 12th March 1975, Col. 613). As *The Right Approach* states, “We believe it is wrong to discourage those elderly men and women who wish to work”.

**Cost of Abolition.** The Government has estimated that the cost of moving from a £50 per week limit to complete abolition of the earnings rule would be £85 million (*Hansard*, 16th June 1976, WA, Cols. 199–200). But in a pamphlet entitled *An End to the Earnings Rule?* (Conservative Political Centre, July 1976), Mr Kenneth Clarke, MP, and Mr Christopher Mockler have shown that Labour's estimate could well be £81 million too high. The figure of £85 million assumes that the retirement pension would be paid in full to all those over pensionable age not at present getting it because they are working. This assumption in itself is false and a number of factors which would reduce the *net cost* are not taken into account at all. First, even if only about half the present number of people over pensionable age who are in full time work decided to continue to postpone drawing their pension in order to qualify for a higher pension when they retire, the figure of £85 million would be reduced by £21 million.

Second, the Exchequer would gain an extra £25 millions in tax revenue from the additional pensions being paid out and this too should be deducted from the figure of £85 million.

Third, the abolition of the earnings rule would provide a real incentive for pensioners doing occasional or part-time work to earn more (at present the earnings rule combined with taxation acts as a strong disincentive). At the same time, more people over pensionable age would undoubtedly resume work and many more reaching that age would continue to work if there was no earnings rule. Taking these factors together the extra tax revenue would be about £35 million.

**Present Limit.** Regrettably the Labour Government is attempting, by means of the Social Security (Miscellaneous Provisions) Bill (2nd Reading, 2nd December 1976) to maintain the existing £35 a week limit and to prevent it rising to £50 a week in April 1977. The Bill also provides for the £35 limit to be reviewed annually and increased in line with the movement of average earnings.

Mr Jenkin said that unless the Government could prove their case, the £50 limit agreed by Parliament should stand. He pointed out that Government estimates of cost had no credibility and could not be relied upon (*Hansard*, 2nd December 1976, Col. 1205). Conservative suspicions were confirmed from an unexpected quarter when the Government issued a 15-page paper during the Committee stage of the Bill which admitted that “assumptions have been altered in a number of important respects from that used to provide earlier estimates”; that figures for 1973 and 1974 were “wrongly interpreted”; and that up to the middle of 1976 Parliament had been seriously misled.

Nevertheless the Government refused to reconsider its retrograde proposal and a Conservative attempt to delete it was defeated.

## **(O) MARRIED WOMEN AND NATIONAL INSURANCE**

At present, about 3 million out of the 4 million married women or widows in employment choose voluntarily to pay the reduced 2 per cent rate of National Insurance contribution. This is an important concession to married women who wish to maximise their take-home pay—for example, when they have children to support.

In 1976–7, a married woman earning £60 a week, who had opted for a reduced contribution, paid £1·20 a week national insurance as against the alternative full contribution payment of £3·45 a week.

Since married women can receive important benefits such as pensions by virtue of their husbands' contributions, and since they are often in work only for short periods of time, thus building up an inadequate contribution record, it is often disadvantageous for them to pay full contributions.

For these reasons, Conservatives opposed the provisions of the Social Security Pensions Act 1975 which largely withdrew this concession. Women who marry after May 1977 will no longer have the option to pay reduced contributions; but there are various continuing arrangements for women already married if they have previously paid at reduced rates or have sent a declaration (on Leaflet NI. 1) to their social security office by May 1977.

## **(P) THE SECOND PENSION SCHEME**

**The Conservative Social Security Act 1973** provided for a second pension for all employed people on top of the present basic pension. This second pension would have been related to a person's previous earnings level and would have been provided either by a good occupational scheme or by a State reserve scheme. It was hoped that the great majority of employed people would be adequately covered by occupational schemes with the State scheme being eventually a reserve scheme. The plan was due to begin in April 1975.

Unfortunately, two months after taking office, Mrs Castle announced that the Conservative scheme would not go ahead (*Hansard*, 7th May 1974, Cols. 208–11).

**Labour's Proposals.** The Government set out a new plan in a White Paper entitled *Better Pensions* (Cmnd. 5713, September 1974). The main proposals were incorporated in the Social Security Pensions Act 1975.

The principal features of the new second pension plan are:

- a. It will start in April 1978—3 years later than the Conservative scheme.

- b. The earliest date by which the full earnings-related pension will be paid will be 20 years after the scheme begins, i.e., 1998. Those who retire before 1998 will receive a reduced pension.
- c. For a person who pays contributions for more than 20 years, the best 20 years of his earnings will be used in calculating his pension.
- d. Before award the second pension will be revalued in the light of changes in average earnings and after retirement it will be revalued in line with prices.
- e. Unlike the Conservative scheme, the new State scheme will not be funded. A person's contribution will not be saved, invested and paid out on his retirement but will be used immediately to pay current pensioners. This will mean less saving (and hence less investment) and also means that a retired person's pension will depend wholly upon younger generations in work being willing to foot the bill when it falls due.

## (Q) OCCUPATIONAL PENSIONS

The 1975 Act (see above) provides for employers with good occupational schemes to contract their members out of the State second pension scheme with the contribution to the State scheme being reduced correspondingly.

**Inflation Proofing.** The Bill originally provided that the State scheme should be responsible only for *post-retirement* inflation-proofing of occupational pensions, and that occupational schemes must provide full pre-retirement inflation-proofing on the basis of changes in earnings.

The pensions industry, however, supported by the Conservatives, successfully pressed for an amendment to the Bill which went some way to ensuring that schemes which were contracted out would face only a known and maximum liability in this respect (the State will meet any cost above this maximum level). While the Government did not meet all the points raised by the Conservatives, *The Right Approach* states:

“We have made it clear that we can accept the compromise reached last year. After years of chop and change, it is important to have a period of stability. Nevertheless, we reserve the right to improve the contracting-out arrangements so that the terms enable the pensions industry to operate as effectively as it can.”

**The Pay Limit.** It should be noted that improvements in pensions are governed by the current arrangements for pay restraint (see Chapter 8, p. 225), with the exception that improvements above the pay limit can be made if this is necessary to meet the minimum requirements for contracting out. This restriction is likely to deter firms from starting, or improving, their own schemes, since they can only provide a pension which is just above the level of provision under the State scheme. The Government should at least indicate how these schemes will be affected after July 1977 when the present pay limit expires. As Mr Patrick Jenkin said:

“When will the Government be able to tell us about the impact of the pay policy on improvements in pensions schemes? The Government must realise that, as the day for contracting out approaches, it is becoming increasingly important for firms to know whether and when they will be able to implement improvements which go beyond the

minimum necessary for contracting out. I know that this matter has been pressed upon the Government not only by the employers and pensions interests but also by a number of trade unions” (*Hansard*, 2nd December 1976, Col. 1198).

**Members' Participation in Schemes.** In June 1976 the Government published a White Paper, *Occupational Pension Schemes—The Role of Members in the Running of Schemes* (Cmnd. 6514), in which it was proposed that there should be 50 per cent member participation in the management of occupational pension schemes through the agency of recognised independent trade unions.

Mr Jenkin welcomed the growing trade union interest in occupational pension schemes, but criticised the White Paper for giving a wholly unjustified measure of control to trade unions. It ignored the rights of employees who did not belong to trade unions and it threw into jeopardy the hitherto bipartisan agreement on the second pension scheme (*Hansard*, 25th June 1976, Col. 2026).

At present, the sole motive governing the investment of funds is to provide the best possible pension. But, as Mr Jenkin has warned, there is little doubt that the Left wing of the Labour Party would like to get their hands on the £20,000 million invested by occupational schemes for the purposes of extending nationalisation or other Socialist measures:

“Even Mr Len Murray, the TUC's General Secretary, has hinted that wider considerations than getting the maximum possible return for pensioners should be taken account of in investing the funds of occupational pension schemes” (*Conservative Monthly News*, August 1976).

**Occupational Pensions and Unemployment Benefit.** The Social Security (Miscellaneous Provisions) Bill, which received a Second Reading on 2nd December 1976, provides for unemployment benefit to be reduced by 5p for every 5p by which an occupational pension drawn by a person of 60 or over exceeded £25 a week. Mr Jenkin explained why Conservatives were opposed to this provision:

“Ending entitlement to unemployment benefit for occupational pensioners is a breach of the national insurance principle that benefits are enjoyable as of right. ... The proposal introduces a new means test where there ought to be none.”

He went on to suggest that the Government should implement the recommendation of the National Insurance Advisory Committee in 1968 that a person who had retired with an occupational pension should not be regarded as having a “usual occupation” for the purposes of determining whether he is available for work and therefore entitled to unemployment benefit. The effect of implementing this recommendation would be that an occupational pensioner applying for unemployment benefit would be expected to accept any reasonable form of employment without regard to his former occupation (*Hansard*, 2nd December 1976, Cols. 1205–8).

As for the public expenditure saving, Mr Jenkin said that a much better way to increase Government revenue (by around £300 million per annum) would be to tax short-term employment and sickness benefits as was originally intended under the

Beveridge Scheme and as was right in equity (*Hansard*, 2nd December 1976, Cols. 1203 and 1232).

A Conservative Amendment deleting the Government's proposal was carried at the Committee Stage of the Bill.

**Public Service Pensions.** The present high rate of inflation is creating considerable disparity between the treatment of public service pensioners and other pensioners.

The Superannuation Act 1972 provided for public service pensions to be reviewed each year to take account of changes in prices. But while increasing injections of taxpayers' money have ensured that inflation has not reduced the real value of public sector pensions (see Chapter 19, p. 478), occupational schemes have not fared so well.

Under the Conservatives the income which pension funds received from their investments broadly kept pace with the rise in prices. Under Labour, however, income from investments has nothing like kept pace with the greatly increased rate of inflation, making it increasingly difficult for occupational schemes to provide adequate protection for their members.

## (R) TAXATION OF THE POOR

The heavy taxation of the poor is among the most discreditable features of the Labour Government. Labour have:

(i) Raised the basic rate of income tax from 30 per cent to 35 per cent, which means that the low earner (who must also pay a 5.75 per cent earnings related NI contribution) faces an effective marginal rate of taxation of 40.75 per cent.

(ii) Reduced the real value of the personal tax allowances so that in 1975–6—for the first time since the war—the tax threshold of a married man with 2 children under 11 fell to less than half average earnings. In 1973–4 his tax threshold was approximately 52.4 per cent of average manual earnings, but by 1975–6 it had fallen to 43 per cent (*Hansard*, 11th July 1975 W.A., Col. 288 and 24th May 1976, W.A., Cols. 92–3).

As a result, the number of income tax payers increased by 1 million between 1973–4 and 1975–6 despite the fact that unemployment about doubled over the same period (*Hansard*, 26th April 1976, W.A., Cols. 25–6).

The table below shows the increasing tax and NI burden of a married couple with 2 children (aged 4 and 6) on half average weekly earnings:

Earnings, Tax and National Insurance					
<i>Year</i>	<i>Gross-earnings</i>	<i>Income Tax</i>	<i>National Insurance</i>	<i>Total deduction</i>	<i>Total as percentage of gross earnings</i>
	£	£	£	£	
1970	15.95	0.23	1.20	1.43	9
1971	17.35	0.04	1.27	1.31	8

### Earnings, Tax and National Insurance

<i>Year</i>	<i>Gross-earnings</i> £	<i>Income Tax</i> £	<i>National Insurance</i> £	<i>Total deduction</i> £	<i>Total as percentage of gross earnings</i>
1972	20.25	—	1.43	1.43	7
1973	22.75	0.66	1.51	2.17	10
1974	28.40	1.46	1.82	3.28	12
1975	34.35	3.24	1.89	5.13	15

1976 (*No official figures yet available*).

(*Hansard*, (House of Lords) 20th October 1976, W.A. Cols.1456–8).

In 1976–7, for the first time, the income tax threshold for a single or married person has fallen below the single and married rates of long-term supplementary benefit. This means that a low earner with income on or just below the official poverty line is now paying tax.

Similarly, a widow or single woman who retires at the age of 60 and whose income is her pension plus £50 a year savings income will find that her pensionable income of £731.60 in 1976–7 is virtually equivalent to her personal tax allowance of £735. She will therefore be paying the full rate of income tax on almost all her small savings income.

The fact is that the Labour Government is taxing everyone, including the low earner, on a scale unprecedented since the war. Income tax is being levied at a higher marginal rate and is starting at very low levels of income.

The moral is an interesting one. In order to finance higher public expenditure, once conceived of as a means of helping them, the poor are being taxed to the limit, and excessive public expenditure has become one of their greatest enemies.

## **(S) REFORMING THE SOCIAL SECURITY SYSTEM**

Recent years have seen growing anxiety about the working of the social security and tax systems. First, there is concern that while some of those in greatest need do not apply for the benefits to which they are entitled, others who do not need help are making fraudulent but successful claims for assistance. Second, quite separate from the question of criminal abuse, there is widespread indignation at the way in which the system itself ensures that an increasing number of people get no benefit from an increase in pay or, even, find that they are better off not working at all.

### **1. FRAUD AND ABUSE**

The last Conservative Government set up a Committee of Inquiry to consider the whole question of social security abuse. The Committee reported in March 1973

(Cmnd. 5228) and the Government accepted a number of recommendations, increasing the number of staff and starting new drives against fraud.

In 1974–5 the amount of detected fraud revealed a loss to the State, and hence to the taxpayer, of about £2 million (*Hansard*, 4th February 1976, WA, Col. 672). The average number of special investigators at the Department of Health and Social Security on 1st July 1976 totalled 397 and the Government has no proposals to increase this number. Yet it has admitted that the savings from special investigations cover the costs twice over (*Hansard*, 21st July 1976, WA, Col. 516 and 27th October 1976, WA, Col. 285).

Conservatives have called upon the Government to double the number of fraud investigators, to hold more anti-fraud drives and to simplify the rules and regulations. These changes are perfectly practicable and Mr Jenkin has promised that they will be undertaken by the next Conservative Government (London, 7th November 1976).

## 2. DISINCENTIVE TO WORK

Since Labour came into office in March 1974 two opposing trends in the tax and social security field have come into conflict.

On the one hand, there has been a significant fall in the real value of personal tax allowances (i.e. the single person's tax allowance, the married allowance and the child tax allowances). This has been necessary because the Government has had to increase the tax burden to try to finance the excessive level of public spending (see chapter 4).

On the other hand, at the same time as tax allowances have been falling in real terms, there has been a rise in the value of social security benefits (see p. 421). Moreover, in the uprating which took effect on 15th November 1976 unemployment benefit went up by a slightly higher percentage than the increase in retirement pensions, widows' pensions and other long-term benefits.

These two trends—one falling, one rising—have now met with a vengeance. As a result many more people now find that high taxation in work coupled with greater social security benefits means that they would be better-off unemployed.

At the end of 1976, for example, a married man with two children under 11 earning £45 per week was paying almost £8 in income tax and national insurance contributions and his net weekly spending power (taking account of rent and rate rebates) came to only £34.95; the same man would have had a net weekly spending power of £33.90 if unemployed. Furthermore (because unemployment benefit is tax-free) he would receive in addition substantial income tax refunds (*Hansard*, 15th October 1976, WA, Cols. 245–50).

**Supplementary Benefit.** It is important not to confuse unemployment benefit with supplementary benefit.

A man who has not paid national insurance contributions (for example if he has just left full-time education) or has been unemployed for more than a year is not entitled to



unemployment benefit. About half the registered unemployed who are eligible for benefit receive *only* supplementary benefit; the remainder receive unemployment benefit. For example in August 1976 the total number of unemployed receiving supplementary benefit who were not in receipt of unemployment benefit was 730,000 (*Hansard*, 30th November 1976, WA, Col. 105).

This distinction is important because unemployment benefit (unlike supplementary benefit) is paid irrespective of other unearned income such as family income supplement and income from savings—an unemployed man receiving unemployment benefit can therefore have a substantial income from other sources.

### 3. CONSERVATIVE POLICY

It is unfair that retirement and widows' pensions are taxed whereas short-term benefits like unemployment and sickness benefits are not (furthermore this means that unemployment benefit is of as much value to the better-off as to the poor, who need it more). As the anomaly whereby some people are better off out of work is largely due to the non-taxability of unemployment benefit, making it taxable would go a long way towards remedying the problem.

As *The Right Approach* states: “There is a strong case for taxing short-term benefits, as Labour originally intended thirty years ago”. The 1972 Conservative Tax Credit scheme envisaged that short-term benefits would be taxed in the same way as retirement and widows pensions are already taxed (see p. 434).

The Labour Party is in a typical state of confusion. On 15th November 1976 Mr David Ennals, Secretary of State for Social Services, admitted on BBC radio that in equity unemployment benefit should be taxed and that he was looking to see whether this was possible. But on 16th November the **Prime Minister** effectively dissociated himself from Mr Ennals and indicated that this proposal was unacceptable (*Hansard*, 16th November 1976, Cols. 1108–9).

In the longer term the aim must be to improve the position of the family man in work. This would entail the raising of tax allowances, but it could also be partly achieved by introducing the child benefit scheme in full in April 1977 instead of spreading its introduction over three years as Labour is now doing (see p. 433). Child benefit involves the replacement of child tax allowances and family allowances by a cash-free benefit designed primarily for families in work. Mr Frank Field, Director of the Child Poverty Action Group, has welcomed the strong Conservative support for the child benefit scheme as:

“A very constructive and positive approach to the problem of incentives in our society—that you should actually give people incentives to work rather than penalise those who are bearing our unemployment” (“Today” Programme, Radio 4, 15th November 1976).

## (T) TAX CREDITS

# 1. BACKGROUND

At present there are three main systems of cash transaction which may directly affect the individual:

1. Income tax payments *by* the individual.
2. National insurance benefits, such as the retirement pension and unemployment benefit, which are paid *to* the individual in return for national insurance contributions.
3. Supplementary benefits, which are not related to national insurance contributions and which are intended to bring a person's income up to a certain minimum standard.

In addition there are family allowances and family income supplements, and rent and rate rebates/allowances.

The need to simplify this complicated system of tax and social security benefits has become more urgent under Labour for the following reasons:

- a. The overlap between social security and income tax has become worse because of the fall in the real value of personal tax allowances. A larger number of people are in the absurd position of receiving means-tested social security benefits on the one hand and paying out income tax on the other.
- b. The complexity of the supplementary benefit scheme is so great that even the staff have difficulty understanding it and the number of people dependent on supplementary benefit has risen beyond manageable proportions (Report of the Supplementary Benefits Commission 1975, Cmnd. 6615).
- c. Many people are demoralised by finding that they can be better off out of work (see p. 430).

The Conservative Government's Tax Credit scheme as set out in the 1972 Green Paper (Cmnd. 5116) represented an ambitious plan to overcome these major deficiencies and to move Britain into the post-Beveridge era. The Green Paper proposals were carefully examined by an all-party Select Committee of the House of Commons and in June 1973 a majority of members reported in favour of it.

Unfortunately the Labour Government has refused to introduce the scheme. One part of the scheme, namely child benefit, was due to be introduced in full in April 1977 but even this has been postponed and, although a start will be made in 1977–8, the scheme will not come into full operation for a further three years.

The Conservative Party has remained committed to the scheme. Sir Geoffrey Howe re-endorsed it in a Policy Paper entitled "Tax Credits: Why and How?" (October 1974), and the commitment was reaffirmed in *The Right Approach* (October 1976). As Mr Jenkin told the 1976 Conservative Party Conference:

"I give you this pledge; we remain totally committed to the tax credit principle. But ... we have to recognise that we cannot do it all at once" (*Brighton*, 7th October 1976).

## 2. HOW THE SCHEME WORKS

The key principle of the Tax Credit scheme is easiest to understand by considering what happens when the Chancellor increases the personal tax allowances (i.e., the single person's tax allowance, the married allowance and the child tax allowances).

When such allowances are increased those whose incomes are already less than their personal tax allowances will be no better off. They gain nothing from increases in tax allowances because their income is so low that they are not paying tax.

This is *not* to say that personal tax allowances should not be raised. But it does mean that the very poor (mainly the retired) gain little or nothing. The more tax allowances are increased the more this disparity grows.

The Tax Credit scheme provides an answer that is as simple as it is effective. The basic idea is that the personal tax allowances are converted into non-taxable “credits”. Assuming a level of credit equivalent to the cash value of existing personal tax allowances no taxpayer would be worse off—for example, an employer will set an employee's credits against his tax liability, and deduct tax as at present; however a person whose credits exceed his tax liability will receive the difference in cash from his employer.

The distinction between personal tax allowances and tax credits is that whereas an increase in the former only benefits those already paying tax (and does nothing for those with income less than their tax allowances), an increase in the level of tax credits will benefit everyone. On this simple foundation the Tax Credit scheme was devised.

## 3. CHILD BENEFIT

This analysis can now be applied to child tax allowances. These currently (1976–7) stand at £300 for children under 11, £335 between 11 and 16, and £365 over 16.

Initially the Labour Party adopted one aspect of the Tax Credit scheme, namely the replacement of child tax allowances and family allowances by a tax-free cash benefit to be paid directly to the mother. This was set out in both of Labour's 1974 General Election Manifestos—the October 1974 Manifesto stating:

“The Labour Government will ... attack family poverty by increasing family allowances and extending them to the first child through a new system of child credits payable to the mother”.

Mrs Castle later confirmed that:

“The scheme will start in April 1977. We had hoped we might be able to start a year earlier, but operational difficulties, which always threatened from the start, have proved insuperable” (*Hansard*, 28th April 1975, W.A. Col. 7).

In an article in *New Society*, based upon the unauthorised release of Cabinet minutes, it was revealed that the Cabinet received a memorandum dated 8th April 1976 from the Secretary of State for Social Services, Mr Ennals, who emphasised the need for child benefit, pointing out that:

“Families with children were now getting substantially less support than the Tories provided in 1970, 1971 and 1972 and less than the Labour Government provided in the late 1960s” (*New Society*, 17th June 1976).

Despite these telling arguments the Cabinet decided to renege on its earlier commitment and not to introduce the full scheme in April 1977 but instead to phase it in over three years.

This means that as from April 1977 tax-free weekly benefits of £1 for first children and £1.50 for second and subsequent children will be paid directly to the mother and the child tax allowances will be reduced to help finance the cost. Over a period of three years all child tax allowances will be withdrawn for children under 11 (with allowances for older children correspondingly reduced) and all family support will be channelled through child benefit. (For one-parent families child benefit will be paid in 1977–8 at the higher rate of £1.50 for first children).

The advantage of child benefit is that it is not only a simpler system (replacing two forms of family support by one) but that it helps those below the tax threshold, who gain no benefit from increases in child tax allowances as their income is so low that they are not paying tax in the first place.

Mr Jenkin called for child benefit to be implemented in full in April 1977 at a rate of £2.34 per week for each child; to ensure that no family was made worse-off an extra 30p per week should be paid for each third and subsequent child and certain changes should also be made for those in the higher income tax brackets. He pointed out that this could be done at no extra cost beyond that already envisaged for family support in 1977–8. Eventually child benefit could replace Family Income Supplement altogether (*Hansard*, 28th June 1976, Cols. 115–8).

## **4. THE QUESTION OF COST**

The cost of introducing tax credits in present circumstances would inevitably depend upon the level of the credits. The tax allowances for those below the age of 65 are so low (£735 single and £1,085 married in 1976–77) that virtually everyone in work is now paying tax. From the point of view of the Tax Credit scheme, the number of people below the tax threshold (who would benefit from the replacement of adult tax allowances by tax credits) is now a good deal smaller than when the scheme was first put forward.

Since significantly fewer people will benefit the cost of tax credits is reduced correspondingly. Indeed, the tax allowances are now so abysmally low that the substitution of tax credits for this section of the population can probably be achieved at virtually nil cost.

## 5. PENSIONERS

It would, however, be rather more costly to substitute tax credits for the personal tax allowances for those aged 65 and over because their allowances are higher (£1,010 single and £1,555 married) and a large number of retired people are living on very low incomes. Of the 2.7 million recipients of supplementary benefit almost 1.8 million are over pensionable age; in addition, it is estimated that another 560,000 of those over pensionable age are eligible for supplementary benefit but do not claim it. (Annual Report of Supplementary Benefits Commission, 1975 [Cmnd. 6615]).

The cost of replacing these personal tax allowances by a tax credit would obviously depend upon the rate of credit chosen. However, the advantage of a tax credit equivalent to the age allowance would be striking and would immediately provide the poorer pensioners (i.e., below the tax threshold) with a higher cash income as of right.

Hundreds of thousands of pensioners would be lifted completely out of dependence on supplementary benefit and almost all those 560,000 who do not claim (because they regard supplementary benefit as demeaning or because the amounts are small) would receive a level of income higher than the supplementary benefit rates.

## 6. SHORT-TERM BENEFITS

When the National Insurance Scheme was first introduced in 1948 both unemployment and sickness benefits were taxed, but were later made non-taxable because of the difficulty of applying the P.A.Y.E. system. Under the Tax Credit scheme this obstacle is removed: short-term benefits could be taxed and thus put on the same footing as retirement pensions. This would help to restore the incentive to work (see p. 430). Moreover, the taxation of unemployment and sickness benefit would *increase* Government revenue by about £300 million a year (*Hansard*, 17th March 1976, W.A., Cols. 540–1) and this extra income could then be used to finance a satisfactory level of tax credits for pensioners as explained earlier.

## (U) BENEFITS FOR DISABLEMENT

The last Conservative Government introduced an invalidity allowance for the chronic sick and an attendance allowance for those so seriously disabled as to require frequent attention or supervision from another person.

Since then two new benefits have been introduced:

(1) A non-contributory invalidity pension, which started in November 1975, for those so disabled that they are never able to work and thus cannot qualify for the ordinary invalidity pension. Married women are at present excluded but as a result of Conservative pressure, they will become eligible as from November 1977.

(2) An invalid care allowance beginning in July 1976 for relatives (but not married women) caring for recipients of the attendance allowance.

**Mobility Allowance and Invalid Vehicles.** As from January 1976 the Government began phasing in a taxable mobility allowance (currently £5 per week) for some 100,000 disabled people with severe walking difficulties who are not in receipt of the invalid three-wheeled vehicle.

In July 1976 the Secretary of State for Social Services announced in the House of Commons that the 3-wheeler (which is recognised to fall below safety standards) would not be issued to new claimants and that it would be phased out over a period of about 5 years. Existing users of the 3-wheeler will be able to keep their vehicles until they wear out and spares and replacements are no longer available, when they too will be able to switch to the mobility allowance (*Hansard*, 23rd July 1976, Cols. 2229–31).

While Conservatives welcome the principle of cash rather than hardware as a better form of aid for the disabled, they are critical of the Government's failure to work out with motor manufacturers a suitable commercial replacement for the 3-wheeler which could be sold to disabled people. Unless this is done a number of disabled people will be rendered immobile.

A further anomaly is that the mobility allowance will normally be withdrawn once a person reaches retirement age, although for a few special categories of person it will be paid after retirement age. This is an invidious distinction which has been widely criticised.

## 18. HOME OFFICE MATTERS

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### Speaking Note

#### (1) Law and Order

##### Labour's Record

- The Government has failed to give the fight against lawlessness the priority it deserves.
- The police force remains undermanned and its morale is poor.
- The Government has not dealt effectively with crime, particularly violent crime which increased 11% between 1974 and 1975.

##### The Conservative Approach

- Fighting crime and strengthening the forces of law will be treated as an essential task.
- Public spending will be increased on the police.
- The career structure in the police force must be such that the service succeeds in attracting and holding dedicated and talented individuals from all walks of life.
- The most effective system of punishment and rehabilitation will be established and maintained.
- Stricter punishment will be encouraged for crimes involving violence and the threat of violence.
- Courts will be given extra powers to deal with persistent and hardened young criminals.
- Where appropriate, offenders, especially young offenders, will be given remedial punishment which will benefit the offender and the wider community.

## **(2) Immigration and Race Relations**

### **The Labour Record**

- Labour's economic policies, particularly those that have generated high unemployment amongst young people, have increased needlessly tensions between communities particularly in some inner cities.
- The Labour Government has not shown any awareness of the need for strict control of immigration if harmonious race relations are to be maintained.
- There has been a sharp rise in immigration. In 1973, about 34,000 immigrants entered the UK. In 1975 this figure had risen to over 50,000 from the New Commonwealth.
- Labour have changed the immigration rules to allow male fiancés to enter Britain and has increased the annual quota for UK Passport Holders from 3,500 to 5,000 a year.
- The 1976 Labour Party Conference called for the abolition of the 1968 and 1971 Immigration Acts.
- The Race Relations Act 1976 risks endangering acceptability of the use of law in this area by making it possible for an individual to be prosecuted for racial discrimination whether he *intended* to discriminate or not. This could clearly restrict freedom of expression in print, and on television and radio.

### **The Liberals**

- The 1976 Liberal Party Conference called for unrestricted entry of UK Passport Holders, *all* dependants of those already settled in the UK, dependants of all EEC nationals and for the repeal of the 1968 and 1971 Immigration Acts.

### **The Conservative Approach**

- It is now necessary to work towards ending immigration as we have known it in the post-war years.
- There must be an immediate reduction in immigration.

- The remaining UK Passport Holders who want to settle in the UK will be admitted subject to a quota.
- A quota system may be necessary if the total number of dependants is higher than expected.
- Clearer and more accurate statistics must be established.
- Illegal immigration rackets must be ended and there should not be a further amnesty for illegal immigrants.
- A more coherent nationality law must be introduced.
- The Government has a role to play in promoting harmonious race relations, but such a policy must be carried out against a background of strict control of immigration.
- Every citizen legally settled in Britain must be treated as an equal and welcome member of our community.

## (A) LAW AND ORDER

### 1. INTRODUCTION

**The Pattern of Crime.** The continued rise in crime, particularly in crimes of violence, is a source of great anxiety to every law-abiding citizen. To illustrate: in 1955 there were 8,000 recorded offences of violence whereas in 1974 there were 64,000 such offences recorded. There are, of course, many crimes committed which are never known about or recorded.

What is perhaps most disturbing about crime is the fact that it should have continued to rise at a time of rapidly growing prosperity for a majority of the population. Less poverty has not meant less criminality.

In the post-war period a few basic facts stand out: there has been a strong upward trend in crime amongst most age groups in recent years; the majority of known offenders are males between their mid-teens and late twenties; there are many fewer known female than male offenders at all ages; there is a marked fall-off in criminal activity with age; some families are caught in a pattern of criminal activity which persists from generation to generation; and there is a very high degree of reconviction of offenders.

Many people believe that the rise in crime can be traced directly to the decline in discipline at school and in the home, and to the now prevailing laxity of moral and social standards. Certainly it is generally agreed that crime cannot be separated from the values and patterns of behaviour which exist in the family, in school and in the wider community.

This has led governments to examine the social and psychological similarities between offenders to see what specific remedies they can pursue which are most likely to prevent an individual or group falling into a life of crime; and also to ensure that in so far as it is feasible governments do not pursue general social and economic policies which create just those social situations which tend to produce a high degree of criminal behaviour.



The vast majority of law-abiding citizens support this attempt to prevent criminal tendencies emerging and the efforts made by various government departments and voluntary organisations to reform offenders.

But governments have an overriding duty to ensure that the law is effectively and fully enforced so that maximum protection is given to law-abiding citizens and their property. The forces of law and order must, in terms of trained manpower and equipment, more than match the criminal groups ranged against them.

The law is not only a negative instrument protecting the citizen from the criminal. It is also the essential precondition for the continued existence of our basic liberties. Indeed, history clearly shows that basic liberties can only exist in those societies where there is a general respect for, and compliance with, the rule of law.

## 2. THE CONSERVATIVE RECORD

The main measures taken by the last Conservative Government were:

### The Right Law

- Development and strengthening of provisions requiring criminals to compensate their victims.
- Wider powers to require offenders to compensate victims for criminal damage to property.
- New penalties for drug offences.
- Increased penalties for certain firearm offences.
- Strengthening control of firearms.
- Introduction of new concept of criminal bankruptcy.
- New non-custodial penalties as alternatives to prison.
- Major reviews undertaken of several aspects of criminal law.

### Adequate Enforcement

- Police forces in Great Britain increased by over 7,000 in first three years of Conservative Government.
- 6,000 extra civilians recruited to aid police in their work.
- More and better equipment provided to assist police in fighting crime.
- Probation service expanded by 25 per cent.

## 3. CRIME: THE BASIC FACTS

The increase in crime over the years 1972 to 1975 is shown in the following table.

	INDICTABLE OFFENCES (000s) KNOWN TO THE POLICE					
	1972	1973	1974	1975	Percentage change 1974-5	
Violence against the person	52.4	61.3	63.8	71.0		+11

INDICTABLE OFFENCES (000s) KNOWN TO THE POLICE

	1972	1973	1974	1975	Percentage change 1974-5
Sexual offences	23.5	25.7	24.7	23.7	-4
Burglary <sup>(b)</sup> and robbery <sup>(c)</sup>	447.7	400.5	492.5	533.2	+8 <sup>b</sup>
					+31 <sup>c</sup>
Theft and handling stolen goods	684.2 <sup>a</sup>	1,006.1	1,189.9	1,267.7	+7
Fraud and forgery	108.4	110.7	117.2	123.1	+5
Criminal damage	41.9	52.8	67.1	78.5	+17
Other offences	6.9	7.8	8.2	8.4	+3

<sup>a</sup> Excludes offences of theft under £5 which are recorded by the police for 1973 onwards. This explains the increase in the total between 1972 and 1973.

<sup>b</sup> Burglary includes all breaking and entering in order to remove property.

<sup>c</sup> Robbery includes all dispossession of property from the person of another when violence is involved.

Source: Home Office *Criminal Statistics for England and Wales* (Cmnd. 6566)

The number of offences known to the police and recorded in England and Wales has shown an alarming increase in recent years. In 1974 there was an 18 per cent increase, and in 1975 a 7 per cent increase on the preceding year. The total figure for 1975 however, masks a much higher increase in crimes that cause most public anxiety. Offences of robbery, for example, rose by 31 per cent, crimes involving criminal damage rose by 17 per cent, and crimes of violence against the person rose by 11 per cent.

The long-term trend, too, is far from encouraging. Over the 20-year period, 1956-1976, the number of people per 100,000 of the population found guilty or cautioned for indictable offences has trebled.

**Homicide figures** are as follows:

	1972	1973	1974	1975
Currently recorded as homicide	410	391	527	451

(Source: *Criminal Statistics England and Wales 1975* (Cmnd. 6566))

It continues to be the case that the majority of homicide victims were acquainted with the individual who murdered or was suspected of murdering them. In 1975, for example, in 76 per cent of the offences the victim was acquainted with the suspect, and in 53 per cent the victim was a relative, lover or cohabitant.

**Offences Cleared Up.** In 1974 and 1975, as the table below shows, 44 per cent of offences known to the police were cleared up. In certain categories of crime, however, there exists a lower success rate. The situation is significantly worse in the big cities.

Offence group	Percentage of crimes cleared up				
	1971	1972	1973	1974	1975
Violence against the person	82	81	82	80	81
Sexual offences	76	77	78	78	78
Burglary	37	37	37	34	34
Robbery	42	43	46	40	40
Theft and handling stolen goods	43	43	43	42	41
Fraud and forgery	83	83	82	82	84
Criminal damage	34	37	39	38	37
Other offences	92	94	93	91	92
Total	45	46	47	44	44

(*Criminal Statistics England and Wales 1975, Cmnd. 6566*)

**Vandalism.** Although the crime statistics only record acts of criminal damage in excess of £20 (which show a 17 per cent increase in 1975 on 1974) they confirm the increase already suggested by hearsay and press reports. Besides the affront to law and order which these incidents represent, they are also very expensive for those public corporations and local authorities which are affected, and in this way strike directly at the taxpayer and ratepayer.

British Rail estimate that vandalism costs them over £1 million per year. Ratepayers suffer as a result of damage to schools, housing, street-lighting and public parks, the highest incidence of vandalism occurring in schools.

A report of the Home Office Standing Committee on Crime Prevention, entitled *Protection Against Vandalism* (November 1975), has confirmed that well over half the numbers brought to task for vandalism were offenders under the age of 21.

**Prisons.** The prison population reached a new peak in October 1976 of 42,006. This compares with an average prison population in 1975 of 38,601.

In 1975, 43 per cent of prisoners were in local prisons, 33 per cent in training prisons, 14 per cent in borstal institutions, 5 per cent in detention centres and 5 per cent in remand centres.

### **Police Recruitment and Manning**

The police forces continue to be undermanned. In 1975 they were some 10,000 officers under establishment. In 1974 the figure was 13,900. Furthermore, as Mr William Whitelaw, Shadow Home Secretary, pointed out in a speech in London on 15th October 1976, the official establishment figures are certainly underestimates of the number of policemen needed to combat crime effectively.

In many urban areas the police are much more seriously undermanned than the national figures suggest. Sir Robert Mark, London's Commissioner of Police, pointed out in his annual report that there was "still a serious shortage of manpower

amounting at the end of the year (1975) to 5,208 officers or a deficiency of approximately 20 per cent of the authorised establishment”. He pointed out:

“This has meant that throughout 1975 there was a continuing need for the redeployment of the available police resources to allow for concentration on the more urgent tasks and for meeting new commitments” (*Report of the Commissioner of Police of the Metropolis for the Year 1975*, Cmnd. 6946, June 1976).

## 4. LABOUR'S RECORD

The Labour Government has failed to provide any indication of a firm commitment to maintain law and order. Its own actions over, most conspicuously, the Clay Cross Affair have contributed directly to weakening respect for the law. Its general economic and social policies have also exacerbated the problem through, for example, generating very high levels of unemployment amongst young people in decaying inner cities.

**Crimes of Violence.** The Government has conspicuously failed to deal with crimes of violence (see p. 439).

Mr James Anderson, Chief Constable of Greater Manchester (which has the largest police force outside London), said in a speech in Manchester on 22nd November 1976:

“We are simply not succeeding in our bid to reduce the amount of violent crime ... What we are witnessing today in my area and many others is a wave of senseless violence, leaving in its wake too many wrecked lives”.

Many of these crimes are now carried out by young people and it is symptomatic of the Government's lack of purpose that of the 14 recommendations made to the Home Office by a House of Commons Select Committee to amend the Children and Young Person's Act 1969 in order to make it more effective, only one had been carried out by November 1976, a full fourteen months after the Committee's Report.

**The Police.** The failure of the Government which has the greatest long-term consequences has been its inability to maintain a fully-manned and contented police force. Sir Robert Mark, for example, said in a speech on 6th November 1976 that there was an “appalling inadequacy of police manpower in London”.

As Mr Whitelaw pointed out:

“Our hard pressed and undermanned police force has to face the ever rising tide of crime—particularly violent crime—without the resources they really needed. This is not the right way to protect our society” (*Conservative Monthly News*, December 1976).

This situation makes it even more inappropriate that the Government should continue to place new burdens on the police force as a result of new legislation (see below).

In mid-1976 the Government came into conflict with the police in a dispute over pay and conditions. For the first time ever, the Police Federation was so angered by the Government's negotiating posture that it withdrew from the Police Council, the customary negotiating body which deals with police pay. Mr Whitelaw, in a statement on 1st October 1976, called for the Home Secretary to intervene personally and immediately in the dispute.

Mr Whitelaw had earlier criticised the low priority in general that the Government was giving to the hard-pressed police force:

“In the order of spending priorities the police force must not come lower down than one of Mr Benn's bright-eyed schemes to nationalise a bank or two. Nothing could be more damaging to police morale than to see a government assert implicitly such an order of priorities” (*Grimsby*, 17th September 1976).

It is against this background that the Government's main legislative measures must be judged.

**Police Complaints Procedure.** The Police Act 1964 placed responsibility for examining complaints on the Chief Constable of the force concerned. If he is satisfied that no criminal offence has been committed which should be referred to the Director of Public Prosecutions, he can then treat the case as an internal disciplinary matter.

In 1974, out of a total of 17,500 complaints, one-quarter were withdrawn and about 10 per cent were substantiated. Formal disciplinary proceedings were taken in 185 cases, and, in addition, there were 31 convictions for criminal offences (*Hansard*, 5th December 1975).

The former Conservative Home Secretary, Mr Robert Carr (now Lord Carr), initiated consultations to establish an independent element of inquiry into complaints against the police. Similarly, Mr Whitelaw has recognised “that there is a demand, in order to strengthen public confidence (in the police), for an independent element of inquiry into complaints against the police” (*Hansard*, 7th June 1976, Col. 1063).

Nonetheless, Conservatives had serious reservations about the Police Act which Labour have introduced to achieve this.

The new Act provides that where the Chief Constable decides, provisionally, that no formal disciplinary proceedings shall be taken within the police force, a complaint shall be referred to the Complaints Board. The Complaints Board is then able to examine the case and, if it decides that disciplinary action ought to be taken, it can, in the last resort, overrule the Chief Constable.

Conservative spokesmen have suggested that complaints might be investigated in a less cumbersome fashion if the procedure were more similar to that already pursued by the Ombudsman, whose task is to investigate complaints about maladministration made by members of the public.

There are several other aspects of the scheme which have been criticised either by the Conservative Opposition, by the Chief Constables, by the Police Federation, or by all

three. Particularly unsatisfactory are the likely expense, increase in bureaucracy and the wastage of police time in protracted discussions on complaints.

Sir Robert Mark said that the police needed:

“a system which enables us to dispose *more* quickly of the overwhelming mass of complaints which are so trivial that they scarcely deserve more than a cursory appeal. We also seek a reduction in the time in which men faced with more serious complaints await the outcome of criminal or disciplinary proceedings” (Speech to Police Federation, 6th November 1975).

The Government's system may well fail to meet both of Sir Robert Mark's objectives. As Mr Whitelaw has said:

“Those who know anything about how the police service works, know how seriously complaints against the police are taken. But it is necessary for justice to be seen to be done, although in practice it nearly always is done. Therefore, the principle of an element of independent review of complaints is right in theory. But there is a real risk that the new independent machinery to be set up under the Police Bill, now before Parliament, may be excessively costly and cumbersome, and would do more harm than good” (London, 20th February 1976).

**Labour Party Policy on Crime.** There is no clear evidence in *Labour's Programme 1976* of a commitment to a more vigorous attack on crime. Instead, the whole emphasis is upon imposing lighter penalties on convicted criminals. Arguing that “custodial sentences ... are rarely successful as a method of reform and deterrence”, Labour's policy-makers recommend that “our aim must be to achieve a major reduction in the prison population, by using alternatives to prison for most offences directed at property”.

The document also suggests more generous parole terms with a “conditional release scheme” in which a prisoner qualifies for release half way through his sentence.

## **5. THE CONSERVATIVE APPROACH**

Mr Whitelaw reiterated in a speech in London on 15th October 1976 the importance the Conservative Party attaches to fighting lawlessness.

“A Government that cannot protect its own citizens from attack in the streets of its towns and cities, that cannot protect property from damage, or homes from intrusion, has failed to live up to the basic duties of Government ... The time has come, as our Conservative strategy document *The Right Approach* makes clear, to strengthen the forces of law and order and to plan a more co-ordinated strategy against crime in our society”.

**Strengthening the Police.** The cornerstone of any policy to combat crime must be the maintenance of a fully-manned, well-paid, well-respected police force. Mr Whitelaw has set out the extent of the Conservative commitment to the police force:

“We have made it clear in our strategy document *The Right Approach* that the police represent one of the few areas where we believe an increase in public spending is absolutely essential. The police must not become the Cinderella of the public services. Police men and women must not be put in a less advantageous position in terms of salary than other public servants.

“The status and conditions of our police force should be such that they attract and hold young men and women who have both ability and dedication from *all* walks of life, direct from schools, from other careers, from polytechnics, from universities.

“A fully manned, well-paid, well-equipped police force will be one of the top priorities of the next Conservative Government” (*Conservative Monthly News*, December 1976).

Mr Whitelaw also pledged the support of the Conservative Party for the recently instituted system of police scholarships, which enables serving policemen to attend higher education establishments.

*The Right Approach* sets out the Conservative view that in addition “the special constabulary must be strengthened and expanded”.

**Strategy to Combat Crime.** Mr Whitelaw stressed the need for a more co-ordinated approach to crime in order to ensure that policies are pursued which are the least expensive and most effective in terms of punishment, prevention and rehabilitation.

“I have no doubt that many of the problems and the dangers now facing our citizens and our various remedial and law-enforcing agencies spring from taking a too narrow, too ill-informed and consequently too *ad hoc* approach to the problems presented by lawlessness. We need to re-examine at a very basic level what we want our police and prisons, our probation services and our law courts to achieve. Without clear objectives none of these services can function as effectively as they should. When we have done that we need to look at the total resources that are likely to be available to each of these groups and to decide how we wish these resources to be divided. We need to look at the latest information available at home and abroad to see what specific solutions should be used to deal with different categories of law-breakers ... At a time of national stringency there is an urgent need to discover what are the most effective ways of dealing with offenders” (London, 15th October 1976).

Mr Whitelaw has also emphasised that the Conservative Party is anxious to see what can be done to minimise social and economic conditions which contribute to developing criminal tendencies.

“If we can nip in the bud criminal tendencies in people then we would be going a long way towards easing the pressures on our police ... Undoubtedly, economic mismanagement ... where that leads to high levels of unemployment, especially amongst young people, also contributes considerably to increasing the number of those tempted into a criminal life. The only real remedy for this situation is a vigorous pursuit of Conservative economic and social policies” (*Conservative Monthly News*, December 1976).

**Dealing with Offenders under 17.** Widespread concern has been expressed at the increase in juvenile crime, and debate on the subject has concentrated on the effectiveness of the Children and Young Persons Act 1969.

The intention of the Act was to deal with crimes committed by children and young persons (the Act refers to those under the age of 14 as children, those aged 14 to 16 inclusive as 'young persons' and all those under 17 as juveniles) through remedial care rather than punishment, in the expectation that the Social Services Department of the local authority would prove more successful in preventing the recurrence of crime than had the juvenile courts and the probation service previously. The Act was also intended to reduce the number of children and young persons in remand centres and adult prisons.

Neither of these things has happened. The difficulty has been that there have been inadequate resources to fulfil the intention of the Act and, meanwhile, the courts have been left without sufficient powers to control the hard core of persistent offenders by other means. The rise in crime among young people means that the inadequacies of the Act are now more apparent and more serious.

A Study Group of Conservative M.P.s, lawyers and experts, under Mr Edward Gardner, MP has examined the Act and issued, on 24th October 1976, a report entitled *Apprentices in Crime* (Conservative Central Office). Mr Whitelaw said that the report represented, "a broad guide to the way in which a Government should attempt to deal with the rising swell of juvenile anarchy and lawlessness among those young people who now repeatedly commit serious crimes" (Statement, 24th October 1976).

The main recommendations of the report are:

1. Suitable secure and tight-disciplined accommodation should be made available for young offenders.
2. Juvenile Courts should be given the powers to enforce the payment of fines by juvenile offenders and their parents.
3. Juvenile Courts should be empowered to order young criminals to be kept in "secure accommodation" for up to 2 years.
4. There should be an immediate stop to the practice of sending children and young people to adult prisons.
5. Greater use should be made of fostering for disturbed and delinquent adults.

The Conservative Study Group's report agrees on a number of points with the report produced by the House of Commons Select Committee on Expenditure in September 1975 on the working of the Children and Young Persons Act 1969.

The Government's reply to the Select Committee (the White Paper Cmnd. 6494, May 1976) also accepted many of the Committee's proposals but argued that "in present circumstances constraints upon resources will constitute an obstacle to rapid implementation".

**Sentencing Policy.** Decisions about the punishment of individual offenders are, of course, the responsibility of the Courts, but the Conservative view of the appropriate sentencing policy to be pursued in a number of areas has been stated in general terms.



1. The punishment must seem likely to be an effective deterrent. Mr Whitelaw has pointed out that “the police are helped whenever the law court deters a criminal and those who are tempted to follow his example by giving him a sentence which is truly commensurate with his crime”.
2. “Those who resort to violence and the threat of violence ... should receive exemplary sentences.”
3. “The core of persistent and hardened offenders ... should be sent to detention centres where a tight-disciplined but constructive regime prevails and where they will be exposed to the harsh consequences of their actions” (*Conservative Monthly News*, December 1976).

**Urban Crime.** There has been an increase in crimes of violence in the inner cities. In London, for example, “muggings” (robberies in the open following sudden attack) increased in 1975 by 36 per cent compared with 1974 (*Report of the Commissioner of Police of the Metropolis*, 1975).

Mr Whitelaw has set out a specific programme to deal with urban crime, while accepting that there are underlying economic and social factors which need to be tackled if a sustained reduction is to be achieved.

1. There must be more uniformed policemen on the beat.
2. There must be no attempt to keep the police out of inner city areas.
3. Exemplary punishment should be given out to those who use violence or the threat of violence especially in the case of “muggings”.
4. Effective powers must be restored to magistrates to deal with persistent offenders in the 17–21 age group.
5. Offenders should be sentenced as soon after the crime as possible.
6. Every effort should be made to use job-creation and work-experience programmes to get young people off the streets of the inner cities (London, 15th December 1976).

**Prisons.** Mr Roy Jenkins, then Home Secretary, said in London on 21st July 1975, that:

“If it (the prison population) should rise to, say, 42,000, conditions in the system would approach the intolerable and drastic action to relieve the situation will be inescapable”.

In October 1976 the prison population reached a record of 42,006.

The result of a prison population of this size is not just extensive overcrowding; it also means a sharp reduction in the ability of prison and probation staff to work towards the rehabilitation of offenders.

For many years all those concerned with crime prevention have been disturbed by the high cost of prisons and by the high rate of recidivism. For example, 46 per cent of all the adult male prisoners discharged from prisons in 1972 were reconvicted within two years of being discharged.

For all these reasons, and as part of the Conservative attempt to secure the most effective penal system, a Conservative Study Group has been appointed to examine the merits of, in appropriate cases, alternative methods of punishment and rehabilitation.

**Vandalism.** After continual pressure from Conservatives to deal with hooliganism at football matches, the Government brought forward in November 1976 plans to impose fines of up to £1,000 on hooligans. But the Government has not acted on the Conservatives' recommendations to deal in general more harshly with persistent and hardened young offenders (see p. 444).

**Capital Punishment.** Mr Angus Maude, speaking at the 1976 Conservative Party Conference, reiterated the Conservative Party's view on the question of capital punishment:

“This is for many people a matter of conscience, of principle, for some people a matter of religion too, and you cannot force Members of Parliament by means of a three-line Whip to violate their consciences or their religious principles” (Brighton, 6th October 1976).

While Parliament can, if so minded, restore capital punishment, Conservative MPs would always be allowed a free vote on this issue.

**Upholding Moral Standards.** The last Conservative Government introduced the Cinematograph and Indecent Displays Bill (which fell with the Dissolution of Parliament in February 1974), to prevent indecent books and magazines being visible from public places.

Mr Whitelaw reiterated the Conservatives' commitment to maintaining moral standards in a speech in Grimsby on 10th September 1976, when he said:

“The Government must show that it will stand against those who are seeking to undermine the moral standards upon which the vast majority of our people believe our society and family life depend.”

## **(B) IMMIGRATION**

### **1. THE EVOLUTION OF CONTROL**

In 1905 a Conservative government took powers to control the admission to this country of immigrants from foreign countries. Citizens of the Empire were not subject to these controls because, as British subjects, they were not aliens. Their status as British subjects was confirmed by the British Nationality Act of 1948.

In the post-war years, as Britain gradually transformed her Empire into a Commonwealth of nations, many citizens of these newly independent nations felt that they had a special bond with Britain and some felt that it was natural and desirable to come to Britain to improve their lot and that of their families. In some cases, minority

ethnic groups, who had retained British citizenship after the colony in which they lived became independent, were forced to leave these new nations and to seek refuge in Britain.

Britain, for her part, accepted that there existed special obligations to citizens of our former colonies; indeed until 1962 there were no immigration controls on Commonwealth citizens.

**Commonwealth Immigrants Act 1962.** The scale of immigration into the UK unfortunately became greater than the numbers the country could readily absorb. The Conservative Government therefore introduced the Commonwealth Immigrants Act 1962 under which the entry of Commonwealth citizens was limited by means of an annual quota of employment vouchers. This measure was opposed at all stages by both the Labour and Liberal Parties in the House of Commons.

**Commonwealth Immigrants Act 1968.** On the attainment of independence by certain former British colonies in Africa citizens of those colonies were given the option of retaining UK passports. A substantial minority did retain citizenship of the UK and colonies. These UK Passport Holders were exempt from control under the Commonwealth Immigrants Act 1962. It was this residual exempt category of citizens of the UK and colonies which was brought into the system of immigration controls under the 1968 Act. This was largely because this residual category became increasingly important as more former colonies were granted independence. Tanzania became independent in 1961, Uganda in 1962 and Kenya in 1963. These three newly independent African states were prepared to allow only a proportion of their British and Asian residents to become citizens, and indeed many of them had no wish to do so. Those who did not obtain citizenship of these countries remained “citizens of the United Kingdom and Colonies” (United Kingdom Passport Holders).

Before 1967, the number of United Kingdom passport holders (UKPH) coming to this country was not significant, but in that year and early in 1968 the number of UKPH immigrants so increased that the Labour Government passed the Commonwealth Immigrants Act 1968 which extended control to cover United Kingdom Passport Holders not connected by birth or descent with the United Kingdom. The Conservative Party supported this Act.

**Immigration Act 1971.** This measure implemented the pledge in the 1970 Conservative General Election Manifesto that “for the future, work permits will not carry the right of permanent settlement for the holder or his dependents”, and that “future immigration will be allowed only in strictly defined special cases”.

This Act came into full operation in January 1973, and it established a single system of control over all immigration from overseas. Its main provisions were:

- a. *Work Permits* would not carry the right of permanent residence here but only enable a person to stay in Britain for a limited period, normally a year, and to work at a specific job in a specific place. These work permits replaced the former employment vouchers which enabled people with certain skills to come here under a quota system for permanent settlement and look for a job.

- b. *Dependants* (wives and children) of immigrants already here before the Act continued to have rights of entry free from control, but immigrants admitted with work permits under the 1971 Act would not have an automatic right to bring in dependants.
- c. *Patrials*—i.e., people having close connections with the United Kingdom, e.g. through birth—also had the right to come here free from control.
- d. *Powers to prevent illegal immigration* were strengthened (i) by the creation of a new offence of assisting an illegal entry; (ii) by empowering the Courts to order confiscation of ships, aircraft and vehicles used for illegal immigration; and (iii) by extending from six months to three years the period within which a person could be prosecuted for the offence of illegal immigration.
- e. *Voluntary repatriation* would receive financial assistance under a scheme operated on the Government's behalf by International Social Service.

## 2. MAIN CATEGORIES OF IMMIGRANTS

The main categories of Commonwealth immigrants coming to Britain are as follows:

**(a) Work Permit Holders** (formerly Employment Voucher Holders), who no longer have the right of permanent settlement. The issue of these work permits is controlled by the Secretary of State for Employment and they are only issued when it can be shown that the job cannot be filled by someone already living here.

**(b) Dependants of those already settled here.** These comprise:

(i) *Dependants of those settled here before the operation of the 1971 Act* and who have therefore the right of entry free from control.

(ii) *Dependants of those coming here with work permits under the 1971 Act* who do not have an automatic right to stay here; before these dependants can be admitted the work permit holder must show that he is in a position to take responsibility for their maintenance.

(iii) *Dependants of United Kingdom Passport Holders* who have the right to come here under the quota system provided for by the 1968 Act.

In the case of work permit holders or others coming to Britain subject to conditions, the definition of dependancy is restricted to wives and children under 18 years of age. In the case of those accepted for permanent settlement and who entered the country before the operation of the 1971 Act there is an absolute right to bring in wives and children under 18 and the definition of dependant is wider including, for example, parents and grandparents. But before persons already permanently settled here can bring in dependants, other than wives and children, they must be in a position to maintain them.

**(c) United Kingdom Passport Holders** who come here under the quota system started by the 1968 Act.

(d) **Patrials** who come here free of control because they have close connections with this country.

In addition there are those who successfully apply for the right of permanent settlement in Britain after having first come here subject to conditions.

### 3. THE STATISTICS

There are two sets of statistics which have been used to measure Commonwealth immigration: (1) the statistics showing those accepted for settlement which now include work permit holders and their dependants; and (2) the figures which show for a particular year the number of Commonwealth citizens leaving Britain together with the numbers coming into Britain. All governments have taken the view that the statistics relating to immigrant families coming here for settlement are the most reliable for measuring immigration because the statistics dealing with embarkations and landings include holiday-makers and others coming here for a limited period to work, for example, in hospitals or for international companies which have a British branch.

**Inadequacy of the Statistics.** The official statistics conceal, of course, the problem of those who gain illegal entry and those who enter Britain for a limited period and then simply disappear and remain here illegally—this is referred to as the problem of “over-staying”.

The statistics are unnecessarily complicated, far from comprehensible, and not always accurate.

Perhaps the most serious inadequacy of the statistics is that they give no indication of the *total* number of dependants there are who might seek entry to the UK particularly from the Indian sub-continent which is now the main source of immigration.

The other main drawback with the statistics is that no figures can establish how many fiancés or fiancées UK citizens may want, at some future time, to marry and bring into the UK.

### 4. CHANGES MADE UNDER LABOUR

The present Labour Government has taken a number of decisions which have had the effect of increasing the rate of Commonwealth immigration into Britain.

On 27th June 1974 Mr Roy Jenkins announced (*Hansard*, Written Answer, Col. 535) that Commonwealth or foreign husbands of British women settled in this country would have the same rights of admission to Britain as already existed in the case of Commonwealth or foreign wives of British men already settled here. He went on to say that from then on male fiancés would be admitted, initially for three months; at the end of this period they would normally be expected to be married.

On 6th February 1975 Mr Jenkins announced that the number of entry vouchers issued to United Kingdom Passport Holders would be increased from 3,500 to 5,000 a

year (*Hansard*, Col. 1541). These are entry vouchers to heads of households which entitle them to bring their dependants.

**Rise in Commonwealth Immigration Under Labour Governments.** The figures for settlement show that in the years 1967–9 inclusive, the number of immigrants from the Commonwealth, including United Kingdom Passport Holders, averaged about 63,000 a year, falling to about 45,000 in the three years 1970–2 inclusive. (The latter figure *included* the influx of Asians with UK passports from Uganda as a result of President Amin's policy of mass expulsions.) There was a further fall to 34,000 in 1973—the first full year of operation of the 1971 Immigration Act. In 1974 the rate rose to 42,078 with a further increase to 50,928 in 1975. All these figures exclude immigration from Pakistan following the Pakistan Act 1973.

The main reasons for the increase between 1973 and 1975 are:

- a. An increase from 8,863 to 12,045 in the number of UK passport holders and their dependants;
- b. An increase from 4,760 to 16,051 in the number of spouses accepted for settlement; and
- c. An increase from 6,496 to 11,938 in the number of persons granted the right of permanent settlement after coming here subject to conditions.

Even allowing for some overlap in these figures there has clearly been a sharp increase in the numbers of those particular groups of immigrants coming here.

Figures given for the first six months of 1976 show a marked increase in immigration compared with the first six months of 1975 (15,906 compared with 14,455). The sharpest rise has been the increase in those coming to Britain in order to marry people already settled here. In 1975 there were 3,961 people in this category: this rose to 4,683 in 1976. The increase resulted largely from the concession made by Mr Jenkins to admit male fiancés of women already settled in Britain.

In 1975 the total number of people settling permanently in the UK amounted to 82,405. Of this number, 31,477 were foreign nationals (including those from Pakistan); the remainder were Commonwealth citizens.

## **5. THE CONSERVATIVE APPROACH**

Mr Whitelaw set out the basic principle underlying Conservative immigration policy in his speech to the 1976 Conservative Party Conference at Brighton when he said that it had now become necessary

“to follow a policy which is clearly designed to work towards the end of immigration as we have seen it in these post-war years”.

Mr Whitelaw pointed out that the Conservatives' 1971 Immigration Act laid down very strict conditions regulating the entry of immigrants into the United Kingdom. But he indicated that there were a number of areas where control over immigration needed to be tightened still further.

Mr Whitelaw, commenting on the proposals made by the Home Secretary on 9th February 1977 to tighten up some aspects of immigration control, said:

“I welcome the Home Secretary's determination to deal with abuses relating to marriages of convenience, and on the taking of employment contrary to conditions imposed on entry and on overstaying. But these measures in themselves will not be enough” (Eastbourne, 12th February 1977).

**Dependants.** Both in his 1976 Conservative Conference speech and in a speech made in Leicester on 17th September 1976, Mr Whitelaw set out the Conservative position on dependants:

- (i) Conservatives have not given any assurance to those who entered the UK after 1st January 1973 that they have a right to have any of their dependants admitted.
- (ii) There is to be no automatic right of entry to the UK for any relative other than wife and immediate young children of those who were settled here on 1st January 1973.
- (iii) The Labour Government changed the immigration rules on 27th June 1974 to allow male fiancés to join their future wives in this country. There is evidence that this concession is being abused: unless the abuse can be stopped, the concession must be revoked.

An indication of the possible size of the dependants problem was revealed in Parliament on 28th July 1976 when the Government admitted that the number of children not resident in this country for whom child tax allowances were given amounted to around 500,000.

**UK Passport Holders.** In a debate on immigration on 5th July 1976 Mr Whitelaw outlined Conservative policy towards UK Passport Holders UKPH.

- (i) He repeated the pledge given by Mr (now Lord) Carr, former Conservative Home Secretary (*Hansard*, 21st February 1973, Col. 589), that Britain could not accept again a burden of the kind arising from the expulsion of Asians from Uganda in 1972, when some 28,000 Asians came to this country.
- (ii) If the number of UKPH seeking entry to the UK is to any significant extent in excess of the Government's estimate of 40,000, then the present quota of 5,000 UKPH admitted annually to the UK must be reduced to well below that figure.

**Other Measures.** Conservatives have pressed for a number of other measures to ensure that a properly regulated immigration system can be devised and maintained.

- a. There must be accurate and clearly understood immigration statistics.
- b. There must be stronger action to break illegal immigration rackets. In particular there must be greater co-operation between the British Government and Governments in Europe and the Indian sub-continent.

- c. The landing-card system must be followed up more vigorously and the movement of immigrants more effectively monitored in order to end the practice of over-staying.
- d. The last Conservative Government initiated in 1973 an investigation into methods of ensuring that only genuine overseas students were admitted to Britain. After considerable delay the Labour Government began to take, in late 1976, some measures to tighten up scrutiny of those who claimed to be entering Britain in order to study.
- e. There must be no more amnesties for illegal immigrants.

**Repatriation.** Conservatives support voluntary repatriation where that is the clear and unambiguous wish of the person concerned but, as Mr Whitelaw said in Brighton on 5th October 1976:

“If it (repatriation) were to become compulsory ... that would surely be abhorrent to the vast majority of the British people”.

## 6. LABOUR AND LIBERAL POLICIES

Both the Labour and the Liberal Parties opposed the Conservative Commonwealth Immigrants Act 1962, which was the first attempt to control immigration from the Commonwealth.

The 1964–70 Labour Government recognised however the importance of firmly regulating immigration and in 1968 Mr Callaghan, then Home Secretary, further extended controls.

The present Labour Government has apparently departed from this position as the marked increase in immigration indicates.

On 29th September 1976 the Labour Party Conference passed by an overwhelming majority a motion calling for the repeal of the 1968 and 1971 Immigration Acts. If this policy were to be carried out this would represent a substantial relaxation of immigration controls.

*Labour's Programme for Britain 1976* takes a less extreme view but it too appears to recommend some relaxation of control. In particular, the document recommends extending a statutory right of entry to wives and children of all heads of households settled in this country. At present only those settled here before 1st January 1973 have this right.

The Liberal Party has adopted an open-door policy on immigration. Its 1976 Party Conference passed a motion on 16th September 1976 which called for the removal of all restrictions on the entry of UK Passport Holders, the granting of an immediate amnesty for illegal immigrants, unrestricted entry for dependants and fiancés of those already settled in the United Kingdom, refugees, uprooted persons, citizens of EEC and their dependants.



The Liberal Party has shown no awareness of the damaging effect these policies would have on race relations in Britain.

## **(C) RACE RELATIONS**

### **1. THE CONSERVATIVE VIEW**

The strategy document *The Right Approach* sets out the Conservative view on racial discrimination and its close connection with a strict immigration policy:

- i. “All acts of racial discrimination, incitement to racial violence and violence itself are wholly abhorrent to our British way of life and must be unequivocally condemned”.
- ii. “The maintenance of racial harmony requires an immigration policy which can fulfil the two following criteria. First, there must be an immediate reduction in immigration. Second, there must be a clearly defined limit to the numbers of those to be allowed into the country”.

Mr Whitelaw pointed out in a speech in Leicester on 17th September 1976 that firmly regulating, and working towards ending, immigration will not in itself guarantee good race relations. He suggested a number of positive steps that might be taken towards improving race relations.

“No one group or area should be asked to absorb far more immigrant communities than other areas ... this situation cannot be taken as an inevitable or long-term development ... Government should discuss with community leaders, local authorities, and industry ways in which on a purely voluntary basis we can avoid expecting certain areas to absorb more immigrants than other areas in the UK”.

“It is essential to avoid allowing circumstances to create a group of people, whatever the colour of their skin, who because they are trapped in a cycle of unemployment, resentment and violence, become more and more hostile to society”.

Stressing that many apparent racial conflicts are often in fact the result of competition between communities for scarce resources such as jobs and houses, especially in decaying inner cities, Mr Whitelaw recommended a much more vigorous attempt by Government and local authorities to encourage industry and voluntary organisations to help deprived groups in the inner city by providing additional education, work-skills and jobs.

### **2. LABOUR'S RECORD**

The massive increase in unemployment since 1974—particularly amongst some of the minority communities—combined with a sharp rise in immigration, has not helped the development of harmonious race relations. As Mr Whitelaw said:

“The real failure of the present Government in all the areas I have been speaking about is that at a time when, because of the depressed state of the world economy and

because of its own economic mismanagement, resources are scarce, it should have squandered so much on such things as nationalisation of shipbuilding and aerospace and indiscriminate subsidies, instead of diverting these resources to those areas of our society which the economic recession has put under special strain.

“The tensions and the conflicts we have recently seen are as much the fault of this Government's irresponsible and myopic policies.

“Immigration, race relations and urban decay are all separate but closely related problems. To deal effectively with one we must never forget the connections between them” (Leicester, 17th September 1976).

It is against this background that the Government's Race Relations legislation must be judged.

### **3. RACE RELATIONS ACT 1976**

This Act will replace the 1965 and 1968 Race Relations Acts. It will deal with racial discrimination in employment, training, education, in housing, in the provision of goods, facilities and services. It extends the law to cover discrimination by private clubs.

A new body, the Race Relations Commission, has been set up to replace the Race Relations Board and the Community Relations Commission, with powers similar to those of the Equal Opportunities Commission established under the Sex Discrimination Act.

During the Second Reading debate on the Bill in the House of Commons on 4th March 1976 Mr Whitelaw stressed that while the law has a role to play in ensuring equal rights for all citizens, the Government has a duty to see that its other policies are not undermining this objective, and this must mean, at the very least, the strictest control on the numbers of immigrants entering Britain.

The Act has made two major changes to the law which have caused considerable and widespread anxiety and both of which are opposed by the Conservatives.

First, the Act extends the law against discrimination to cover clubs (except those with a membership of less than 25 or those whose main object is to confer benefits on a particular racial group defined other than by colour).

Secondly, it removes the requirement in the Race Relations Act 1965 to prove that a person *intended* to discriminate on racial grounds.

Conservatives objected to extending the law against discrimination to clubs, partly because of the danger of using laws like this to infringe basic liberties, and partly because of the danger of creating “martyrs”, and needless inter-community friction through people bringing law suits against clubs.

Much more serious is the removal of the requirement to prove the *intention* to discriminate on racial grounds. As Mr Michael Alison, a Conservative spokesman on Home Affairs, said, the Act represents “a major and undesirable departure from the doctrines and principles of English law”.

“I argue from the simple and commonsense view that if we provide that a citizen shall be treated and punished as a criminal when there is no criminal intent in what he has done, or in the words that he has used—words which the great bulk of the population feel not to be criminal—we are bringing the whole of Parliament and our civil and criminal law into disrepute” (*Hansard*, 27th October 1976, Col. 646).

It is possible that under the Act, the press and television will be prevented from discussing community relations affairs for fear of prosecution. The President of the Guild of Newspaper Editors made this clear in a letter to *The Times* on 27th October 1976:

“The phrase ‘hatred is likely to be stirred up’ would make it almost impossible for an editor to decide whether or not he would be risking prosecution, despite the fact that he might well be dealing with a matter of important public interest. The effect would undoubtedly be to gravely restrict information of events, of speeches, and of statements about which the public have every right to know, and which it is an editor's duty to publish”.

## **(D) SEX DISCRIMINATION**

Acts of discrimination against women have remained, until very recently, widespread in our society. Conservatives regard this attitude towards women as quite unacceptable and have taken extensive and vigorous action to change the law so that women are treated as equal citizens in our society.

### **1. CONSERVATIVE ACTION**

Earlier Conservative action this decade includes:

- a. The Guardianship of Children Act 1973 which gave mothers equal rights with fathers to make decisions about a child's upbringing, whereas previously the father's rights were paramount.
- b. In 1971 the Conservatives stopped the distasteful practice whereby, in assessing damages awarded to a widow, the court had to assess her chances of remarriage.
- c. The Attachment of Earnings Act 1971 required husbands who were liable for maintenance payments to inform the court when they changed employment so that the maintenance order might be carried over from job to job.
- d. In October 1971 arrangements were made whereby maintenance payments could be made by post thereby avoiding the necessity of having to collect money from the court, and arrangements were also made with many other countries to prevent men from avoiding payment of maintenance by going abroad.

- e. The Domicile and Matrimonial Proceedings Act 1973 which enabled a married woman living apart from her husband to have a legal domicile of her own.
- f. The Criminal Justice Act 1972 which ended the property qualification for jury service, thus enabling many more women to serve on juries.
- g. The Finance Act 1972, which introduced specially favourable arrangements regarding the estate duty liability of surviving spouses: these were particularly helpful to widows. This measure also ended the situation in which some married couples paid more tax on their joint incomes than they would have paid if they were not married.
- h. A number of amendments particularly beneficial to women which were introduced into our social security system—for example, the attendance allowance particularly helps single women or widows who devote their lives to looking after an elderly mother or father who requires a great deal of care and attention. The sliding scale pension for women widowed between the ages of 40 and 50 closed a gap in the provision for widowhood.

## **2. SEX DISCRIMINATION ACT 1975**

This Act stems largely from the Consultative Document, *Equal Opportunities for Men and Women*, which was published in September 1973 by the last Conservative Government. This document stated:

“The Government has decided to introduce legislation to make unlawful discrimination in employment on grounds of sex ... and to encourage the changes in attitudes which are required if women are to obtain opportunities equal with men”.

The Act makes it unlawful to discriminate on grounds of sex in the field of employment, and in the provision of educational facilities, housing, goods, services and facilities; it also makes it unlawful to discriminate in advertisements in these areas.

The Act gives individuals who believe they have been discriminated against, access to courts and, where appropriate, industrial tribunals.

An Equal Opportunities Commission has been created which is empowered, on its own initiative, to investigate discriminatory practices. The Commission can issue non-discrimination notices which require discriminatory practices to cease and these notices are enforceable in the courts.

Conservatives gave a general welcome to this measure, but expressed reservations about some of the provisions. In particular, they were concerned about the extent of the powers possessed by the Equal Opportunities Commission, for example to initiate investigation, which could lead to expensive, time-consuming bureaucratic interference.

## **(E) ADMINISTRATION OF JUSTICE**

**James Report.** Arising from an apparently increasing trend for criminal cases to go before the Crown Court, a Committee under the Chairmanship of Lord Justice James reported in November 1975 on the *Distribution of Criminal Business between the Crown Courts and the Magistrates' Courts*. Its Report, Cmnd. 6323, proposed that offences should be simplified into only three main categories—those triable summarily; “intermediate” offences giving the defendant the right to choose summary trial (i.e. before Magistrates) or jury trial (i.e. at the Crown Court); and offences triable only on indictment in the Crown Court. This would mean that people charged with theft or shoplifting involving a small amount would no longer have the right to choose to be tried by a jury. The Committee also recommended that the normal maximum penalty for magistrates' courts be increased.

The Committee made similar recommendations for some motoring offences. Serious motoring offences would become “intermediate” with a right to choose trial by jury, while all drinking-and-driving offences would become summary. The object of the Committee's proposals was to relieve the Crown Court of many minor cases, thereby reducing the delays in trying serious offences before this Court. Some offences, notably obscene publication cases, that do not now give the defendant the right to choose trial by jury, should be up-graded into the “intermediate” category.

**The Criminal Law Bill 1976**, which received a 2nd Reading in the House of Lords on 14th December 1976, implements the recommendations of the James Report and three other official reports on various aspects of justice administration.

(a) Part III of the Bill implements all the main recommendations of the James Report. Petty offences such as theft or shoplifting where the value is less than £20, and criminal damage where the damage is under £100 would be triable summarily, (i.e. before magistrates), with no right to choose trial by jury. Motorists accused of drinking and driving offences also lose the choice of trial at the Crown Court. It is suggested that the reallocation of offences between Magistrates' Courts and the Crown Court resulting from these provisions will shift upwards of 8,000 cases from the Crown Court to the Magistrates' Courts. Offences will be divided into the three categories recommended by James. Many offences are made subject to higher maximum fines. These include a maximum of £1,000 for football hooliganism or supporting a terrorist organisation and a £500 maximum for unlawful wearing of uniforms or contravening public health laws.

Fines for motoring offences are increased.

(b) The Bill implements the recommendations of the Law Commission on conspiracy and criminal law reform (see Chapter 19, p. 492). It redefines the offence of conspiracy, limiting it to agreements to commit criminal acts and reducing the maximum penalties, as foreshadowed. It also replaces the present offences of conspiracy to trespass by two important new offences: (i) using or threatening violence to enter premises where there is another person who opposes entry; and (ii) failing to leave premises when required to do so by a displaced residential occupier. The Bill also makes the carrying of an offensive weapon by a trespasser, entering diplomatic premises, and resisting a court officer (bailiff) criminal offences. These provisions are aimed against “squatters”. It will be seen that they do not apply to empty premises.

(c) Parts of the Brodrick Report on Coroners and Death Certification, Cmnd. 4810 (1971), are implemented in the Bill.

(d) Other provisions include increased powers against those who contravene the anti-rabies controls; and powers for the Home Secretary to vary the amounts below which petty thefts and criminal damage become triable summarily, as well as to increase maximum penalties for a number of offences.

The Bill applies—with certain exceptions—to England and Wales only. The main exceptions are (i) the application to Scotland of the provisions which make some offences like motorists' drinking and driving offences triable summarily and which increase penalties; and (ii) the increased penalties for supporting illegal (terrorist) organisations will apply to Northern Ireland.

At the Second Reading in the House of Lords, Lord Mansfield on behalf of the Conservative Opposition described the Bill as consisting of “a number of largely unrelated reforms of, and changes in our law”. He welcomed the Bill as being largely, if not completely, outside Party political considerations, but he expressed strong reservations on some aspects of the Bill. In particular he was unhappy that the conspiracy provisions might prove a “charter for intimidation”; he considered the “squatter” provisions were unfairly discriminatory; noted that the restriction of trial by jury had been widely criticised; and he expressed doubts on the arbitrary £20 criterion used to classify offences (*House of Lords Report*, 14th December, 1976 Cols. 810–16). In Committee Opposition peers have concentrated on trying to make the Bill better by amending it.

Two notable concessions made by the Government in the House of Lords were:

- i. There is to be no loss of the right to trial by jury in cases of alleged minor theft—lesser offences indeed, but offences for which a possible wrongful conviction could do immense harm to a person's reputation or professional position.
- ii. Offences of criminal damage will be triable summarily if the damage is £200 or less (instead of £100, as originally proposed).

**Identification in Criminal Cases.** In 1974 several wrongful convictions based only on identification evidence aroused anxiety. A Committee under the Chairmanship of Lord Devlin was set up to investigate in May 1974 and reported in April 1976. The Committee's Report, *Evidence of Identification in Criminal Cases*, HC 338 of 1975–6, confirmed that the identification evidence in the Virag and Dougherty cases had been inadequate, but considered that there was no basic defect in the British identification machinery. It recommended sweeping changes in identification procedure, including some changes in the law. Identification evidence unsupported by other evidence should only mean conviction in exceptional cases. Identifications in court should be severely restricted and there should be changes in use of photographs and identification parades. A statutory code should regulate the latter.

On the day of publication the Home Secretary, then Mr Roy Jenkins, announced that he would hold consultations with those interested before proposing changes (*Hansard*, 27th April 1976, Cols. 66–7). The Attorney General, Mr Samuel Silkin, announced a

series of guidelines, pending legislation, which the Director of Public Prosecutions would henceforth follow in cases involving identification (*Hansard*, 27th May 1976, Cols. 287–9). Meanwhile two further persons imprisoned mainly on identification evidence were released. Mr Patrick Meehan was released with a free pardon on 19th May and Mr George Davis was freed from gaol by a royal prerogative of mercy on 11th May. The pardoning of Mr Meehan on the advice of the Secretary of State for Scotland was severely criticised by Lord Robertson, the trial judge, during his summing-up at the Waddell case in Edinburgh on 1st December 1976. Others (e.g., Mr Christopher Whitby, released on fresh evidence on 13th May) were dealt with by the Court of Appeal. Special sessions were held by the Court of Appeal to deal with similar cases and at one of these on 9th July Lord Widgery, the Lord Chief Justice, laid down guide-rules. These provide, *inter alia*, that if identification evidence is weak and unsupported the judge should direct an acquittal; but if the evidence is good a jury may legitimately convict on visual identification evidence alone.

In June 1976 Mr Michael Foot stated that the then Home Secretary was preparing “legislation which we hope to have for next Session” (*Hansard*, 17th June 1976, Col. 746). The new Home Secretary, Mr Merlyn Rees, told the House of Commons in a Written Answer that the consultations on this matter were almost complete. He did not expect to present legislation until the impact of the Court of Appeal's guidelines (see above) had been assessed. He did, however, intend to issue a circular to the police requesting them to revise identification procedure so as to bring it into line with the Devlin Committee's recommendations (*Hansard*, 18th November 1976, Col. 658).

**Bail Act 1976.** This Act creates a statutory prescription in favour of the grant of bail so that where a person is before a court charged with, or connected with, an imprisonable offence and a remand is necessary, the court will be required to remand him on bail unless satisfied that there are substantial grounds for believing that the defendant, if released, would abscond.

In its original form the Bail Bill would have left the public at severe risk from accused persons who took advantage of their continued freedom to commit more crimes. But Conservatives succeeded in persuading the Government to minimise this risk by adopting amendments to the Bill which give magistrates adequate powers to refuse bail.

## **(F) BROADCASTING**

### **1. POLICY AND ADMINISTRATION**

**Annan Committee.** In April 1974 the Government set up the Annan Committee on the future of broadcasting. The Committee has been collecting evidence on its very broad terms of reference. The Home Office estimated in 1974 that the Committee would take “about two and a half years to report and that a similar period of time would be needed for consultation on the Committee's recommendations and for any other legislation that may be necessary” (Press Release, 12th July 1974).

A written answer by Mr Alexander Lyon, then Home Office Minister of State, said that the Annan Committee “expects to report early next year. The Government will formulate their proposals as soon as there has been opportunity to consider the Committee's findings” (*Hansard*, 8th April 1976, Col. 238).

If the Committee reports in the spring of 1977 the addition of two and a half years for consultation and legislation would mean no action until the autumn of 1979, in particular on the disposal—outside Wales—of the fourth channel.

**BBC and IBA Extended.** Pending the Report of the Annan Committee, the franchises of the IBA and the BBC (both due to expire in July 1976) have been extended until 31st July 1979.

**Finance.** Independent TV gets its income primarily from advertising, whereas the BBC is financed mainly from licence fees. In 1974 rising costs compelled the BBC to announce cuts of about 20 hours of TV and 50 hours of radio a week. At the same time the BBC applied for higher licence fees. An increase in fees from £7 to £8 for black and white, and from £12 to £18 for colour television, effective from 1st April 1975, was authorised early the following year. In announcing the increases, Mr Roy Jenkins, then Home Secretary, said:

“It is hoped that this settlement will last for three years, which would see us quite well over the period of the report of the Annan Committee, leaving some time for implementation ... The settlement must last for at least two years ...” (*Hansard*, 29th January 1975, Col. 398).

The BBC's accounts for 1974–5 showed a deficit of some £18 million. The Corporation's aim was to reduce it to £10 million by March 1976 and to hold it at that level for a year thereafter (Sir Charles Curran, Director General, BBC, quoted in *The Times*, 11th March 1976). BBC external services were cut for the second year running in April 1976.

**Mr Jenkins' Illegality.** After Mr Jenkins had announced the proposed increases in broadcast licences some people bought fresh licences at the old rate before their existing licences expired. This was, as it proved, a perfectly legal operation. But Mr Jenkins would not accept this and caused threatening letters to be sent to these people demanding payment at the new rate under pain of having their licences revoked. The Ombudsman, however, when he was called in, reported that there had been “muddle” and “inefficiency” in the handling of these cases by both the Home Office and the Post Office (*7th Report of the PCA, Session 1974–5, House of Commons* 680). Mr Jenkins apologised, but the Court of Appeal decided that the Home Secretary's attempt to revoke people's licences was “unlawful, invalid and of no effect” (*Congreve v Home Office, “Times” Report*, 4th December 1975). Again Mr Jenkins apologised for his high-handed action and this time he set about paying back the money to the viewers and listeners from whom it had been unjustly mulcted. This was surely the first time a Home Secretary has been, in the words of Mr Ian Gilmour, “censored by the Ombudsman for maladministration and condemned by the Court of Appeal for contravening the Bill of Rights” (*Hansard*, 8th December 1975, Col. 235).



**TV Licences for Pensioners.** It has frequently been proposed that TV licences should be provided free or at cheap rates to pensioners, but successive governments have rejected the proposal. After a further study of the possibility of cheap pensioners' licences for black and white television, Mr Roy Jenkins reported as follows:

“Successive Administrations have ... taken the view—that it is preferable to help [pensioners and disabled people] with cash benefits ... rather than to give benefits in kind ... This general conclusion is reinforced by other considerations. The study which has been undertaken has shown that it is impossible to produce an administrative scheme for a licence concession for anything less than the totality of pensioners which would not be highly complicated and in some ways unfair. Any further licence concession which covered black and white licences for all pensioner households would, it is estimated, cost at least £26 million a year. It could only be paid for by (a) a cut in BBC income, (b) higher television licence fees or (c) Government finance.

“There are clear disadvantages in each of these possibilities. The BBC has already had to restrict its services, and any further reduction in its income would mean further cuts in output. Television licences were substantially increased only as recently as April of this year. I do not think that it would be possible ... to justify the increased public expenditure which a Government subsidy would involve” (*Hansard*, 5th August 1975, Cols. 149–50).

**Broadcasting Coverage.** The Report of the Committee on Broadcasting Coverage (Chairman, Sir Stewart Crawford) in November 1975 made a number of recommendations on priorities in extending broadcast reception to all parts of the United Kingdom. In a Written Answer, Mr Jenkins accepted the Committee's two major recommendations and referred the remainder to the Annan Committee. The two proposals with which the Government undertook to deal in advance were:

“The first is that in all parts of the country the extension of UHF coverage should take first priority as regards television development ... The second is the recommendation ... that the fourth television channel in Wales would be allotted to a separate service in which Welsh language programmes should be given priority and that this service should be introduced without waiting for a decision on the use of the fourth channel as a whole. The Report recommends that the service should be provided on a joint basis by the BBC and HTV and that a Government subsidy should be considered” (*Hansard*, 21st November 1975, Col. 475).

(*For further developments on this subject see Chapter 23, p. 567.*)

**Labour's Blueprint.** A report, *The People and the Media*, produced in 1974 by a Labour Party study group chaired by Mr Anthony Wedgwood Benn, proposed the dismantling of both the BBC and the IBA. Control would come from a powerful Public Broadcasting Commission and all the money needed for broadcasting would come from (i) radio and TV advertising and (ii) the State. In March 1975, these remarkable proposals were submitted to the Annan Committee by the Labour Party “without commitment”, and were reiterated briefly in *Labour's Programme 1976*.

## 2. PROGRAMME CONTENT

**Controls.** The Charter and Agreements of the BBC and the Independent Broadcasting Acts put a duty on the broadcasting authorities to ensure that programmes do not offend good taste and that news programmes are accurate and impartial. There are also powers for the Minister to order the broadcasting authorities to refrain from broadcasting specific matters. But successive Ministers have taken the line that these are reserve powers and have declined to interfere with the programme content of the BBC or the IBA. They have held that control of programme content is a matter for the broadcasting authorities who are (a) in continuing contact with the production of programmes, and (b) responsible to Parliament.

**Machinery.** Complaints continue to be made to the IBA and the BBC, which have their own machinery for dealing with, and investigating, complaints from the public. These for the most part cover allegations of bias or complaints that individuals or groups were unfairly presented. Since 1971 the Authorities have added a further echelon to the complaints machinery in the form of a Programme Complaints Commission (BBC) and a Complaints Review Board (IBA). Composed mainly of eminent independent persons, these bodies consider complaints of unfair treatment where the Authorities' own answers have failed to satisfy the complainant. Their adjudications are published. By way of example, in November 1975 the IBA itself upheld a complaint that a Granada TV programme misrepresented British tea companies' commercial policy in Sri Lanka (Ceylon); the Director General, BBC, rejected in September a complaint that the Scottish National Party was unfairly treated in a BBC TV feature series; in October 1975 the BBC Overseas Service dismissed two journalists for pro-Communist bias in broadcasts to Portugal; in December 1975 the Programme Complaints Commission upheld a complaint from a Manchester firm of name-tape manufacturers of unfair treatment on a BBC radio programme, but rejected a complaint by Lord Stokes that an aspect of British Leyland's policy had been misrepresented in another radio programme.

**Broadcasting Council.** It has been suggested that complaints should be dealt with by an independent Broadcasting Council. In the past this has been rejected by Ministers and by the BBC on the grounds that this would undermine the position of the Governors whose task is both to manage and answer to the public.

**Mr Hayward's Allegations.** After the October 1974 Election Mr Ron Hayward, Labour Party General Secretary, alleged that the BBC's coverage of the election had been generally slanted against Labour. The Labour Party commissioned Mr Anthony Barker of Essex University to study the BBC's coverage during the Election period. As a result Mr Barker reported that he had analysed every minute of national TV coverage and there had been "no overall bias". Mr Hayward was therefore forced to retract. "I accept Mr Barker's Report," he said, "My judgements were apparently based on too small a sample" (*Times*, 12th November 1976).

## 19 PARLIAMENT AND THE CITIZEN

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## Speaking Note

Many important reforms affecting Parliament and the citizen are still awaited. But Labour's record is one of advance being held up by the Government's mishandling of the Parliamentary machine.

- For over two years Parliament has been used as a “legislative sausage machine” to press through unwanted, undigested and divisive measures.
- Some of these measures were intrinsically ill-thought out—as in the notorious case of the 1975–6 Finance Bill, many of whose provisions were shown by the Opposition to be unworkable and had to be dropped after Union outcries.
- To get them through Parliament the Government has resorted to ruthless use of the guillotine.
- To underpin the Government's wafer-thin majority in 1976 there was resort to violation of a “pair” and attempted “packing” of the Standing Committees.
- The House of Lords has been recklessly overloaded with last-minute tasks. Because it has exercised its legitimate function as a revising Chamber it has been abused and blackmailed by the Government and threatened with a constitutional crisis.
- As a result of this Parliamentary bulldozing, the Children Act 1975 and the Rent (Agriculture) Act 1976 each emerged with an amendment whose wording had got mangled in the rush. The wording in the Rent (Agriculture) Act amendment was such gibberish that a special amending Bill was needed to put it right.
- Other important measures have been neglected. Valuable Reports have not been acted on. Legislation on Privacy and on Official Secrets is still awaited, though the Younger and Franks Committees reported on these subjects four years ago. Nothing has been done about Defamation and Contempt of Court though two Committees presented Reports in 1974 and 1975.
- Outside Parliament, bureaucracy increases and Ministers resort to high-handed action. This Government is surely unique in that the actions of no less than three of its Cabinet Ministers have been declared invalid by the Courts of Law.
- Conservatives intend to restore Parliament's authority, not least in relation to an over-powerful Executive. As *The Right Approach* states, “Parliament should not be regarded ... as at best a machine for processing Socialist legislation and at worst a tiresome encumbrance slowing down progress towards the Socialist millenium”.

# (A) REPRESENTATION OF THE PEOPLE

## 1. ELECTORAL CHANGE

A number of factors have recently produced pressure for changing the British electoral system. The Liberals have always favoured change since they lost effective power, though seventy years ago when they last formed a government they did nothing about it. They now stress how under our present system the seats gained by the different parties are not proportionate to the number of votes cast.

Others see in electoral change a means of securing less polarised party government more broadly based, and therefore—as they see it—capable of firmer action. But perhaps the most important factor in the increasing interest in a changed electoral system is the set of developments to which Lord Hailsham recently drew attention in his Dimpleby Lecture broadcast on 19th October 1976. We have reached the stage where a Party can gain power on a minority vote and attempt to put through every detail of the measures in its election manifesto. The Opposition, in Lord Hailsham's view, is in a weaker position and

“The absolute powers of Parliament ... are wielded by the Cabinet alone and sometimes a relatively small group within the Cabinet”.

To remedy what Lord Hailsham called an “elective dictatorship” some have proposed proportional representation to secure a more diffused coalition form of government.

Proportional representation has also been advocated as a suitable form of franchise in two new contexts. The Majority and Minority Reports of the Kilbrandon Commission (Cmnd. 5460 and 5461) stressed that under devolution the proper representation of minorities in devolved Assemblies was at least as important as creating a decision-making government. They recommended proportional representation for the Assemblies; the Minority Report added that this was “particularly important in those areas where recent voting patterns suggest one party could be in a ‘perpetual’ minority”.

With the EEC committed to a directly elected European Assembly (see Chapter 26, p. 611), some form of proportional representation has been advocated in this context too. The Select Committee on Direct Elections to the European Assembly reported that it had received “a considerable amount of evidence” favouring the view that elections for the European Assembly should be held “under a system of proportional representation”, although in the event the Committee reported in favour of our present system for the first round of elections to the Assembly (H.C. 515, 1975–6, para, 18).

## Attitudes of the Parties

(a) **Conservative.** Electoral change has been debated at the last two Conservative Party Conferences. At the 1975 Conference Mr Angus Maude, Deputy Chairman of

the Party, was critical and stressed the risk of almost every proposed electoral system producing “ineffective minority government”. He doubted the strength of Liberal claims based on “fairness” or widespread support and he listed the defects of other systems. Of many possible systems, the “List” system achieved true proportionality (so-called “fairness”), but gave too much power to party machines. Other systems needed big five-member constituencies to achieve abstract “fairness”, thereby undermining our present direct link between the citizen and his MP. The “alternative vote” system was not proportional and could decide election results by the preferences of “the most worthless votes”. A mixed system composed of the British method and the Single Transferable Vote (STV) method would create two different classes of MPs. Virtually all methods would transfer much of the choice from the hustings to political pacts and deals between the parties (Blackpool, 8th October 1975).

At the 1976 Conference, Lord Carrington, Leader of the Opposition in the House of Lords, said of electoral change:

“Some see it as fairer and likely to produce stability. There are those such as Mr Maude ... who take the opposite view and who believe that ‘first past the post’ is still the best system. Let me only make two points. First of all, no such change is possible unless the House of Commons accepts it. There is no intention on the part of the Labour Party to agree to any such change. We have got to fight the next Election under the old system ... Secondly we do not know what system of voting will be adopted for the Scottish Assembly. It is more than likely that we shall have proportional representation for European elections anyway before too long. Let us therefore continue to discuss these matters. Let us air them thoroughly. There are serious considerations on both sides” (Brighton, 7th October 1976).

A point to be borne in mind, as Mr Maude has said, is that once the principle of electoral change is conceded there is nothing to prevent the rules being changed in every Parliament to suit the electoral convenience of the party in power. So far from guaranteeing stability, it opens the way to continual gerrymandering.

**(b) Labour.** The Labour Party has kept a low profile on the subject, with relatively few ministerial statements. Lord Harris of Greenwich, Minister of State at the Home Office, replying to a House of Lords debate on Proportional Representation on 23rd April 1975, indicated that “there would be significant difficulties” in the operation of a proportional representation system, and listed the increased size of constituencies, the probable breaking of the single-member constituency link, and the difficulty of choosing between several alternatives suggested. Since such a system would almost certainly require a coalition,

“the electorate could not know at the time of the election what programme or policies such a coalition might follow”

and if such a government lost the confidence of the country,

“there might be difficulties at a subsequent general election for the electorate to express their views effectively by means of their votes” (*Hansard*, House of Lords, 23rd April 1975, Cols. 943–5).

**(c) The Minor Parties.** The **Liberals** favour electoral change on the basis of the single transferable vote in multi-member constituencies, which is similar to the system used in the Irish Republic. There is little doubt that the Liberals favour this system as being the one that would suit them best electorally.

The main disadvantages of this system are:

- a. It would most probably lead to a fragmented multi-party system. The fact that this has not yet happened in Ireland is more a result of Irish history than of the working of the system.
- b. The principle of the single-member constituency would be lost, since to achieve nearly proportional representation, at least four or five-member constituencies would be required.

The **Scottish Nationalists** and **Ulster Unionists** are not in favour of change. **Plaid Cymru** supports electoral change, but has given no indication of which system it favours, apart from expressing a desire to retain single-member constituencies.

## **Hansard Society Commission Report**

A Commission on Electoral Reform, under the chairmanship of Lord Blake, was set up by the Hansard Society for Parliamentary Government and reported in June 1976. The membership of the Commission when it was established was not such as to make its eventual conclusions in favour of electoral change altogether surprising. All but one of the Commission's members expressed a preference for a system known as the "Additional Member" system, by which 480 MPs would be directly elected and 160 seats would be allotted to the defeated candidates of other parties so as to give those parties more seats in proportion to their respective votes. Apart from the general disadvantages (fragmentation of parties and inevitable coalitions), this system would create an anomaly in that, for example, Liberal candidates who had come third in existing seats would be entitled to sit in Parliament alongside, say, Conservative candidates who had come first and in preference to, say, Labour candidates who had come second. It would in fact create two classes of Member. Perhaps for this reason Lady Seear, a Liberal member of the Commission, indicated that she preferred the alternative of STV in multi-member seats.

## **2. SPEAKER'S CONFERENCE**

A Speaker's Conference is a device whereby, at the invitation of the Prime Minister, representatives of the different Parties in Parliament can meet under the chairmanship of the Speaker to discuss constitutional matters. Starting in 1916, six Speaker's Conferences have been held, of which five have discussed electoral law or franchise matters.

In their October 1974 Election Manifesto the Conservatives proposed the setting up of a Speaker's Conference "to examine our electoral system and to make recommendations". At the 1975 Party Conference, Mr Angus Maude, referring to several statements made by Labour Party spokesmen to the effect that a Speaker's Conference was under discussion, said:

“If this should just happen to be one of those pledges which the Labour Government should honour we would support it and take part in the Conference ... Indeed, I must say I think it impossible there should not within the next few years be a Speaker's Conference on electoral matters ...” (Blackpool, 8th October 1975).

It should be pointed out that responsibility for the remit of such a Conference rests basically with the Government of the day. The Prime Minister by convention proposes terms of reference and seeks the other Parties' agreement to them, or their supplementary observations. But he can reject these in whole or in part if he wishes. As Mr Angus Maude has said elsewhere:

“The initial terms of reference which the Prime Minister now seems likely to recommend will be entirely the responsibility of the Government, and in no way that of the Conservative Opposition” (Letter to the *Times*, 26th November 1976).

Mr Maude added that as the Government thought no major constitutional changes should even be discussed until the effects of devolution were through Parliament, “there was never any likelihood of electoral ‘reform’ being included this time”.

Certainly in their statements to Parliament Labour spokesmen did not suggest that change in the voting system was to be the sole subject of a Speaker's Conference. In a series of Parliamentary Answers in 1976 on this matter from Sir Harold Wilson, Mr Short, Mr Jenkins and Lord Harris of Greenwich the usual formula was to refer to Government intentions to discuss the convening of a Speaker's Conference and to add some such phrase as, for example:

“One of the matters for consideration will be whether such a Conference should examine the question of electoral reform” (Mr Jenkins, *Hansard*, 30th June 1975, Col. 339).

The Liberal attitude has been to blame the Conservatives for not getting electoral change included in the agenda of the proposed Speaker's Conference. In fact, Conservatives are in no position to fix the agenda when in opposition. This attitude of the Liberals becomes even less convincing when they consistently take the line that a Speaker's Conference is in any case not a satisfactory forum for discussion of electoral change. Mr Jeremy Thorpe, when he was leader of the Liberal Party, was among those who took this line. On 6th November 1976 he replied to the suggestion that a Speaker's Conference was “simply a device by the big Parties to block reform” thus:

“I think it's a device ... I think it's a stalling device. We've known what they [Speaker's Conferences] have said for the last 40 years. They've always been in favour of the system as it is” (*The Week in Westminster*, B.B.C.).

It was in April 1976 that Mr Jenkins, then Home Secretary, told the House of Commons that Mr Callaghan had written to the leaders of the Parties on the subject of convening a Speaker's Conference (*Hansard*, 13th April 1976, Col. 467). Consultations between the Party leaders have been proceeding. The terms of reference of the proposed Speaker's Conference are not yet known. But Mr Maude's statement that there never was any likelihood of a change in the voting system being included in

the remit of a Speaker's Conference under the present Government (see above) seems to be well supported by a Parliamentary Answer from Lord Harris of Greenwich in October. In it he said that electoral change was

“considered by a previous Speaker's Conference which decided to recommend no change in the electoral system, and at present the Government have no plans for changing the present position”.

He added:

“... the Government do not take the view at the moment that a Speaker's Conference is the appropriate way of examining this problem. [i.e. changing the voting system]” (House of Lords, *Hansard*, 16th October 1976, Col. 1290).

### **3. BOUNDARY COMMISSION'S REVIEWS**

There are four Parliamentary Boundary Commissions—one each for England, Wales, Scotland and Northern Ireland—under the Chairmanship of the Speaker. Apart from minor occasional adjustments, they make a General Review of all the constituencies every dozen years or so (not less than 10 years, not more than 15 years). The Boundary Commissions last reported on a General Review in 1969 and must therefore report again between 1979 and 1984.

After an unsuccessful attempt to implement only part of the 1969 Reports the Wilson Government then ignored them and allowed the obsolete constituency boundaries, which were over 15 years out of date, to remain in force. The 1969 Boundary Commission Reports were implemented and constituency boundaries modernised by the Conservative Government in October 1970.

On 11th March 1976 the Home Secretary announced that the Boundary Commission for England had given notice of their intention to commence forthwith a General Review of constituencies. The Secretary of State for Northern Ireland added that the Boundary Commission for Northern Ireland had also given notice of a similar intention. The Scottish and Welsh Commissions have not yet announced General Reviews, but a Home Office press release of 11th March 1976 stated:

“It is understood that the Commission for Scotland (because of Scotland's later local government reorganisation) will aim to report in 1980 or 1981. The Commission for Wales may be expected to report in 1979”.

### **4. CONSTITUENCY PRACTICES**

Considerable trouble has attended the Labour Party in the constituencies. Mr John Ryman, who narrowly won Blyth in October 1974 was, with his Agent, prosecuted before the Crown Court for false declaration of election expenses. As long as these proceedings were pending Mr Ryman declined to vote at Westminster. On 7th October 1976 the Agent was found guilty and Mr Ryman was acquitted.



In other constituencies Labour MP's are under threat from extremist Socialists' seizure of the constituency machines in order to oust sitting MP's who are not extremists. Left-wing extremists in the Yorkshire Area Council of the National Union of Mine-workers also passed a resolution threatening the independence of five NUM-sponsored MP's in June 1975 which the House of Commons Committee of Privileges declared to be "a serious contempt ... which could not be allowed to remain in existence" (HC 634 of 1974–75). For details of these cases see Chapter 28, p. 668, 687).

## **(B) PARLIAMENT**

### **1. FINANCIAL ASSISTANCE TO OPPOSITION**

The Queen's speech of March 1974 spoke of "financial assistance for Opposition Parties". It was explained that assistance covered both help for the Opposition Parties at Westminster and the possibility of State help for the general expenditure of political parties. The former could cover research assistance and help for the offices of the Opposition Whips and of the Leader of the Opposition. Funds would be allocated on an agreed formula to be based on size of Parties (*Hansard*, 29th July 1974, Cols. 30 *seq.*).

After discussion with the Opposition Parties on its details, the formula for distributing financial assistance to the Parties was adopted on a free vote on 20th March 1975 by Resolution of the House. The Conservative Front-bench supported the formula, which provides for £500 per seat represented, plus £1 per 200 votes received, up to a maximum sum of £150,000 for any one Party. The money—chargeable to the House of Commons Vote—is payable to any Party which has either two MP's, or one MP elected and a minimum of 150,000 votes cast for it at the General Election. In an earlier statement on 19th December 1974 Mr Edward Short, then leader of the House, said that the formula would give the following results:

	£
Conservatives	150,000
Liberals	33,250
Scottish Nat.	9,700
U.U.U.	7,050
Plaid Cymru	7,050
S.D.L.P.	1,270

(*Hansard*, 19th December 1974, Col. 1823).

A percentage of this money should (where applicable) go to the Opposition in the House of Lords; and Parties themselves should decide how they spend it.

### **2. ASSISTANCE TO PARTIES OUTSIDE WESTMINSTER**

The wording of the 1974 Queen's Speech did not on a strict interpretation cover assistance to Parties outside Parliament. Nevertheless in December 1974, after some discussion with the Parties, Mr Short announced the Government's intention to have this question studied thoroughly by an independent committee with the following terms of reference:

“To consider whether, in the interests of parliamentary democracy, provisions should be made from public funds to assist political parties in carrying out their functions outside Parliament; to examine the practice of other parliamentary democracies in this field, and to make recommendations as to the scope of political activities to which any such provision should relate and the method of its allocation”.

The Committee under the Chairmanship of Lord Houghton of Sowerby former Chairman of the Parliamentary Labour Party, had eleven members. Its Report, Cmnd. 6601, issued in August 1976, was not unanimous. The majority report found that Party organisation was inadequate because of lack of funds and recommended that annual Exchequer grants be paid to the Party central organisations for their general purposes in proportion to their electoral support; and that at local level a small reimbursement of candidates' election expenses be made (for local and Parliamentary elections). Qualifications for Parties to receive aid were laid down, with the possibility for a growing new Party to qualify. The annual grant to qualified Parties would be on the basis of 5p per vote cast for each Party at the previous General Election.

The reimbursement of election expenses would be paid directly to those candidates who polled at least one-eighth of the votes cast and would be up to one-half of candidates' legal maximum expenditure.

The total cost of this aid was estimated at an average of £2¼ million a year, of which £860,000 would cover reimbursement of candidates' election expenses, and the rest grants to the political Parties. Under the grant scheme the Labour Party would get £573,407 a year, the Conservative Party £523,324, the Liberal Party £267,340, and the qualified smaller Parties proportionate amounts.

A minority Report, signed by Sir Tatton Brinton (a former treasurer of the Conservative Party), Mr Ian Aitken (Political Correspondent of *The Guardian*), Mr Julian Haviland, Political Editor, ITN, and Prof D. N. MacCormick of Edinburgh University, strongly rejected State aid to Central Party funds. The signatories maintained that it would be totally wrong in present economic conditions; that it would undermine the voluntary principle; that it would weaken links with traditional sources; and that it would strengthen the Party headquarters at the expense of the constituencies.

These proposals will require careful consideration by the Parties and by Parliament. On the appearance of the Report Lord Thorneycroft, Chairman of the Conservative Party, gave this view:

“Nothing in the Houghton Report leads me to alter my advice to the Conservative Party to reject the suggestion that taxpayers' funds should be used to finance political parties' organisations. The arguments in the Minority Report appear more convincing

than those of the majority. The whole Houghton Committee clearly contemplate that the bulk of the financial support for political parties should continue in any event to come from contributions from both the Trade Unions and Industry. I hope that this endorsement of private political contributions will encourage voluntary financial support for all political parties. Only the Labour Party and part of the Liberal Party seem to be asking for support from public funds. In these circumstances my advice to the Conservative Party is to reject the proposal, to resist any consequential legislation and to refuse to accept any public funds for Party political purposes if they are offered” (26th August 1976).

### **3. MPs' AND MINISTERS' REMUNERATION**

**Boyle Report.** The independent Review Body on Top Salaries (Chairman, Lord Boyle of Handsworth) reported in July 1975 (Cmnd. 6136) on MPs' and Ministers' pay and allowances. The Report concluded that the value of MPs' Pay and allowances had been seriously eroded by inflation, commenting:

“The simple fact is that Members of Parliament constitute a professional group whose pay was last fixed at the beginning of 1972 and is now worth less in real terms than it was in October 1964. On this basis alone MP's are fully entitled to a significant increase at the present time”

The Report recommended increases in MPs' salaries—which had not risen for 3½ years—and substantial revision of various allowances. The full salary increases were not implemented. Instead of a salary of £8,000 a year which Boyle recommended to bring MP's salaries into line with equivalent salaries elsewhere, the Government cut the proposal to a level of £5,750. A similar cut was imposed on Ministers. Cabinet Ministers got no rise and the “Parliamentary salaries” (not the Ministerial salaries) of Ministers outside the Cabinet were increased from £3,000 a year to £3,700 instead of the £5,000 recommended by the Review Body.

There are a number of allowances for MPs for specific needs, the major ones being for the additional cost of staying in the constituency; or for a London house; and for secretarial, research or office assistance. The Government recommended unchanged the increases in these allowances proposed by the Review Body. Here are three examples of the new maximum allowances, as subsequently revised:

Secretarial and Research Allowance up to £3,512 p.a.

London Supplement £385 p.a.

Additional Cost Allowance up to £2,038 p.a.

Needless to say, these are not salaries. They are allowances towards expenses involved.

The increased allowances and the increases in MPs' pay were implemented by Resolution of the House on 22nd July 1975. The House also resolved that after the

next General Election salaries of Members should be linked to, and move *pari passu* with, the salary of an Assistant Secretary in the Civil Service.

**Peers.** Arising out of a report from the Review Body, the House of Lords resolved to increase permitted expenses in 1975 (see p. 477).

**Further Developments.** A fresh Government statement came on 12th July 1976. This took account of an additional Report (Cmnd. 6574) received from the Boyle Committee and of the general £6 a week limit on pay increases. Mr Michael Foot, Leader of the House, announced that the Government proposed that the Members' rate of £5,750 a year be increased by £6 a week (i.e. £313 a year) as from 13th June (*Hansard* Cols. 32–34). But the ruling upper limit of £8,500 a year for any increase (see Chapter 2, p. 37) would apply to Parliament. As a result Members with income from any source which brought their total above £8,500 p.a. got no increase. Nor did Ministers whose salaries were already above the maximum get any increase, despite that fact that the second Boyle Report recommended substantial increases for Ministers. Mr Michael Foot also announced that increases of up to £6 p.w. could be added to the 'secretarial and research allowance' payable to MPs who had increased their staff salaries within that figure.

**MPs' Pensions.** There is a contributory pension scheme for MPs. Boyle recommended in 1975 that MPs be granted £8,000 a year forthwith. MPs made a sacrifice then by accepting little more than one-third of the increases in their salaries recommended by Boyle: but the House took the view that the pensions of older MPs who were on the point of retirement should not be permanently penalised. It was therefore enacted in the Parliamentary and Other Pensions and Salaries Act 1976 (Royal Assent 12th October 1976) that MPs' pensions should be based on a notional retiring salary of £8,000 a year (as recommended by Boyle) and not on the cut-rate salary enacted in June 1975.

**A non-party matter.** All the foregoing are essentially House of Commons matters and, in accordance with tradition, were accepted with the agreement of all the main political Parties.

**MPs' Outside Interests.** In May 1974, on a free vote, Members of Parliament voted by a substantial majority for a compulsory register of their outside financial interests, open to public inspection. The Register is printed with MPs' interests listed under nine categories. One MP (Mr Enoch Powell) has declined to send in a return.

## 4. BROADCASTING OF PARLIAMENT

**Early Moves.** Proposals to televise proceedings in Parliament were rejected on 'free votes' in the House of Commons by narrow margins in November 1966 and October 1972.

**Recent Developments.** The question of sound-broadcasting proceedings came before the House of Commons in early 1975. In a debate on 24th February 1975 the Commons accepted the idea of a radio experiment by 354 votes to 182, but rejected the experiment of televising proceedings by 275 votes to 263. In April, the Services

Committee of the Commons reported on conditions and safeguards that should be applied to the experiment, after consultation with representatives from the BBC and IRN. The experimental radio broadcasting took place for four weeks in June-July 1975. The Services Committee reported on 19th February 1976 concerning the experiment, and concluded that “the experiment in sound-broadcasting was successful.” It made further suggestions regarding copyright, privilege and accommodation. The Debate on this Report took place on 16th March 1976 and a motion approving permanent sound broadcasting of the Commons was passed by 229 votes to 124.

**House of Lords.** The Lords debated sound-broadcasting on 15th July 1975 and a Government spokesman announced that possible broadcasting of the House of Lords would be considered in the light of the Commons experiment. On 23rd March 1976 the Commons passed a motion to set up a Joint Committee to examine permanent sound-broadcasting; this was agreed to by the Lords.

**The Joint Committee of both Houses** reported in June 1976 for the first time. The intention was to have the system working by the beginning of 1977; but there are technical problems to be overcome.

## **5. PARLIAMENT: BUILDINGS AND RUNNING COST**

The Norman Shaw North Building with its TV studios and MPs' offices was opened on 15th January 1975. But the proposed new office block for MPs, now estimated to cost £30 million to build, was axed in 1975 (*Hansard*, 16th June, 1975 Cols. 1516–22). The total operating cost of the House of Commons in 1974–5 including Treasury, DOE and CSD (printing) costs was £14,362,000 (*Hansard*, 16th July 1975 Col. 486). The total cost to the Exchequer of the House of Lords in 1975–6 was £4,100,000 (*Hansard*, 5th July 1976, Col. 387).

## **6. REVIEW OF PARLIAMENTARY PROCEDURE**

The November 1975 Queen's Speech promised proposals “for a major review of the practice and procedure of Parliament”. The Leader of the House made several statements on the subject in 1975 and 1976. A Debate at which many Members made their views known took place on 2nd February 1976. The Conservative Party made clear its willingness to co-operate in such a review. Discussions on the form and scope of the review took place and on 9th June 1976 a sessional Select Committee on Procedure was authorised by Resolution of the House. Under the Resolution its terms of reference are:

“To consider the practice and procedure of the House in relation to public business and to make recommendations for the more effective performance of its functions”.

The Select Committee has 16 Members, with power to invite outside experts to attend any meetings, and also to confer or meet with the House of Lords Select Committee

on Practice and Procedure. (For House of Lords Practice and Procedure Committee, see p. 476).

## **7. SOCIALIST SHARP PRACTICE AT WESTMINSTER**

**Balance of Commons Committees.** House of Commons Standing Committees traditionally reflect the balance of Parties in the House. But at the end of April 1976 when the Labour Government's overall majority had virtually disappeared they attempted to retain their majority on these Committees. The traditional view of the House of Commons was that without an overall majority a government had no right to a built-in majority on the Committees. The indignation the Government's action aroused on all sides culminated in a Debate on 3rd May 1976 about the happenings in the Committee of Selection, which resulted in a Government majority of six. This compelled Mr Foot to offer discussions on the composition of these Committees. The sudden death of the Chairman of the Committee of Selection cast a shadow over this matter and the Conservatives at once postponed plans for a censure motion. However, the Government thought better of their attitude and on 7th May they tabled a Motion reverting to the traditional view of the House of Commons on the subject of Committee majorities. The Motion recommended the Committee of Selection to interpret Standing Orders "so that only an overall majority in the composition of the House should guarantee a majority in each Standing Committee".

**A Hybrid Nationalisation Bill.** The Aircraft and Shipbuilding Industries Bill (see Chapter 6, p. 157) was one of the unnecessary and unwanted nationalisation measures which the Government was determined to push through Parliament. After a long session in Committee the efforts of Mr Maxwell-Hyslop, Conservative MP for Tiverton, finally demonstrated that this Bill was a "hybrid" Bill, i.e. a Bill that is general in its application but also affects the rights of a particular person or a particular group of persons. Individuals affected may petition against a Hybrid Bill and appear before a special Select Committee. Mr Foot promptly proposed to suspend the rules of the House ("Standing Orders"), so that the Bill could go ahead more rapidly as a Public Bill. So widespread was the indignation at this manoeuvre that on 27th May 1976, when the suspension of Standing Orders was the subject of two Motions, the Government was only saved from defeat, first by the traditional casting vote of the Speaker, and then by a majority of one secured by breaking a 'Pair'. After this discreditable episode the Opposition for a period withdrew co-operation with the Government over the matter of pairs, etc.

In due course (on 22nd June) Mr Callaghan admitted that the Opposition's sense of grievance over the broken 'pair' was well-founded and announced that another Debate would take place on the question of the Bill's 'hybridity': On this occasion (29th June) the Government had a majority of 14 because 11 Scottish Nationalist MPs and three Welsh Nationalist MPs had been persuaded to abstain.

**Government Stirs up Trouble.** The matter did not end there. A number of amendments were made to the Bill by the Lords, notably one removing ship-repairing from the Bill's ambit. The Lords were only doing their duty as a revising chamber in accordance with the Attlee Government's Parliament Act 1949. If the Government had

accepted the compromise of deleting ship-repairing (which is a very different industry from ship-building) they could have got four-fifths of the Bill safely on to the Statute Book by the end of 1975–6 Session. But doctrinaire obstinacy prevailed. The Government wanted the whole Bill. It was therefore allowed to lapse at the end of the Session and was reintroduced in full when the new Session began.

Immediately the Government ran into the trouble that could have been foreseen. Conservatives had continued to maintain that the Bill was hybrid and that many persons were being deprived of their right to be heard. From Government spokesmen they received such replies as:

“After careful checking ... the Government remain entirely satisfied that Schedule 2 ... does not involve any element of hybridity” (Lord Peart, House of Lords *Hansard*, 14th October 1976 Col. 596).

But when the reintroduced Bill came to be examined again it became known that the examining clerks had declared the Bill to be hybrid on nearly a dozen counts. Mr Foot's reaction was characteristic of his Party's approach. Once more he reached for his revolver and, with indecent haste, again put down a Motion to suspend the House of Commons Standing Orders and to cut out the Bill's Committee Stage. The Motion was passed on 1st December 1976. The Labour Government had done this in May, and on a previous occasion when the Trade Union and Labour Relations (Amendment) Bill returned from the Lords on 9th December 1975. This was a dangerous precedent—the Reichstag method rather than a Parliamentary procedure. To cut out Committee stage means eliminating a vital stage at which Members may amend and discuss a Bill in detail. But the manoeuvre succeeded in its aim of by-passing a full examination for hybridity by the Examiners, and getting the Bill speedily through the Commons.

In the House of Lords, however, the normal course of procedure could not be cavalierly brushed aside by the ruthless use of governmental majority. The Bill was sent to the Examiners of Private Bills for a proper examination held in public. On 17th February 1977 they reported that it was indeed hybrid. Then the Government accepted the compromise it had brusquely rejected before. It agreed to drop the ship-repairing provisions and the Bill rapidly went through unopposed (Royal Assent, 17th March 1977).

## 8. OVERBURDENING PARLIAMENT

**The Committee on the Preparation of Legislation** was set up by the Conservative Government in 1973 under the Chairmanship of Sir David Renton, QC, MP, to establish means of achieving “greater simplicity and clarity in statute law”. Its Report, Cmnd. 6053, appeared in May 1975. It made 121 recommendations, including the recruitment of more Parliamentary draftsmen; more consolidation of laws; more time between the publication of a Bill and its various stages in Parliament; and more power to the Statute Law Committee to keep statutes under review. Parliament took note of the Report on 3rd November 1975 (Commons) and 10th December 1975 (Lords). But indigestible legislation, heavily amended with inadequate discussion, has continued to

encumber the Statute Book. The Labour Government has wholly ignored the Renton Committee's recommendation that:

“The flow of legislation must be staunched so that the draftsmen may have more time in which to make their Bills more intelligible.”

**Overloaded Programme.** After the legislative avalanche of 1974–5 in which the guillotine was applied three times and 73 Bills were rammed through Parliament, Mr William Hamilton, Labour MP for Fife, Central, commented:

“I cannot recall a bigger shambles in July within the last quarter of a century than we have at this moment” (*Hansard*, 31st July 1975, Col. 2077).

In July 1976 the position was even worse. The Finance Bill was in ruins, the Government having been obliged to retreat from its unpopular provisions and substantially to rewrite its impracticable provisions. It emerged from Committee 19 pages longer than at 2nd Reading, accompanied by 159 new amendments, including 8 new Clauses which Parliament was given far too little time to study. Contrary to a basic recommendation of the Renton Committee (see above), the 3rd Reading followed Report Stage and Report followed Committee Stage at breakneck speed. “No wonder”, commented Sir Geoffrey Howe, Shadow Chancellor of the Exchequer, “the tax system is such a disorderly jungle of injustice” (*The Times*, 8th July 1976). (For fuller details see Chapter 4.)

Early in July 1976, the European summit conference took place at Luxembourg to settle details of direct elections to the European Parliament, without the UK Parliament having had a chance to state its views. The legislative congestion in the House meant that the Government did not fix a debate on Direct Elections till the last moment. So fragile was the Government's control of the House that an all-night sitting on 9th–10th July prevented the debate from taking place, and Mr Callaghan and Mr Crosland left for Luxembourg without having heard MPs' views.

By this time, late as it was in the Session, there were still 37 Bills before the Commons. Reasons for the log-jam were Labour's insistence on putting through contentious legislation without a proper majority; substantial (and very necessary) amendments to the Government's complex measures; and the breakdown of the pairing system brought about through the Government's sharp practice on 27th May (see p. 471).

As in 1975, the House of Lords found themselves threatened with a sudden flood of legislation late in the Session (see (C) HOUSE OF LORDS below).

A leading article in *The Times* of 25th November 1976, after pointing to the overloading of the legislative timetable in the two previous years, commented that the commitments in the Queen's Speech for 1976–7 suggested “that the same mistake will be made all over again”. The article commented that the “long and highly complex” Scotland and Wales Bill would dominate the Session and leave “precious little time for other legislation”, adding “Ministers can look forward to enough troubles ahead without getting into another mess over their legislative time-table”.



**Guillotine Motions.** In July 1976 Mr John Peyton, then Conservative spokesman on Parliamentary matters, summed up the results of Labour's mismanagement:

“The Government seem to be in ... a morass created by their own insatiable appetite for legislation and their almost unlimited capacity for bungling” (*Hansard*, 20th July 1976, Col. 1549).

The Government's response to its difficulties was to seek unprecedented powers to restrict debate on five very contentious Bills of dubious value to the country. These were the Bill to nationalise the Aircraft and Shipbuilding Industries; the Dock Work Regulation Bill, to extend the monopolies of the dock unions; the Education Bill, to impose the comprehensive pattern on LEA's; the Health Services Bill, designed to phase out pay-beds in our impoverished hospitals; and the Rent (Agriculture) Bill, to abolish the much misunderstood ‘tied cottage’ system. Mr Foot, who moved the resolutions, could find no precedent for the Government's decision to impose five guillotines in a single day.

Only three Motions were tabled to ‘guillotine’ debate on five Bills. As Standing Orders allow a maximum of three hours' debate on each Motion this meant that the five Bills got the absolute minimum of discussion when the three guillotine Motions were debated on 20th July 1976. **Mrs Thatcher** observed when Mr Foot first announced this plan:

“Mr Foot has shown a contempt of Parliament unprecedented in our whole history” (*Hansard*, 15th July 1976, Col. 904).

Yet when he was in Opposition, Mr Foot said:

“The guillotine is the last resort of a Government who know they cannot get the full-hearted consent of Parliament but are determined to have their way in any case” (*Hansard*, 2nd May 1972, Col. 235).

The Bills were pushed through their remaining stages in the Commons under guillotine conditions with a substantial number of amendments undebated. Then when the Bills were due to return to the Commons with the House of Lords amendments they were once more guillotined. On 8th November 1976 the Government repeated the tragi-comedy of the previous July. Once again three Motions were passed in a single day to guillotine debate on the Lords' amendments to the five Bills. Once again the Government set a new record in steam-rolling tactics.

## **(C) HOUSE OF LORDS**

### **1. A HARD-WORKING HOUSE**

**Pressure of business.** Nowhere was the overburdening of Parliament more acutely felt than in the House of Lords. In the 1974–5 session the Lords sat for 162 days (930 hours); in 1975–6 for 155 days (969 hours), a substantial increase in activity on previous sessions (e.g. the first year of the 1964 Labour Government, when the Lords

sat for 124 days but only 593 hours). The additional workload was due almost entirely to the excessive amount of legislation being forced through both Houses: 83 public Bills received Royal Assent in 1974–5, 88 in 1975–6, compared with an average annual figure of 52 over the ten years 1964–74.

Much of the strain was caused by sheer Parliamentary mismanagement—in both sessions the Lords had to deal with a sudden flood of controversial legislation arriving almost at the end of the parliamentary year. In 1974–5 the Lords had to reassemble during the summer recess for an additional week, even before the now customary “spillover” began; in order to complete revision of the Government's controversial Bills, the House sat after 10pm on 28 occasions, and once through the night. Despite assurances to the contrary, the same mismanagement occurred in the 1975–6 session; although the undertaking that no major Bills would be introduced into either House after Easter was kept, the session's six most contested Bills did not leave the Commons till the end of July. As a result, on 13th July 1976 the Government Chief Whip in the Lords told the House that they would have to reassemble on 27th September, two weeks before the Commons, and sit through both the Conservative and Labour Party Conferences. As Lord Carrington said:

“The situation is now getting to the point where the House of Commons takes nine months to discuss legislation and [the House of Lords] is asked to do it in five weeks” (*House of Lords, Hansard*, 13th July 1976, Col. 152).

But even this unprecedented step proved insufficient. The congestion became so serious that, despite the House sitting after 10pm on 39 occasions and twice through the night, the opening of the 1976–7 session had to be postponed from 17th to 24th November, in effect *three* weeks after the date originally arranged, as Lord Peart, the Leader of the House, admitted on 26th October (*House of Lords, Hansard*, Col. 290). At the beginning of the 1976–7 session Lord Carrington said:

“Parliament, and in particular this House, is being used as a factory for turning out imperfect legislation” (*Idem*, 24th November 1976, Col. 16).

Lord Byers, Leader of the Liberal Peers, complained of “far more new laws than can properly be digested” and of “the difficulty of trying to keep up with the legislative sausage machine” (*House of Lords, Hansard*, 24th November 1976).

The pace of legislation can be easily illustrated. In 1971 the Conservative Government allowed its Industrial Relations Bill four months in the Lords, allotting 18 days at Committee stage and 9 days on Report. Yet the equally controversial Aircraft & Shipbuilding Bill in 1976 was only eight weeks in the Lords, being allowed just 5 days in Committee and 3 on Report, and was considered along with *five other* controversial Bills. The minimum intervals between a Bill's stages prescribed by the Renton Report (Cmnd. 6053) were swept aside—in 1976 there was a mere six day gap between Committee and Report stages of the Dock Work Regulation Bill, whereas Renton had recommended at least a fortnight.

**The 1975–6 session** was dominated by consideration of doctrinaire Bills, many of whose controversial clauses were never discussed at all in the House of Commons. With Ministers in the Commons determined never to give way in Standing Committee

(e.g., Mr Kaufman at the end of the 58th and final sitting of the Aircraft and Shipbuilding Industries Bill Committee on 13th May 1976: “This Bill is historic in another sense. Not one Opposition amendment has been carried against the Government in 105 divisions”) and the Report stages of the five most contested Bills being guillotined (to the extent that the entire contents of the Dock Work Regulation Bill were not debated *at all* on Report, for example), the essential work of discussion, revision and amendment was left to the Lords. Much of the revision was done there by Ministers themselves. For example, the Rent (Agriculture) Bill reached the Lords in such an imperfect state that of the 59 amendments that had to be made at Committee stage, 40 were moved by the Minister in charge of the Bill in the Lords. By Report stage of the Aircraft and Shipbuilding Industries Bill, the Government had seen enough merit in the suggestions made by the Opposition peers during the fiercely fought Committee stage to move 20 of the 42 amendments made. In all, the Government made more than 150 amendments to their own Bills in the eight week “spillover” period. Of the rest, those moved by Conservative peers were almost invariably pressed with Liberal and “cross-bench” (independent) support. Another feature of the session was the extent to which Labour peers failed to support their own Government's proposals. Lord Shinwell, a former Labour minister, urged postponement of the costly Aircraft and Shipbuilding Bill; other Labour Peers voiced deep misgivings on the Dock Work Regulation Bill; and earlier in the session Lord George-Brown, a former Deputy Leader of the Party, had resigned the Labour whip and joined the cross-benches. In all, during the session, 703 amendments were made to Bills originating in the Commons; and of these 469 (67%) were accepted by the Commons when they returned there. In the 1974–5 session 1159 amendments had been so made, of which 997 (86%) were accepted by the Commons.

The best justification of this work of the Lords as a revising chamber was the defeat of the Government in the Commons on one of the major features of the Dock Work Regulation Bill. A carefully drafted amendment in the Lords, passed with Liberal and cross-bench support, restricted the extent of the much-criticised new scheme to within half a mile of existing harbours, thus deleting the proposed five-mile coastal “corridor”. When the Bill returned to the Commons for second thoughts, two Labour MPs, Mr John Mackintosh and Mr Brian Walden, abstained and the Lords' amendment was upheld. On the British Transport Docks (Felixstowe) Bill, the attempt by the Government to nationalise Britain's largest and most successful private port by the ‘back-door’ method of a Private Bill was thwarted on Third Reading. In response to Opposition criticisms, important concessions were obtained on the Health Services, Race Relations and Rent (Agriculture) Bills. The session closed on a note of controversy when the Government refused to reconsider the merits of including ship-repairers in the Aircraft and Shipbuilding Industries Bill, and preferred instead to lose the entire Bill, with the aim of forcing it through under the Parliament Acts in the following session. (But the Government was later compelled to exempt ship-repairers. See p. 472).

**Other work.** In addition to their work as a revising Chamber, the Lords have borne their share, through seven specialist EEC sub-committees, of scrutinising European secondary legislation and of commenting on EEC Directives and proposals. The House also found time during the 1975–6 session for a number of major debates on topics of great public importance, e.g., the health service (initiated by Lord Aberdare); sex education (Lady Elles); the electoral system (Lord Byers); the universities (Lord

Fulton); social policy (Lady Young); the family (Archbishop of Canterbury); the needs of the elderly (Lord Strathcona); and the state of the nation (Lord Carrington).

## 2. REFORM

**Lords Reform.** Present-day powers of the Lords were strictly limited by the Parliament Acts of 1911 and 1949. On 1st November 1968 the then Labour Government published proposals for a reformed House with a two-tier voting structure removing voting rights from the hereditary peers (Cmnd. 3799). These were approved, after debate, by the Lords on 21st November by a majority of 251 to 56, Conservative peers voting 108 to 43 in favour. But the Bill to give effect to the White Paper's proposals failed in the Commons, being wrecked in Committee by the combined efforts of Mr Foot and Mr Powell. It was dropped on 17th April 1969.

**Review of Practice and Procedure.** After a Debate in March the Lords set up a Select Committee “to consider the practice and procedure of the House and to make recommendations for the more effective performance of its functions” on 6th July 1976. The Select Committee was reconstituted for Session 1976–7, under the chairmanship of Lord Shepherd, on 2nd December 1976. This Committee parallels the Commons Select Committee on Procedure (see p. 470). It is intended as part of a major review of Parliament announced in the 1975 Queen's Speech; although the then Leader of the Commons, Mr Short, excluded from this review “the composition or power of the House of Lords or relations between the two Houses” (*Hansard*, 2nd February 1976, Col. 977).

**Conservative Study Group.** On 2nd February 1977 **Mrs Thatcher** appointed a study group of five peers and four back-bench MPs, under the Chairmanship of **Lord Home of the Hirsel**, “to prepare proposals for the reform of the House of Lords”.

## 3. LABOUR PARTY POLICY

**Labour Criticism.** While trying to carry out its duties as a revising chamber, within the limits of the Labour Government's 1949 Parliament Act, the House of Lords suffered constant and often ill-informed carping from both Left and centre of the Labour Party about its role and composition. As Lord Carrington said in a speech on 23rd April 1976, “after all, when a Labour Government is in difficulties the first thing anybody does is to attack the House of Lords”. And when Mr Dennis Skinner attempted on 16th June 1976 to introduce an outright abolition Bill, two Cabinet Ministers—Mr Benn and Mr Booth—Mr Cocks, the Government Chief Whip, and both contenders for the Liberal Party leadership—Mr Pardoe and Mr Steel—were amongst the 153 MPs who supported him. But the attacks did not really intensify until the Lords began amending the more controversial Bills that autumn. On 9th November 1976 Mr Callaghan declared:

“It is quite clear from what has been said and written that, time after time after time, there has been a conspiracy between the Conservative Front Bench in this House and the inbuilt Conservative majority in the House of Lords to defeat legislation that has passed through the House of Commons ... I warn the House of Lords of the consequences ... it is our strong view that the House of Lords should recall that its

role is not that of a wrecking chamber, but of a revising chamber. In recent weeks, it has been wrecking legislation passed by this House” (*Hansard*, Col. 211).

When the Lords stood firm on their principled approach to the Aircraft & Shipbuilding Bill, Mr Callaghan came dangerously near to advocating the sort of “elective dictatorship” based on one-chamber government against which Lord Hailsham of Saint Marylebone and others had warned, insisting that

“this measure was put to the country in the fullest way on two occasions, in February and October 1974, it passed through the House of Commons without one defeat on the issues now before us and, therefore, an un-elected Chamber has no right to take its own view on an issue of this sort which has been before the electors” (*Hansard*, 18th November 1976, Col. 1560).

**Policy Developments.** In the autumn of 1976 a study group was set up under the chairmanship of Mr Eric Heffer. Following the resignation of the moderate Prof Bernard Crick, this group unanimously recommended outright abolition of the House of Lords, and its report was approved, again unanimously, by the Home Policy Committee of the Party's National Executive, chaired by Mr Benn, on 10th January 1977. On 27th January 1977 the Labour Peers set up their own working-party under the chairmanship of Lord Champion to consider reform of the House and the preservation of the bi-cameral system (*The Times*, 21st, 28th January 1977).

## 4. PEERS' EXPENSES

Peers are entitled to re-imbusement of their travelling expenses. In addition, they are allowed tax-free re-imbusement of other expenses up to a maximum of £13.50 a day (increased from £11.50 on 13th June 1975). A peer able to attend on each sitting day could have claimed a maximum of £2,025.50 in the 1974–5 session and £2,092.50 in the 1975–6 session. In fact, only three-quarters of the money that could be claimed is taken. If the Lords were to be paid a salary for their work, like MPs in the Commons, the cost has been estimated at £3 million a year, six times the present cost (*The Times*, 22nd December 1976).

# (D) CIVIL SERVICE

## 1. ADMINISTRATION

**Numbers.** Civil Servants form about 2½ per cent of the employed labour force. On 1st January 1977 there were 746,161 civil servants in post. This is some 52,000 more than the figure of 694,384 on 1st January 1974—the last quarterly figure available from the period of the previous Conservative administration. The Government now claims that it is seeking manpower economies. The White Paper on Public Expenditure of February 1976 (Cmnd. 6393) envisaged economies in the civil service of the order of £140 million by 1978–79. Mr Charles Morris, Minister of State for the Civil Service, indicated that the aim would be to get the Civil Service in 1978 back to its level of mid-1975 (*Hansard* 5th February, 1976, Col. 1586). Sir Douglas Allen, Head of the Home Civil Service, in evidence to the Expenditure Committee, estimated

that the target figure of £140 million would mean cutting staff by about 35,000 (*Times*, 4th May 1976).

On 29th July 1976 Mr Morris gave further details of Civil Service manpower cuts and costs. For the year 1978–9 savings of £95 million had been identified, whose effect would be a reduction of 26,000 “in the originally planned strength of the Civil Departments” for that year. In addition, about 20,000 UK-based posts would go by April 1979 as a result of Defence cuts. He also said that in 1977–8 savings would amount to “some £36 million out of the original £50 million target”. Revalued at 1976 prices, he claimed that these figures were “equivalent to £46 million out of £62 million” (*Hansard*, 29th July 1976, Cols. 383–84).

In his December 1976 “mini-Budget” the Chancellor of the Exchequer announced some additional economies in the Civil Service. A further reduction of £30 million was added to the savings already announced for 1977–8 and another £10 million was added to the proposed 1978–9 cuts (*Hansard*, 15th December 1976, Col. 1527).

Thus the proposed cuts in the Civil and Defence Departments originally envisaged a reduction in the planned numbers of some 46,000 staff by 1978–9. The proposed additional cuts announced in December would mean further reductions.

It should be noted that these “cuts” are only reductions in planned manpower figures—that is, expected increases that are now not supposed to take place. Increases already “in the pipeline” may continue. Mr Charles Morris has said:

“I expect the numbers ... to continue to increase over the next few months and ... the total number of civil servants may even go above 750,000 for a brief period. In the course of next year, however, the planned reductions will come into effect and I expect the figures to return to their present level by the end of the year, By 1978–79, on present plans, the numbers should be below the present level and continue to fall for some time thereafter” (*Hansard* 23rd February 1977, Col. 581).

**Pay in the Civil Service** is reviewed annually, by reference to the level of prices. In April 1975 some 500,000 civil servants were given a pay award equivalent to a rise of 26 per cent annual rate (including “threshold” payments), which was stated to be within the pay guidelines. In April 1975 (when the Pay Research Unit process was suspended) these grades received an award of pay increases of up to £6 per week for the next twelve months, in line with the general wages policy. Those on salaries above a “ceiling” of £8,500 p.a. received no increases.

**Top Salaries.** A substantial rise for top civil servants recommended in December 1974 by the Review Body on Top Salaries (see p. 468) was only implemented in part, the rest being deferred during the pay-freeze.

**Pensions of Civil Servants** and other public servants (e.g., teachers, policemen, local government employees) are adjusted annually in line with the cost of living, under the Pensions (Increase) Act 1971. This meant that in December 1975 they received an average increase of 26.1 per cent. The average pensioners' increase was about £3.50 a week. The large increase (caused by the high rate of inflation) led to a re-examination of the “inflation-proofing” system. On 19th July 1976 Mr Morris, announced that the

system would apply in 1976. He said that the Government had decided that “it would be wrong to modify the statutory requirements of the Pensions (Increase) Act 1971 or to interfere with the existing provisions for the protection of other pensions”. The principle of protecting pensions against inflation had been accepted by successive Governments. The average pension increase payable as from 1st December 1976, was 13·8 per cent, the average sum involved being £2·40 a week. About a million pensioners (including Armed Forces otherwise provided for) were affected. Mr Morris stated that the 13·8 per cent pension increase “is less than that due next November for State retirement pensioners” (*Hansard*, 19th July, 1976, Col. 329).

**The Select Committee on Expenditure** undertook a major investigation of the pay, conditions and manning of the Civil Service early in 1976. Its Report is expected to be the most important since the Fulton Committee reported in 1968.

## 2. SOME POLITICAL ASPECTS

**Political Activities of Civil Servants.** In May 1976 the Prime Minister announced the proposed establishment of an independent Committee under the Chairmanship of Sir Arthur Armitage, with the following terms of reference:

“To review the rules governing the active participation by civil servants in national and local political activities; and to make recommendations” (*Hansard*, 19th May 1976, Col. 529)

Mr Callaghan added that the request for an inquiry had come from the staff side of the Civil Service Whitley Council, and that he envisaged it operating along the lines of the 1949 Masterman Committee.

**Special Political Advisers.** The Labour Government has adopted on a wide scale the practice of appointing as temporary civil servants “special advisers”. Their primary function in a Labour administration seems to be to press the political aspect of policies within a Ministry. Their numbers reached thirty by 1975, but the latest count is 26 (*Hansard*, 1st March 1977, Cols. 124–25). This figure includes the five (formerly six) members of the Prime Ministerial Policy Research Unit at No. 10 Downing Street under the direction of Dr Bernard Donoughue. For two years Dr Donoughue also held a University appointment, but decided to give this up at the end of 1976, in order to continue at Downing Street. In addition to Dr Donoughue's Policy Research Unit Mr Callaghan also has Mr Tom McNally, formerly International Secretary at Transport House and later Mr Callaghan's Special Adviser at the Foreign Office (*Hansard*, 8th April 1976, Col. 248). Other senior Ministers have one or more Special Advisers; but some Ministers manage without them. In addition to 10 Downing Street and the Cabinet Office, there were Special Advisers at ten Ministries in November 1976 (*Hansard*, 11th November 1976, Cols. 228–29). The maximum number in one Ministry was four Advisers (2 part-time) at the Department of Health and Social Security.

Their cost to the Exchequer was running at about £200,000 p.a. till recently. The cost of 24 Special Advisers in 1976 was put at £160,000 a year (*Hansard* 21st June 1976, Col. 1091). These totals include the cost of the Downing Street Policy Research Unit.

When it had six members the cost of the latter Unit was put at £35,000 p.a. (*Hansard*, 13th November 1974, Col. 154). Salaries of Special Advisers range from £4,300 p.a. upwards. Most are in the £6,000–£7,000 bracket. Two Advisers who were prospective Parliamentary Candidates have worked without a salary. In 1975 it was stated that twelve Special Advisers had salaries above £6,000 p.a., i.e. higher than MPs' salaries (*Hansard*, 14th July 1975 Col. 338). The highest salary (£14,000 p.a.) was paid to Lord Kaldor until he resigned in August 1976.

**Appointments.** Special Advisers are appointed by individual Ministers (subject to the approval of the Prime Minister): their contract ends with the ending of the Government. Special Advisers serving Labour ministers include Mrs Barbara Castle's ex-Special Adviser, Mr Jack Straw, the former militant president of the National Union of Students who was also criticised for political interference in the affairs of Mrs Castle's constituency Labour Party (*Daily Telegraph*, 22nd June 1976). In May 1976 Mr Straw became Special Adviser to Mr Peter Shore, Environment Secretary. This was despite considerable opposition among senior civil servants, according to the *Daily Telegraph* of 26th May 1976. Others who serve or have served as Special Advisers to Labour Ministers are Mr Stuart Holland, Mrs Judith Hart's Special Adviser who resigned in 1975 when he published his critical book *Strategy for Socialism*; Mr Terry Pitt, former Head of the Labour Party Research Department at Transport House and Special Adviser to Mr Edward Short in 1974; and Mr Michael Foot's Special Adviser Mrs Elizabeth Thomas, former assistant editor of the socialist *New Statesman*.

**Parliamentary Candidates.** An attempt was made in 1974 by the Wilson Administration to get powers by Order for Special Advisers to stand as candidates at Elections—a facility denied to senior permanent civil servants. The vigilance of the Conservative Opposition, who were joined by Mr Jo Grimond and four Labour MPs, compelled the Labour Government to withdraw this Order (*Hansard*, 27th June 1974, Col. 1743–35).

**Conservative Record.** Eleven Special Advisers were appointed under the Conservatives in 1970–4. Not all of them were paid from public funds. It was admitted by a Socialist Minister of State at the Civil Service Department that the cost to the Exchequer of their salaries was only £15,000 a year. (*Hansard*, 30th March 1974, Col. 427). In addition, the 1970–4 Government called in a number of advisers from the business world. They gave advice on new techniques of administration. A notable advance they helped introduce was the technique of Programmes Analysis and Review (“PAR”) which is still in use in Whitehall.

## (E) CONSTITUTIONAL MATTERS

### 1. OFFICIAL SECRETS

**Franks Report.** Section 2 of the Official Secrets Act 1911 has long been criticised on grounds that it makes the unauthorised communication of even trivial official information an offence. The Franks Report (Cmnd. 5104, September 1972) proposed to limit the scope of criminal law and to cut down the Act's coverage by a clear



redefinition of offences covered. The Conservative Government accepted its recommendations and proceeded to hold consultations with a view to drafting legislation.

The Labour Government took no action for some two years. In November 1976, however, Mr Merlyn Rees, Home Secretary announced that the Government had accepted the substance of the Franks Report, that the “catch-all” Section 2 of the 1911 Act would be repealed and criminal sanctions for revealing documents would be restricted to cases where information had been disclosed that could do serious damage to the national interest. In this connection the Government had concluded that the Franks recommendation that revealing economic information should be a criminal offence was not justifiable. The Government also rejected the Franks Committee's recommendation that there should be a criminal sanction for disclosing Cabinet documents. Section 2 would be replaced by a new Official Information Act along lines recommended by the Franks Committee.

But the Home Secretary admitted that because of the pressure of Parliamentary time legislation could not be introduced in the 1976–7 Session (*Hansard*, 22nd November 1976, Cols. 1878–81). This could mean no legislation on Official Secrets on the Statute Book before the middle of 1978 at the earliest. On behalf of the Conservative Opposition, Mr William Whitelaw criticised the way the Home Secretary's statement was “suddenly produced without any notice to the House” and urged him to produce a Green or White Paper which could be subject to debate during the 1976–7 Session (*Hansard*, 22nd November 1976, Col. 1888).

“**Leaks**”. There have been a number of leaks of public information most of which have never been traced to their source:

*Queen's Income*. Obviously timed to influence a forthcoming Debate on the Civil List, the Communist *Morning Star* published on 22nd February 1975 some 1973 confidential Departmental papers affecting the Queen's investments. A police inquiry followed.

*Devolution*. Copies of confidential papers prepared in the spring of 1975 for a Cabinet Committee were examined and commented on by the *Sunday Times* of 28th September 1975. An immediate inquiry was ordered by Mr Edward Short, then Lord President.

*Hawley Report*. On 23rd May 1975 Mr Enoch Powell, United Ulster Unionist MP for Down, South, quoted in the House of Commons from a confidential report on immigration by Mr D. F. Hawley of the Foreign Office. Mr Powell later released this 15-page Report to the Press.

*Sir Harold Wilson's Resignation Honours*. Early in May 1976 lists of names purported to have been put forward by Sir Harold Wilson for his ‘resignation honours’ appeared in the Press. These lists—to the concern of some—proved to be only too accurate: and their publication might have involved prosecution under the Official Secrets Act. After they appeared on 27th May an inquiry was undertaken by a member of the Security Commission, Sir Philip Allen. Mr Callaghan reported:

“Sir Philip Allen was not able to establish how the leak occurred. I do not propose to take any further action” (*Hansard*, 17th June 1976, Written Answer, Col. 2).

It may be added that the criticism aroused by the final list caused Sir Harold Wilson to take the unprecedented step of issuing a statement about his Honours List on 2nd June 1976. He said:

“The list was mine, and mine from the beginning ... I take full responsibility ... I still have the original names substantially as published, written down by myself after consultation with no one else.”

But according to Mr Joe Haines, Sir Harold Wilson's former Press Secretary, it was Lady Falkender (formerly Mrs Marcia Williams, Sir Harold's personal and political secretary) who wrote the original list “in her own hand on the lavender-coloured notepaper she often used”. It was that list, writes Mr Haines in his book *The Politics of Power* (Cape, 1977), “with a few deletions and a few additions in the Prime Minister's handwriting” which was used for the usual preliminary enquiries and procedures before any names reach the Queen.

“Some of the names did not survive ... The names added by Sir Harold improved the quality of the list but the substantial majority of the knights and peers who were in the published list were those originally proposed by Lady Falkender” (Reported in *Daily Mirror*, 7th February 1977).

Lady Falkender's immediate response to this report was:

“[Mr Haines's] statements are wild and inaccurate and reflect poorly upon someone who was supposed to be a loyal and trusted adviser to Sir Harold Wilson” (*Evening News*, 7th February 1977).

Hard on the heels of this statement came a long denial from Sir Harold Wilson which, like Lady Falkender's, was not unmingled with personal vituperation. The gist of Sir Harold's statement was:

“The statements [in Mr Haines's book] about the Resignation Honours List ... are false ... The list was drawn up by me, apart from some names suggested by Transport House at my request and written down by Lady Falkender ... I read out my list which she added to the Transport House names ...” (*The Times*, 8th February 1977).

*Child Benefits*. On 17th June 1976 *New Society* published an anonymous article on how the Labour Cabinet had changed its policy on child benefits, based on extracts from Cabinet minutes (see also Chapter 17, p. 433). Mr Frank Field soon revealed his authorship of the article, though not the source of his information. This was the first time that Cabinet minutes had been “leaked”. All who had received those minutes had signed an undertaking not to reveal them. Mr Callaghan announced on 17th June that he had ordered an enquiry by Sir Douglas Allen, Head of the Home Civil Service, and appealed to whoever was responsible to own up honourably and resign. The Prime Minister maintained that there had also been “leaks” under previous Administrations: but he admitted that this case was disturbing in that Cabinet papers had been handed over. He reported that as Sir Douglas Allen had been unable to find the source of the

leak the police had been called in. A three-man Committee of Privy Councillors under the Chairmanship of Lord Houghton of Sowerby would also be set up to examine the rules for handling Cabinet documents (*Hansard* 1st July 1976, Cols. 652–3).

The police were unsuccessful in finding the person responsible for the leak. The Houghton Committee's Report (Cmnd. 6677) appeared in November 1976. It recommended that Cabinet security measures be tightened up and urged that all Ministers should set an example to the Civil Servants and resist the temptation to release confidential information verbally. It found that the civil servants “in general maintain a very high standard for the protection of the written word”. But it also found variations of practice in dealing with Cabinet papers in different Departments and in some cases too wide a distribution. The Report recommended that Cabinet minutes and memoranda should not be distributed automatically to a list of people, but only on authorisation. Each Department should have a Cabinet Documents Officer, responsible for issuing, recording and safeguarding these documents. In a Written Reply Mr Callaghan told the Commons that the Government broadly accepted the Houghton Report (*Hansard*, 30th November 1976, Col. 89).

There were allegations that such “leaks” were common. Mr Frank Field, Director of the Child Poverty Action Group (author of the *New Society* article) and Miss Patricia Hewitt, General Secretary of the National Council for Civil Liberties, both said Government documents regularly reached their own and other organisations (*Times*, 25th and 26th June 1976). Most surprisingly, Mr William Price, **MP**, Parliamentary Secretary, Privy Council Office, asserted in a statement to his Rugby constituents that “conscious and premeditated leakage of top-level discussions and decisions” regularly took place “for the most doubtful reasons”. The leakage of Cabinet minutes to Mr Frank Field was not an isolated incident, he said:

“I have come to the conclusion that there are more ‘singers’ [informers] in Whitehall than in the whole of the Rhondda Valley” (*Sunday Times*, 20th June 1976).

Mr Price should know. He was the Minister responsible for the Labour Government's information services.

*Ministers' Memoirs.* The late Richard Crossman, MP, kept a diary, noting details of Government and Cabinet administration—often personal or confidential—which was serialised in part in a Sunday paper in March 1975. An unsuccessful application was made by the Attorney General for a Writ to ban its publication in book form. Not a casual ‘leak’, Mr Crossman's diary raised the problem of ex-Ministers' use of confidential knowledge in their memoirs. After consulting Mrs Thatcher, Sir Harold Wilson, then Prime Minister, appointed a Committee of Privy Councillors with Lord Radcliffe as Chairman. Its Report (Cmnd. 6386), reviewed the existing rules and procedure and recommended in January 1976:

1. Restrictions should survive on (a) matters of national security, (b) foreign relations and (c) information destructive of the confidential relationships on which our government system is based.
2. The restrictions should be an obligation of honour.
3. Ministers should be warned of these restrictions on taking and leaving office.

Sir Harold Wilson announced that the Government had decided to accept the recommendations of the Radcliffe Committee, no new legislation being necessary (*Hansard*, 22nd January 1976, Cols. 522–23).

**Open Government.** Perhaps to offset the Government's poor performance on Official Secrets, Mr Callaghan, speaking in the Debate on the Queen's Speech on 24th November 1976, offered the country what he himself termed a “modest change”. He said that the Government proposed to publish “Green Papers”, as heretofore, before finalising its policies. But in addition it would make available background material from government sources. He mentioned in particular factual and analytical material produced in the course of government policy studies and also material used in the regular Programme Analyses and Reviews (PAR) (see p. 480). He warned that the cost of publication would prevent release of information “on a totally luxurious scale”; but he thought the information released would “provide a base for better informed public debate and analysis of ministerial policy conclusions” (*Hansard*, 24th November 1976, Cols. 26–27).

## 2. ROYAL FINANCE

In 1760 the Sovereign surrendered the great bulk of the hereditary revenues of the Crown Estate to Parliament in return for an annual grant to pay for the public expenses of the Royal Household. The Civil List is traditionally voted by Parliament to the Sovereign on accession. In recent years owing to inflation it has been necessary for Parliament to increase the Civil List from time to time. In 1974 the Royal Trustees reported that the Civil List had exhausted its reserves and was getting into deficit some years earlier than expected. Parliament accordingly approved an Order under section 6 of the Civil List Act 1972 on 26th February 1975. This Order increased the total amount for the Queen's Household and Royal duties from £980,000 a year to £1,400,000 (of which the Queen had herself in 1975 found £150,000). 92 Labour MPs opposed the Order and voted against it.

The Civil List Act 1975 makes an important change in the administration of the Civil List. Under it any additional amount required for the Royal Household will in future be included in the annual Estimates in the same way as the expenditure of a Government Department. But the Queen has agreed to pay from her own resources the sums—and any future increase in those sums—due under S.3 of the Civil List Act 1972 (For details see below).

In 1974–5 the income from the Crown Estate amounted to £5.45 million and is increasing. The total cost of the monarchy in 1976–7 (including Royal Yacht, Queen's Flight, Royal Palaces etc.) was about £6½ million. Thus the greater part of the cost of running the monarchy is covered by the money the nation gets from the Crown Estate. The money voted to the Queen by Parliament is not of course her living income but a contribution towards the expense of running the monarchy. Under the Civil List Acts members of the Royal Family receive the following annual sums:

The Queen—Civil List	£1,665,000*
Elizabeth the Queen Mother	140,000
Duke of Edinburgh	85,000

Princess Anne	45,000
Princess Margaret	50,000
Princess Alice, Duchess of Gloucester	25,000

(*Hansard*, 3rd February 1977, Col. 309–310)

The sum available under S.3 of the Civil List Act 1972, now wholly paid by the Queen, is currently apportioned as follows:

Duke of Kent	45,000*
Princess Alexandra, Hon. Mrs Angus Ogilvy	40,000*
Duke of Gloucester	28,000*
Princess Alice, Countess of Athlone	( <i>Idem</i> ) 5,000*

The payments marked \*, being contributions towards expenses, are not subject to Income Tax (*Hansard*, 24th February 1975, Col. 21 and 12th March 1976, Col. 349). The Prince of Wales is not covered by the Civil List as he is entitled to the revenues of the Duchy of Cornwall (of which he voluntarily surrendered half in 1969).

### 3. CITIZENS' RIGHTS

**Privacy.** The Report of the Younger Committee (Cmnd. 5021) in July 1972 outlined means for safeguarding individuals, businesses and bodies against intrusion. The Conservative Government implemented some of its recommendations (e.g. Consumer Credit Act 1974). But with the Labour Government's legislative timetable crowded with unwanted divisive Bills, there has been little further progress on implementing Younger. Two White Papers on a single aspect of Privacy—Computers and Privacy (Cmnd. 6353 and 6354) were issued in December 1975. No legislation followed them, though the establishment of a Data Protection Committee was announced in June 1976. In his speech of 5th March 1976 to the Liverpool Press Club, Sir Harold Wilson mentioned privacy and offered, not legislation, but a Green Paper and discussion.

**Defamation and Contempt.** Appointed in 1971, the Faulks Committee reported in March 1975. Its Report on Defamation (Cmnd. 5909) recommended a simplification of the procedures and changes in the law, such as the abolition of the distinction between libel and slander and the abolition of punitive damages for defamation. On 10th March 1975 Mr Roy Jenkins, then Home Secretary, in his Granada lecture at the Guildhall forecast a law of defamation to protect the individual. But nearly a year later the Attorney General admitted that the Government had not made up its mind on Defamation (*Hansard*, 17th February 1976, Col. 605).

As with the Defamation Report, so also with the Report of the Committee on Contempt of Court (Chairman, Mr Justice Phillimore). The Government has been much too busy overloading Parliament with controversial measures to find parliamentary time to implement either of these Reports. The Phillimore Report, Cmnd. 5704, appeared in December 1974. It recommended many changes in the law which it felt “falls short of the certainty [the law] ought to have”. But Opposition pressure failed to elicit any promise of action. In June 1976 the Attorney General could merely say, “I very much hope that [the Lord Chancellor] will be in a position

to say something about [Contempt of Court] before long” (*Hansard*, 28th June 1976, Col. 24).

**Administrative Law Remedies.** In March 1976 the Law Commission proposed ways of strengthening the individual's power to challenge decisions of public or local authorities (Law Commission Report No. 73 *Remedies in Administrative Law*, Cmnd. 6407). It proposed the replacement of the ancient remedies of mandamus, certiorari, prohibition, a declaration and an injunction by a single remedy termed an *application for judicial review* by the High Court.

## 4. THE ATTORNEY GENERAL AND HIS POWERS

When Mr Samuel Silkin, Attorney General, refused on 14th January 1977 to give his assent to an application by a private organisation for an injunction against two Post Office Unions, the private organisation applied for the injunction without his assent. The injunction was to stop a 7-day trade union ban on telephone calls, mail and telegrams to South Africa. The Court of Appeal ruled at a specially convened hearing on 15th January that the proposed ban on South African mail and communications was illegal; and that private persons or organisations had a valid right to seek enforcement of the law, whatever the Attorney General did. Lord Denning, Master of the Rolls, in his decision said the courts could not stand idly by while the law was broken and he criticised the Attorney General's refusal to give his consent for an action “to be taken to enforce the law of the land”.

On 18th and 19th January Mr Silkin appeared before the Court of Appeal. He claimed that the Court were wrong in granting an interim injunction. He firmly maintained his right to withhold sanction for a private citizen to seek an injunction to enforce the law. He also denied that he had any obligation to explain why he had exercised his discretion in the way that he had. The Attorney General claimed his actions were “part of the royal prerogative, which is not reviewable by the courts” when exercising his power and discretion (*Gouriet v Union of Post Office Workers and others*. Court of Appeal, 19th January 1977). As a Minister he was responsible to Parliament and it was for Parliament, not the courts to challenge him.

It immediately became apparent that an important constitutional issue was involved. The Judges of Appeal, in granting the original interim injunction, were conscious that the proposed action of the two Post Office unions was plainly illegal. This was the first case in which the Attorney General would not grant permission for someone not directly concerned to seek enforcement of the law. It was also the first case in which an individual applicant had come direct to the court after the Attorney General had refused his consent to a “relator action”. In a reserved judgement delivered on 27th January 1977, Lord Denning said that “the Attorney General's discretion to refuse is not absolute. It can be reviewed by the Courts”. He rejected the Attorney General's claim that the courts had no power to deal with a private citizen's application once the former had refused his consent. “These courts are open to every citizen who comes and complains that the law is being broken”. He added:

“When the Attorney General comes ... and tells us that he has a prerogative by which he alone is the one who can say whether the criminal law should be enforced in these courts or not then I say he has no such prerogative. He has no prerogative to suspend or dispense with the laws of England.”

The two other Lords of Appeal concurred as to the right of a private citizen to bring an action without the Attorney General's *fiat*. But they did not apparently agree that the courts could have any jurisdiction over the Attorney General's discretion when he decides whether enforcing the criminal law would be in the public interest. Nor did they agree that an uncommitted private citizen has any right to a permanent injunction (as opposed to an interim or temporary one) to stop someone breaking the law, when the Attorney has refused his support.

In his rooms at the House of Commons shortly after the judgement Mr Silkin said that he had consulted other Ministers on the case and had decided not to support Mr Gouriet's action because he feared his intervention would worsen the situation.

“There was a great risk that wider industrial action would be taken if the Attorney General intervened” (*The Times*, 28th January 1977).

In the House he made a statement reciting the background of the case. He claimed that all the precedents were against his intervening in support of Mr Gouriet, particularly as the Post Office Board could itself take action against its employees (whom it had warned). He repeated that the information available to him suggested that his intervention “had the inherent risk of inflaming the situation ... and might well result in breaches of the law and inconvenience ... over a much wider area than two sections of Post Office employees ...” (*Hansard*, 27th January 1977, Col. 1703).

Later the Attorney General told the House that after studying the Appeal Court judgements he had concluded that “on the two major constitutional questions involved the court decided in my favour with Lord Denning as the dissenting minority” (*Hansard*, 31st January 1977, Col. 24). He evidently considered that on the major constitutional issues he had won. On two matters which he considered “important though not the main constitutional issue” he announced his intention to appeal. On 4th February 1977 he stated before the Appeal Court that he would appeal to the House of Lords against the decision that a citizen not directly concerned can seek a declaration on whether a proposed act is contrary to law; and against the ruling that a private citizen can seek an interim injunction to prevent the commission of a criminal offence without the Attorney General's consent.

## **5. A BILL OF RIGHTS**

Unlike most other democracies, Britain has neither a written constitution nor formal enactments to safeguard individual rights which cannot be repealed in the same way as any other statute. The latter are sometimes termed “entrenched clauses”; and the protection of the citizens' rights by some such device as an entrenched Bill of Rights has recently received increasing support.

**Support for a Bill of Rights.** In December 1974 Lord Justice Scarman delivered his influential Hamlyn lectures, in the second of which he called for “a fundamental law, a Bill of Rights, where it is the duty of the Courts to protect people against the powers of Parliament” (London, 5th December 1974). This plea was taken up by Sir Keith Joseph in a speech in London on 27th January 1975 and again in his pamphlet, *Freedom under the Law* (Conservative Political Centre, June 1975). It was also taken up by Sir Geoffrey Howe in an article, “Time for a Bill of Rights?” (*Daily Telegraph*, 23rd July 1975).

Lord Hailsham, in a series on the British Constitution published in *The Times*, examined the question in the third part of his series on 19th May 1976. He further summarised his conclusions in his noted Dimpleby Lecture, broadcast on TV on 19th October 1976, in which he said that the omnicompetence of Westminster—whatever the composition of its majority—had resulted in an “Elected Dictatorship”. As a remedy he proposed an entrenched Bill of Rights and a written constitution.

**Liberal and Labour Parties.** Over the years the Liberals have tabled various Human Rights Bills; and interest has also been shown from the Labour side. In a speech to the Birmingham Law Society on 12th February 1976 Mr Roy Jenkins, then Home Secretary, let it be known that the Government was studying the implications of introducing formal protection of human rights, possibly by incorporating the European Convention of Human Rights (to which the UK is a signatory) into British Law. The policy document, *Labour's Programme 1976*, has two paragraphs advocating a Bill of Rights or Charter based on the European Convention “enforceable in UK law by an Act of Parliament”. It opposes entrenchment. It envisages that “judges would have to decide whether a Government's actions contravene the Charter”. The second paragraph calls for discussion within the Labour movement, cautiously adding that the Party's National Executive Committee will not finally commit itself “to this step until and unless we are satisfied it has the support of the Party”.

**Northern Ireland.** Clauses guaranteeing certain human rights and prohibiting religious discrimination have existed for some time in Northern Ireland. In March 1976 the Standing Advisory Committee on Human Rights (set up under the Conservative Northern Ireland Constitution Act 1973) published a Discussion Paper on a Bill of Rights (see Chapter 24, p. 587). A further Report is expected, “perhaps in the course of a year” (*House of Lords Hansard*, 3rd February 1977, Col. 1013).

**Discussion Document.** Produced by an Inter-Departmental Working Group set up in 1975, the document *Legislation on Human Rights* was issued in June 1976. It considered the advantages and also the difficulties of general legislation to protect human rights, in particular the possibility of incorporating the European Convention on Human Rights in domestic UK law. The Report pointed out that the protection of basic rights in Britain stands comparison with that of other countries, but certain advantages can be claimed for a formal Bill of Rights. These include the possibility of reinterpretation because its provisions would be drafted in general terms; its quasi-permanent status, not easily open to repeal; and its utility as a focus to encourage a more systematic concern with fundamental values. The difficulties of enacting a Bill flow from the change in the relationship between Parliament, the Courts and the



Executive which would to some extent be involved. It is fundamental that one Parliament cannot bind its successor.

The Report analyses these problems and is intended to stimulate discussion. As Mr Callaghan said:

“[The Consultative Document] has a very interesting and careful analysis of the proposals both for and against a Bill of Rights. My attention was first attracted to it by Mr Justice Scarman. I think that the House will want to consider the matter very carefully” (*Hansard*, 6th July 1976, Col. 1160).

**Conservative Lawyers.** Expressing an opposing view, a subcommittee of the Society of Conservative Lawyers published in November 1976 *Another Bill of Rights?* (Conservative Political Centre, 1976). This pamphlet did not accept that a Bill of Rights would be at all beneficial; but advocated instead that an Administrative Court should be established and that the European Convention on Human Rights be statutorily incorporated in English law.

Sir Michael Havers, QC, Conservative Spokesman on Law, has given it as his view that a Bill of Rights, taking the European Convention (which the UK has accepted but not enacted) as a starting point, with the addition of certain other fundamental freedoms, would help to protect the people against the threat of arbitrary action by the Executive. It is objected that if one Government passed such a Bill under our Parliamentary system another Government could repeal it in the next Session. Therefore some lawyers propose, in Sir Michael's words, “a Bill of Rights which would be sovereign—and a Supreme Court to uphold it. Parliament would no longer be able to pass what laws it liked”.

Sir Michael Havers has said:

“I do not agree that we need break away ... so completely. If a Bill of Rights were passed by one Parliament that would surely be sufficient a brake on all subsequent Parliaments ... the British people would be able to see for themselves that a new law was depriving them of a fundamental right. This should impose upon future Governments a moral and political sanction ... In the end the sovereignty of Parliament would prevail, but I believe that no Government ... would be quick to take away from the British people a right enshrined in a Bill of Rights. If they tried to do so alarm bells would ring out ...” (*Daily Mail*, 4th August 1976).

In the same article Sir Michael also advocated “an Administrative Court as a part of the High Court” which would provide a speedy remedy for the citizen who “had suffered unfairly at the hands of the administrators”. He believed this could be achieved by adopting the “Application for Judicial Review” procedure proposed by the Law Commission (see p. 485).

**House of Lords Debate.** A Bill of Rights Bill, introduced by Lord Wade, received a Second Reading in the Lords on 3rd February 1977. The effect of the Bill (which had been before the House in the previous Session) would be to incorporate into the domestic law of Britain the principles of the European Convention on Human Rights and Fundamental Freedoms. On behalf of the Opposition, Lord Hailsham moved an

amendment to the effect that the Bill be not further proceeded with until a Select Committee had “reported on the question whether a Bill of Rights is desirable and, if so, what form it should take”. The House of Lords accepted the amendment and agreed to set up a Select Committee for that purpose. Lord Hailsham pointed out that the Bill had no chance of reaching the Statute Book and he therefore argued that if it was sent to a Select Committee “some of the fundamental options can be explored”. A good Select Committee, he said, “could produce a valuable report on the whole subject of entrenchment and human rights ... and possibly elucidate some of the very controversial questions that would have to be thrashed out” (*Hansard*, House of Lords, Cols. 981–2).

## 6. PUBLIC STANDARDS OF CONDUCT

Following the sentencing of Mr T. Dan Smith and Ald. Andrew Cunningham, with clear revelations of corruption, in July 1974 a Royal Commission on Standards of Conduct in Public Life was appointed under the Chairmanship of Lord Salmon, a Lord of Appeal. Its Report (Cmnd. 6524), issued in July 1976, recommended new legislation to strengthen the Corruption Acts and to provide police powers to inspect financial documents in corruption cases; arrangements to enable the public to lodge complaints of corruption with the Inspectors of Constabulary; and the establishment of a police central index on corruption.

## 7. THE PRESS

**Problems of the Press.** The Press has faced serious financial difficulties in recent years. Quality daily papers lost nearly £4 million in 1975; quality Sunday papers lost £3 million. The newspapers are attempting to meet the challenge by reducing over-manning and by wholly new techniques of film composition and computer typesetting.

A report *Programme for Action* issued by the Joint Standing Committee for National Newspapers appeared on 12th December 1976. The report resulted from long talks between unions and management. The leadership of the two sides of the newspaper industry recognise the need for reductions in manpower and *Programme for Action* outlines two alternative schemes. The report has been distributed to the chapels (office branches of newspaper unions) and its implications are being discussed by the rank and file.

Unfortunately, in December 1976 and early 1977 industrial action imposed a series of stoppages on the national dailies. *The Times* failed to appear on 13th January, the reason being that two printing “chapels” (printers' union branches) objected to an article that it proposed to print. One chapel (NGA) insisted that the article should be modified by additional material. *The Times*, while prepared to give the chapel a right of reply, was not willing to add to the article under trade union pressure—something which it considered would have infringed editorial freedom of the press. As a result the NGA chapel refused to print the paper for that day: the article had to wait till the following day to appear.

When Mrs Thatcher raised the matter on 13th January Mr Callaghan appeared to show the same built-in distrust of the Press as did his predecessor, Sir Harold Wilson. **Mrs**

**Thatcher** described his refusal to pronounce on the matter as “one of the most disgraceful and undignified replies ever given by a Prime Minister in this House” (*Hansard*, 13th January 1977, Col. 1637). Mr Callaghan then said in a Supplementary Answer:

“As for *The Times* newspaper, if ... freedom of the Press is thought to be in question, so is the freedom of the individual. Some of us who have suffered at the hands of the Press know what that means. Freedom of the Press apparently means ... freedom to print inaccurate and totally false information, even though the Press is told beforehand that the information is inaccurate and false” (*Hansard*, Col. 1638).

The Press Council, in an emergency statement of 18th January 1977, condemned the stoppage at *The Times*, saying:—

“What [the Union chapel] in fact did was censorship, which is totally unacceptable in a country which enjoys freedom of expression and freedom of the press ... Action of this kind endangers hard-won freedoms which, once lost, will be difficult to recover ...”

Industrial action again stopped the *Times* for six days in March 1977.

**Royal Commission.** In May 1974 Sir Harold Wilson announced the intention to set up a Royal Commission. Under the Chairmanship of Professor O. R. McGregor (formerly of Mr Justice Finer), the Commission's lengthy terms of reference cover the independence, economics and editorial standards of the Press; its management/labour practices; the distribution and ownership of newspapers and periodicals; and the working of the Press Council. In March 1976 the Royal Commission produced an expedited Interim Report devoted to the immediate problems of the national newspapers (Cmnd. 6433). The Report analysed clearly what was happening to the industry and rejected a general government subsidy. It proposed instead loans of up to £55 million (drawn as far as possible from the private sector) to tide over the cost of de-manning and re-equipment. The Royal Commission has meanwhile continued taking evidence.

Some revealing evidence was collected by the Advisory Conciliation and Arbitration Service (ACAS) in the Report, *Industrial Relations in the National Newspaper Industry* (Cmnd. 6680), published on 9th December 1976. The Report, compiled at the request of the Royal Commission, is the most detailed examination of industrial relations in national newspaper offices. It criticises both unions and management and recommends *inter alia* the amalgamation of two journalists' unions and policy changes on both sides.

**Attitude of Labour Party.** The Labour Government's Trade Union and Labour Relations (Amendment) Act 1976 puts freedom of expression at risk by reason of its “closed shop” provisions. Strong opposition to the measure secured only inadequate safeguards for Press freedom (see Chapter 8, p. 215). The Labour Party policy document, *Labour's Programme 1976*, proposes an “Advertising Revenue Board” whose job would be to “pool” the advertising income of the Press, so that papers which people don't buy could get a subsidy from papers people do buy.

## 8. MINISTERS BEFORE THE COURTS

The present Labour Government is unique in that the actions of three Cabinet Ministers have been declared invalid by the courts of law:

(i) Mr Roy Jenkins, when Home Secretary, was told by the Court of Appeal that his attempt to revoke people's television licences was “unlawful, invalid and of no effect” (See Chapter 12).

(ii) Mr Peter Shore, when Secretary of State for Trade, withdrew the “designation” for the trans-Atlantic route of Laker Airways' *Skytrain* service. Mr Shore also issued “guidelines” to the Civil Aviation Authority (CAA) purporting to say that *Skytrain's* domestic licence should be revoked. In the High Court on 30th July 1976 Mr Justice Mocatta ruled that Mr Shore had no legal right to withdraw *Skytrain's* “designation” and no statutory authority to issue the guidelines to the Civil Aviation Authority (*Laker Airways Ltd. v. Department of Trade*). Subsequently on 15th December 1976 the Court of Appeal confirmed that Mr Shore's method of giving “guidance” to the CAA in the form of a White Paper was invalid (See Chapter 15).

(iii) Mr Fred Mulley, when Secretary of State for Education and Science, attempted to upset the decision of the Tameside education authority to reverse comprehensive school plans and save the grammar schools in its area. On appeal to the House of Lords, the highest court in the land ruled that Mr Mulley had “misdirected himself” in claiming that Tameside council were acting unreasonably (*Regina v. Tameside Metropolitan Borough Council*, 2nd August 1976). In effect the House of Lords declared that Mr Mulley was simply enforcing his own political prejudices on a public authority. (See Chapter 16, p. 386).

See also 4. the attorney general and his powers.

## (F) LEGAL ISSUES

**Legal Aid.** In a statement the Lord Chancellor outlined proposals to make more money available for the Legal Aid and Advice service by withdrawing Aid from undefended divorce cases. He said that expenditure on civil Legal Aid had increased from £11.5 million in 1971–2 to an estimated £34.5 million in 1976–7. Withdrawal of Aid from undefended divorce petitions, (to which the simplified ‘special procedure’ is now available) over a period of two years or less would enable a ‘significant contribution’ to be made towards the cost of new law centres in deprived areas; and also enable the financial limits for eligibility for legal aid to be raised. Legal aid and assistance would continue for ancillary proceedings in divorce cases (House of Lords *Hansard*, 15th June 1976, Cols. 1214–1220). Later the Solicitor General added that it was proposed to introduce this scheme “some time in 1977” and said that discussions could be held (*Hansard*, 15th July 1976 Col. 1131). A modest improvement in the entitlement to Legal Aid and Assistance was made in November 1976, when the “disposable income” and “disposable capital” limits were raised.

**Lawyers and Legal Services.** The Monopolies and Mergers Commission issued four reports on the legal profession in England and Wales and in Scotland in July 1976. Two (HC 557 and 558 of 1975–6) reported that the lawyers' ban on advertising was against the public interest in the case of solicitors but not of barristers. The two other Reports (HC 512 and 513 of 1975–6) reported that the barristers' and QCs' "two-counsel rule" was a monopolistic practice and detrimental to the public interest. The Director-General of Fair Trading is to discuss the ending of this rule with the professions (*Hansard*, 7th July 1976, Cols. 543–45).

On 12th February 1976 the then Prime Minister announced the establishment of a Royal Commission on Legal Services (Chairman, Sir Henry Benson). It is to examine the law and practice of legal services in England, Wales and Northern Ireland; the structure and training of the legal profession; its remuneration; and the rules which prevent non-lawyers from doing legal work such as conveyancing. A separate Royal Commission on Legal Services in Scotland, announced in March 1976, has a similar remit (*Hansard*, 3rd March 1976, Col. 511). It has ten members under the Chairmanship of Lord Hughes, a former Minister at the Scottish Office (*Hansard*, 19th October 1976, Cols. 366–7).

**Conspiracy Law.** The Law Commission, after issuing Working Papers and hearing observations on them published its Report No. 76 *Conspiracy and Criminal Law Reform* in March 1976. The major recommendation of this Report is that the offence of conspiracy should be limited to conspiracy to commit a criminal offence. Offences of conspiracy to commit an act that is not itself criminal should be abolished, and maximum sentences for criminal cases should be reduced. A conspiracy to commit an indictable offence should not normally incur a higher punishment than the substantive offence. The Report deals with "squatters" who take over occupied residential premises, or use violence thereon, by proposing two new criminal offences. The Report also proposes the abolition of the offences of conspiracy to corrupt morals, conspiracy to outrage public decency and obscene libel, In their place it proposes certain more narrowly defined, less generalised offences.

Mr Roy Jenkins, then Home Secretary, welcomed the recommendations in the Report, inviting comments from interested groups. He added, "I hope that it will be possible to introduce legislation early next Session" (*Hansard*, 1st April 1976, Col. 559). The Law Commission Report's main recommendations were incorporated in the Criminal Law Bill 1976 (see Chapter 18, p. 455).

Two further aspects of conspiracy law—conspiracy to defraud and offences relating to the administration of justice—are still under examination by the Law Commission.

**Liability and Injury.** A Royal Commission on Civil Liability and Compensation for Injury was set up in March 1973. Its wide remit covers such matters as injuries at work and while travelling by road; systems of motor insurance; air companies' accident liability to passengers; damage arising from defective goods purchased; landlords' or lessees' liability for injury in premises; accidents in the course of medical treatment and ante-natal injury. The Commission, whose Chairman is Lord Pearson, expects to report in 1977 (*Hansard*, 3rd August 1976, Col. 672).

## 20. LOCAL GOVERNMENT

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### Speaking Note

#### Increased Expenditure

- Labour's period of office has seen unprecedented increases in the cost of local government services. These have imposed new burdens both on the taxpayer and on the ratepayer—who had to pay on average 50 per cent more in 1975–6 than he did in 1973–4.

Local government expenditure has risen because:

- **Labour have failed to control inflation.** Local authorities are still suffering severely from the unprecedented wage inflation during Labour's first 18 months in office.
- **Labour have embarked upon expensive and unnecessary additional spending programmes on local services.** These include: the municipalisation of all privately rented homes; indiscriminate rent subsidies to all council tenants irrespective of need; and the extensive use of loss-making direct labour departments.

Although Labour Ministers now exhort local councillors to cut their budgets, they continue to impose costly new duties on local government. In full operation, the Community Land Act will cost an extra £1 million a day.

#### Conservative Policy

Any strategy to reduce inflation and boost investment by cutting public expenditure must include policies to rein in local expenditure. Conservatives will achieve this by:

- **The introduction of effective cash limits.** The Government's existing cash limit applies only to the Rate Support Grant. Conservatives will impose strict cash limits on total local government spending, but at the same time they will allow local councils greater freedom to choose *how* they spend their money.
- **Good Housekeeping.** Many Conservative councils have already made considerable savings by reducing bureaucracy and abandoning doctrinaire Socialist schemes.

Conservatives will assist local councils to reduce expenditure by releasing them from expensive additional duties such as those imposed by the Community Land Act.

- **Abolition of Domestic Rates.** Conservatives want to replace domestic rates in their present form with a fairer way of paying for local government services.

## (A) PATTERN OF LOCAL GOVERNMENT

### 1. BACKGROUND TO REORGANISATION

The local government system which operated for the first three quarters of the twentieth century was set up in the 1880s and 90s before the advent of the motor car, and when the population of England was less than 28 million. This established a pattern of county boroughs, county councils, municipal boroughs, urban and rural districts, each with different powers and responsibilities. At first it proved possible to adapt the system to changing circumstances. Between 1888 and 1929 just over 20 new county boroughs were created, and in the nineteen thirties the number of district councils was reduced. But the pace of change slowed because of the clash of interests between county councils and county boroughs. The county councils prevented the creation of any new county boroughs between 1929 and 1964. Consequently the local government map failed to adjust to movements and growth of population.

The Local Government Act 1958 established Boundary Commissions for England and for Wales to review boundaries of counties and county boroughs, including the creation, amalgamation or abolition of county boroughs. After a controversial recommendation to partition Rutland, the Boundary Commission's credibility was weakened, and in 1966 Lord Redcliffe-Maud was appointed to chair a Royal Commission on Local Government in England.

The Redcliffe-Maud Report (Cmnd. 4040) was published in June 1969. Its main recommendation was that England, outside London, should be divided into 61 new local government areas; that in 58 of these areas all-purpose unitary authorities should be established; and that in the other three areas—Birmingham, Manchester and Merseyside—a two-tier system should be introduced with responsibility divided between an upper-tier metropolitan authority and a number of lower-tier metropolitan districts. A minority report by Mr Derek Senior proposed that a two-tier system of local authorities should be established throughout the country. Both the majority and minority Reports radically altered the administrative map, basing boundaries on social and economic catchment areas rather than on traditional county loyalties.

The Labour Government's reform proposals were published in February 1970 in a White Paper, *Reform of Local Government in England* (Cmnd. 4276). This broadly accepted the conclusions of the Redcliffe-Maud Report, although there were some minor differences; the Labour Government proposed the formation of two additional two-tier metropolitan areas in West Yorkshire and South Hampshire.

## 2. LOCAL GOVERNMENT ACT 1972

The Conservative Opposition criticized Labour's proposals for reorganisation in England, on the grounds that they paid little or no attention to existing loyalties, and provided no effective means for power to be exercised at a genuinely local level.

The June 1970 Conservative Election Manifesto pledged to

“bring forward a sensible measure of local government reform which will involve a genuine devolution of power from the Central Government and will provide for the existence of a two-tier structure.”

On 16th February 1971 the Conservative Government published proposals for reorganisation of local government in England and Wales. The proposals were guided by three main considerations:

1. Many existing local authority areas were outdated and no longer reflected the pattern of life and work in a modern society.
2. The divisions between counties and county boroughs meant the artificial separation of big towns from their surrounding hinterlands for functions whose planning and administration need to embrace both town and county.
3. There were too many authorities and many of them were too small in area and resources to support the operation of services to an adequate standard.

These proposals were implemented in the Local Government Act 1972.

**Pattern of Local Government under the 1972 Act.** The new pattern of local government in England and Wales, created by the Local Government Act 1972, took effect from 1st April 1974. It provided for the two-tier system promised in the 1970 Conservative manifesto. There are six metropolitan counties in England, covering the main conurbations outside Greater London: Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire. These six counties are divided into thirty-six districts.

Outside the metropolitan areas there are thirty-eight counties in England including the Isle of Wight. Most of the new counties are based on previous geographical counties. Each county is divided into districts, which total 296; many have been formed by the amalgamation of two or more smaller districts. In Wales there are eight counties and thirty seven districts.

In total there are now about 400 local authorities in England and Wales compared with over 1,200 before reorganisation.

*(Details of local government election results and party control of councils are given in Appendix VII, p. 754.*

**Allocation of Functions.** The Local Government Act 1972 allocated functions according to certain principles. Functions which need to be planned over a large geographical area are allocated to county councils in both metropolitan and non-



metropolitan areas. These include strategic planning, highways and traffic, fire, police, consumer protection and refuse disposal.

Functions which do not require a large geographical area, but need a large population to justify the employment of specialist staff, are allocated to district councils in metropolitan areas, and to county councils elsewhere. These include education, personal social services and libraries.

Functions which are essentially local are allocated to the districts everywhere; these include local planning, housing, refuse collection and environmental health. Certain services, including most recreational services, are provided at both levels in all areas.

**Local Ombudsmen.** Two Commissions for Local Administration, one for England and one for Wales, were established under the Conservative Local Government Act 1974 to investigate complaints from members of the public about injustices caused by maladministration in local government. Maladministration is not defined in the Act and it is for the Local Commissioners to decide whether it has occurred. Local Commissioners are able to accept complaints against all local authorities including the Inner London Education Authority (ILEA) and Regional Water Authorities.

A Local Commissioner may not investigate an action which affects all or most of the inhabitants of the area of the authority concerned; for example, a complaint against the general level of rates would not be accepted for investigation.

**Costs of Reorganisation.** The reorganisation of local government was not, as the Labour Government has argued, primarily responsible for increases in the costs of local government. The main explanation for these increases is that reorganisation coincided with unprecedented levels of inflation to which local authorities in general are vulnerable. In London, where there was no reorganisation in 1974, equally large increases in costs were experienced. For example, in the London Borough of Haringey, staff increased by 30 per cent between 1974 and 1976, and in the London Borough of Wandsworth staff increased by 21 per cent over the same period.

This suggests that some of the growth in local government staff had causes which lay outside reorganisation. At the time of reorganisation many authorities, including the GLC, many London Boroughs, the Metropolitan Counties, and a number of counties and districts were controlled by Labour groups determined to expand local government services, regardless of the consequences for the ratepayers.

The Conservative Government intended that local government staff levels should be monitored by the Department of the Environment and that pay increases should be referred to the Pay Board. When Labour returned to office these arrangements were not implemented, although subsequently Labour has introduced a staff watch survey for local government (see p. 502).

### **3. FURTHER REORGANISATION?**

The alleged costs of reorganisation have not deterred the Labour Party from threatening a further round of local government reform. Speaking at Ashford on 8th

May 1976, a few days after Labour's heavy losses in the last round of local government elections, Mr Ron Hayward, General Secretary of the Labour Party, said:

“The time is near when as a Labour Movement, we have to ask ourselves whether it is better to struggle on with the present system, perhaps making a few minor changes, or whether, despite all the upheaval and expense involved, there has to be a new reorganisation of local government.”

The policy document, *Labour's Programme 1976*, criticises the present division of planning functions, saying that it

“points clearly to the early establishments of about a dozen directly elected regional authorities responsible for planning and infrastructure development.”

It also argues that:

“the regional authorities would not simply absorb powers from the existing local authorities. They should take over from the ad hoc authorities for water and sewerage, health and economic planning, plus certain powers devolved from central government”

and

“There would have to be a much more straightforward local government system below the regional tier with multi-purpose authorities ... responsible for housing, education, social services and other major functions.”

This implies that the Labour Party favours a further reorganisation of local government, including the abolition of county councils.

Mr Peter Shore, Environment Secretary, speaking at Labour's 1977 Local Government Conference, said:

“Whatever we decide one thing is clear—we have to seek ways of improving the existing system of local government. This may in the long run necessitate a regional tier: but it may be possible to secure some significant changes in the running of local government in a shorter timescale, without pre-empting the possibility of more fundamental change involving regionalism at a later date” (Harrogate, 29th January 1977).

Mr Keith Speed, criticising Mr Shore's remarks, said:

“I believe they are preparing the ground for a spurious case linked with ‘English Devolution’ to abolish the County Councils in due course. As the overwhelming majority of County Councils will be Conservative-controlled after May 5th, this is politically attractive to Socialists but would be a disaster for democratic local government” (Abingdon, 5th February 1977).

**Document on English Devolution.** On 9th December 1976, the Government published a Consultative Document entitled *Devolution: the English Dimension* (see Chapter 21, p. 532). The Document discusses the possibilities of:

- a. Large-scale reorganisation of local government, involving the abolition of county councils and the transfer of their functions to elected regional assemblies and to the districts.
- b. More limited reform of the functions and boundaries of local authorities, covering the allocation of planning functions, and functions shared between counties and districts.

The reactions of local authority associations have been hostile to major reorganisation. Cmdr Duncan Lock, Chairman of the Association of District Councils, said in London on 9th December 1976:

“Major changes at this time would mean increased staff and costs and would create more uncertainty and public confusion and even resentment. Radical changes should not therefore be embarked upon lightly.”

Sir Robert Thomas, Chairman of the Association of Metropolitan Authorities, said in London on 9th December 1976:

“Another major reorganisation of English local government may seem tempting, but another reform on the scale of 1974 cannot be contemplated at this time of economic crisis.”

Mrs Elizabeth Coker, Chairman of the Association of County Councils, said on 9th December 1976 that the new local authorities must be given more time to settle down; it would be quite wrong at this stage to reopen the whole controversial and complicated question of the methods of local government organisation.

## **4. LOCAL AUTHORITY MEMBERS**

**Councillors' Allowances.** Councillors are at present paid attendance allowances for council meetings, and allowances for travelling, subsistence and attendance at conferences. The payment of attendance allowances is for any approved duty and attracts tax liability. The rate of allowance is fixed by each authority within a maximum prescribed by Ministers. The present maximum figure was fixed in December 1973 and is £10 for any period up to 24 hours. Authorities may and do fix different rates for duties of different duration. The total cost of attendance allowances in England and Wales in 1975–6 was estimated to be £8 million.

A Transport House Report to the Labour Party (*Municipal Journal*, 13th February 1976) proposed that attendance allowances should be replaced by the payment of councillors on an hourly basis at the rate earned by the average industrial worker.

This scheme would mean that about 3,000 councillors might be paid for full-time work. The cost of the proposal is estimated to be about £30 million.

On 9th March 1976 Mr John Farr, Conservative MP for Harborough, tried to introduce a Private Member's Bill, the Local Government Act 1972 (Amendment) Bill, which would have replaced attendance allowances with an annual fee, but this failed through lack of time.

In 1975 a Department of the Environment Working Group carried out a review of the new attendance allowance system. Its Report, which was presented to the Secretary of State for the Environment on 11th July 1975, recommended giving councils more flexibility in the operation of allowance schemes. When publishing the Report on 19th November 1976, Mr Peter Shore announced that he was setting up an independent review of the present system of remuneration for councillors under the chairmanship of Mr Derek Robinson.

**Trade Union Representation in Local Government.** The question of trade unionists sitting on local councils and council committees has been discussed frequently in the Labour movement over recent years. In November 1974 the Local Government Committee of NALGO proposed that in each local authority a Workers' Council should appoint trade unionists to the Authority with speaking rights and to its committees with full voting rights. In June 1975 the Local Government Committee of the TUC proposed that local authority employees should have representatives on all council committees with full voting rights. This policy, supported also by NUPE, was adopted by the TUC in September 1975.

The local authority associations have been cautious in their approach to this issue. On 2nd July 1975 the Association of County Councils resolved that the TUC proposals were "not appropriate and should not be supported". On 18th February 1976 the Association of District Councils noted the TUC proposals and resolved: "Whilst the whole question of co-option to committees is a matter for each district to decide, the view is taken that co-option of representatives of particular groups or interests is not appropriate and should not be supported". On 4th March 1976 the Association of Metropolitan Authorities said, "Responsibility to the electorate is fundamental to the working of this country's democratic process and ... the elective principle cannot be breached".

A joint statement by the Labour Party and the TUC dated 11th February 1977 proposed that representatives of local authority employees, elected by trade unions, should become non-voting members of council committees. The statement also urges the removal of the disqualification of local authority employees from standing for election to the council of the local authority which employs them. They are seeking a commitment from the Government to bring in legislation.

The proposal for trade union representation on councils was criticised by Mr Keith Speed, Conservative spokesman on local government:

"The strength of our system of local government is that policy decisions are taken by councillors who are elected by and directly accountable to the electorate. Any suggestion that particular sections of the community should have a special right to appoint delegates with voting rights completely undermines that principle" (Harrogate, 13th March 1976).

**Standards of Conduct in Public Life.** In December 1974 the Prime Minister appointed Lord Salmon to chair a Royal Commission on Standards of Conduct in Public Life (see Chapter 19, p. 489). The Report (Cmnd. 6524) was published in July 1976. It made a number of recommendations which have application to local government. These include:

1. New legislation on bribery should cover situations involving third parties. Conviction should render the offender liable to disqualification from election or appointment to membership of a public body.
2. Leaders of local political Party groups should ensure that Members of their Party do not serve on Council Committees where they have substantial interests which might compromise them.
3. Councillors should be required by law to declare a pecuniary interest orally whenever it arises and withdraw from the meeting, except where the Secretary of State has given a dispensation to the contrary.
4. Legislation should require all councillors to enter certain information annually in a register and that the register should be open for public inspection.
5. Legislation should require that committee minutes should be open to public inspection.
6. Standing orders on contracts should be revised.
7. Performance review committees of local authorities should include minority party representatives.
8. The national political party organisations should have clear procedures for dealing with charges of dishonesty against a councillor.

In a Debate on the Report in the House of Lords on 8th December 1976 Baroness Young, Conservative Party Vice-Chairman responsible for local government matters, welcomed the Report and said:

“I believe that there should be legislation following the Salmon Committee Report”  
(*Hansard, House of Lords*, 8th December 1976, Col. 604).

**Councillors' Interests.** The interests of councillors should not always preclude their participation in Debates. This principle was established under the last Conservative Government, when Mr Geoffrey Rippon, then Secretary of State for the Environment, issued a Circular 105/73 (3rd September 1973) which in effect permitted councillors who are council tenants to speak and vote on matters of general housing policy.

The question arose in September 1975 when Mr Timothy Raison, then Conservative spokesman on the Environment, wrote to Mr Crosland about the freedom of councillors to take part in discussions about the Department of the Environment's Consultative Document on the 'Abolition of the Tied Cottage System in Agriculture' (see Chapter 12, p. 289). Replying to Mr Raison on 13th October 1975, Mr Ernest Armstrong, Under Secretary of State, denied that the Department of the Environment had imposed a ban on farmers from speaking and voting on this document, but declined to give specific dispensations to councillors allowing them to vote.

The most recent case arose in October 1976 when the Country Landowners Association was told that Department of the Environment officials had informed District Council officers that councillors with agricultural interests would not be able

to vote on questions arising from the Layfield Report's recommendations on agricultural rating.

## **(B) PAYING FOR LOCAL SERVICES**

### **1. REVENUE AND CAPITAL EXPENDITURE**

Local authorities are responsible for both revenue and capital expenditure. About half of the money spent by local councils on revenue items comes from general taxation such as income tax, and value added tax, and this is paid to local authorities in the form of an Aggregate Exchequer Grant, which includes Rate Support Grant, specific grants and the Transport Supplementary Grant. Just over a quarter of local spending is met from a locally raised tax, the Rates, which is collected by district councils. County councils fix a precept, which is the amount of revenue from taxes they need to run their services, and district councils are required to collect this with their own rate demand. The remaining revenue is made up from direct charges, for example council house rents.

For the purposes of calculating Rate Support Grant, only approved relevant spending by local authorities is taken into account. The Rate Support Grant on average makes up about two-thirds of relevant expenditure, although it accounts for only about half of total current account spending by local government.

Capital expenditure is financed mainly by borrowing from the Public Works Loan Board (PWLB) which serves as an investment bank for local authorities. Permission to borrow is given by the appropriate Secretary of State in the form of loan sanction. This borrowing, including payment of interest, is repaid out of revenue income. Interest on borrowing qualifies for Rate Support Grant.

Loan sanction for capital expenditure is given in two sectors. The bulk of borrowing for capital spending comes into *key sectors* and is subject to detailed approval by the appropriate Government Department (for housing, education, principal roads, personal social services, police etc.). Other services like libraries, parks etc., come into *non-key sectors* or locally determined schemes, where local authorities are given a block allocation.

### **2. EXCHEQUER GRANTS**

**The Rate Support Grant (RSG)** is paid to local councils on the basis of detailed calculations of their needs and resources. The Rate Support Grant is made up of three elements:

1. *The needs element*, based upon such factors as population, the number of pupils and students in full-time education, and the number of people benefiting from social services.
2. *The resources element*, payable to any local authority with rate resources lower than the national average.

3. *The domestic element*, which is payable to all rating authorities and must be used solely for the specific purpose of reducing household rates below the levels they would otherwise reach. The domestic element for 1977–8 is 18·5p in England and 36p in Wales.

Provision is made for Rate Support Grant (Increase) Orders which are made available to local authorities to cover additional costs which have arisen during the financial year.

**Specific grants** are paid for certain services, including police and probation, and are paid at a fixed rate unaffected by the level of the Rate Support Grant settlement.

**Transport Supplementary Grant.** The Transport Supplementary Grant (TSG) is a single block grant which is paid in respect of expenditure on public transport and highways. It is intended to remove the bias towards particular expenditure which is inherent in specific grants, and thereby to further the objective of comprehensive planning. It is also a means whereby the Government retains an overall strategic control over the quality of counties' plans (see Chapter 15, p. 353).

The Rate Support Grant together with the other grants is paid as an aggregate exchequer grant. In 1977–8 the exchequer grant is 61 per cent of approved relevant expenditure, but within this average figure there are considerable variations in the proportion of grant income of individual local authorities, depending on local needs and resources.

### 3. THE RATING SYSTEM

Rates are based on the occupation of property. All occupiers—residential, commercial and industrial—are liable to make a rate payment based on the rateable value of their property. In 1976–7, domestic ratepayers paid about £1,600 million and commercial and industrial ratepayers about £2,000 million.

**Valuation for Rating.** The rateable value is determined by the valuation department of the Inland Revenue, under provisions of the General Rate Act 1967. Rateable value is assessed on the basis of a reasonable rent for the property; this figure is known as the Gross Annual Value. Allowances to cover maintenance and insurance costs are deducted according to a standard scale, and the resulting figure, called the Net Annual Value (or rateable value) is that on which rates are actually paid. Once assessed, this is entered in published valuation lists, which ratepayers are able to inspect and challenge in local valuation courts. Revaluation should be carried out regularly on a five-yearly basis. The last revaluation was carried out in 1973, and the next one was due in 1978—but the Labour Government has postponed it to 1980.

Revaluation does not affect the total amount paid in rates, but it does alter the burden of rating between one ratepayer and another. The rating authority, that is the district council, is obliged to charge rates on all occupied property.

**Rate Poundage.** Once the level of Rate Support Grant is known the amount required for rates is determined and the local authority then calculates a rate poundage, the

amount of pence in the £ which it needs to raise this money, including money required for the county precept and the regional water authorities' precept, and multiplies this by the rateable value to arrive at the individual rate bill. Thus a ratepayer whose house has a rateable value of £100, in a district where the domestic rate poundage is 50p, pays £50 in rates.

## 4. LOCAL GOVERNMENT ACT 1974

In addition to reforming the Rate Support Grant and introducing the Transport Supplementary Grant, the Conservative Local Government Act 1974 provided the framework for a new national rate rebate scheme. In 1975–6 2.58 million people received rate rebates under this scheme. It is estimated that this represents about 60 per cent of those eligible to claim rate rebates. The total sum rebated in 1975–6 was £117 million (*Hansard*, 14th February 1977, WA, Col. 57–9).

The Act also brought in new provisions for the rating of unoccupied property, giving local authorities more discretion as to the classes of property on which they could levy rates, and allowed them the discretion of rating up to 100 per cent on empty properties. Other provisions allowed the exemption from rating of garages for disabled drivers, and exempted new central heating installations from reckoning between valuations.

## 5. CARAVAN RATING

As a result of an Appeal Court judgement in 1966 individual holiday caravans were entered in valuation lists. District councils have to levy rates from all dwellings on the valuation lists and as a result in 1975–6 holiday caravan occupiers received individual rate bills for the first time. This led to great administrative inconvenience for rating authorities. To deal with this, the Rating (Caravan Sites) Act 1976 was passed. This makes the site operator the rateable occupier for the purposes of rating and deletes individual caravans from the valuation lists.

## 6. LOCAL AUTHORITY MANPOWER

The number of staff employed by local authorities in June 1976 was 2.57 million. This represents a 5.4 per cent increase, or 130,000 extra staff, since June 1974 when the number of staff was 2.44 million (*Hansard*, 3rd November 1976, Written Answer, Col. 597).

The table below shows that a large and growing proportion of local government expenditure is accounted for by wages and salaries. The figures apply to England and Wales.

Local Authority Expenditure on Wages and Salaries			
<i>Year</i>	<i>Total gross expenditure on rate fund services</i>	<i>Wages and Salaries for rate fund services</i>	<i>Wages and Salaries as percentage of total rate fund expenditure</i>
	<i>£ million</i>	<i>£ million</i>	<i>%</i>
1970–	4,059	2,353	58



Local Authority Expenditure on Wages and Salaries

Year	<i>Total gross expenditure on rate fund services</i>	<i>Wages and Salaries for rate fund services</i>	<i>Wages and Salaries as percentage of total rate fund expenditure</i>
	<i>£ million</i>	<i>£ million</i>	<i>%</i>
1			
1971– 2	4,708	2,811	60
1972– 3	5,451	3,346	61
1973– 4	6,471	3,877	60
1974– 5	8,138	5,168	64

*(Hansard, 29th November 1976, W.A., Cols. 39–40)*

## **(C) GROWTH IN SPENDING UNDER LABOUR**

### **1. REASONS FOR INCREASED SPENDING**

Local government spending has grown steadily since the mid-sixties, but the rate of increase in the last two years under Labour has been entirely unprecedented. As the next table shows, the increase in total relevant expenditure in 1975–6 was 43·8 per cent.

Local Government Spending in England and Wales

Year	<b>Total 'relevant' expenditure</b>	<b>Exchequer Grants</b>	<b>Exchequer Grants as % of relevant expenditure</b>	<b>Rate revenue</b>	<b>Rates as % of relevant expenditure</b>
	<i>£ million</i>	<i>£ million</i>		<i>£ million</i>	
1973– 4	5,715	3,429	60	2,286	40
1974– 5	6,888	4,167	60½	2,721	39½
1975– 6	9,910	6,590	66½	3,320	33½
1976– 7	10,461	6,852	65½	3,609	34½
1977– 8	11,717	7,147	61	4,570	39

*(Source: Rate Support Grant Orders)*

There are three main reasons for the increase in local government spending.

*First*, there has been Labour's failure to control inflation. Local government is labour-intensive and has suffered severely from the Government's encouragement of wage inflation in its first 18 months in office.

*Second*, the Labour Government has tried to use local government as a tool in its promotion of doctrinaire Socialist policy; encouraging the wasteful municipalisation of privately rented homes, the expansion of direct labour departments and the intrusion by councils into local retail trading, introducing the expensive and controversial Community Land Act, and insisting on local authorities forcing all secondary schools into a comprehensive system.

*Third*, there are shortcomings in the overall control of local government spending in conditions of high inflation. Until recently there has been no cash limit on any part of local government expenditure, and there has been a regular use of Rate Support Grant Increase Orders to pay for rising costs and additional commitments during the financial year.

In theory the Increase Order is supposed only to provide for increased expenditure due to inflation. In practice, however, it has proved impossible to discriminate between extra costs due to price rises and those due to councils embarking on new spending programmes. Moreover, virtually automatic compensation for inflation has meant that councils have had no incentive to offset the effects of rising costs by making economies

Inadequate controls have meant that the expenditure of local authorities in real terms has substantially outstripped the Government's original estimate in each of the last four years, as the table below shows:

Percentage Increases in Local Government Spending (in real terms)

<i>Year</i>	<i>Government Forecast</i>	<i>Actual Spending</i>	<i>Amount overspent</i>
	%	%	%
1973-4	6.0	9.7	3.7
1974-5	4.4	10.0	5.6
1975-6	4.0	6.7	2.7
1976-7*	0.2	3.4	3.2

\* estimate

(Source: *Times*, 18th June 1976)

## **2. THE RATE SUPPORT GRANT 1976-7**

On 3rd September 1975 Mr Anthony Crosland, then Secretary of State for the Environment, sent Circular 88/75 to local authorities indicating that in his view all the growth in spending which local authorities had budgeted for in 1976-7 had occurred in their increased spending in the previous financial year 1975-6.

“This means that there is no scope for increased expenditure in total in real terms.”

On 21st November 1975 Mr Crosland announced the Rate Support Grant for 1976–7. The total of approved spending in England and Wales for 1976–7 was set at £10,461 million (at 1975 Survey Prices) and the Government agreed to meet 65.5 per cent of this, amounting to £6,852 million.

In addition the Government proposed to set a so-called cash limit on any Rate Support Grant Increase Order which might be paid to meet additional costs incurred by inflation during the year. This limit was £480 million or 7 per cent of the R.S.G. It is important to emphasise that the introduction of cash limits did not place an absolute limit on local government spending since (a) it did not apply to rate-borne revenue, which local authorities may increase at their discretion; and (b) it did not apply to specific grants.

Moreover, the Government made it clear that cash limits would not apply in a number of special circumstances, for example if rates of inflation were much higher than foreseen.

The Government issued a further Circular, 45/76, on 27th May 1976 warning local authorities that they had already budgeted to exceed the levels agreed at the R.S.G. negotiations in the autumn of 1975 by between £350 and £450 million. On 13th June 1976 Mr Peter Shore, Secretary of State for the Environment, warned the leaders of 100 Labour councils that he would penalise councils for overspending by making corresponding reductions in next year's R.S.G. (*Daily Telegraph*, 14th June 1976). By November 1976 Mr Shore estimated that the likely over-spending in 1976–7 had been reduced to £190 million (at 1976 Survey Prices) (Statement, 22nd November 1976).

### **3. THE RATE SUPPORT GRANT 1977–8**

Mr Shore announced the Rate Support Grant settlement for 1977–8 on 22nd November 1976. Approved relevant expenditure for 1977–8 has been fixed at £11,717 million, which is a reduction of 1.6 per cent on the latest estimate of current expenditure by local authorities in 1976–7, but represents a 12 per cent (£1,256 million) increase over the approved relevant expenditure for 1976–7 set by the previous Rate Support Grant. At the same time, the Rate Support Grant for 1977–8 has been fixed at 61 per cent of relevant expenditure (£7,147 million). This represents a reduction of 4½ per cent on the level of Rate Support Grant in 1976–7 (65½ per cent).

**Further Rate Increases.** Mr Shore explained that this settlement means that the ratepayers' share of local expenditure will have to rise from 34½ per cent to 39 per cent, or from £3,609 million in 1976–7 to £4,570 million in 1977–8; and that there will be rate increases, on average, in 1977–8 of 15 per cent (Statement, 22nd November 1976).

However, within the overall Rate Support Grant settlement the needs element of the grant has been adjusted to give extra help to London and the other metropolitan areas. This will have the effect that ratepayers in rural areas and non-metropolitan counties

will be faced, on average, with much higher rate increases to pay for lower increases in the big cities. According to a table circulated to the Consultative Council on Local Government Finance on 22nd November 1976, rates in Oxfordshire and Cumbria will rise by 25 per cent, in West Sussex by 24 per cent, while in Manchester they will rise by 8 per cent and in Liverpool 4 per cent.

As Mr Michael Heseltine, chief Conservative spokesman on the Environment, said on 26th November 1976:

“The Secretary of State has used his discretion ... to switch the reduced percentage of available resources from country areas and some counties with less concentration of urban problems to the big cities ... We question the theory that the money needed to cope with those areas should come disproportionately, year after year, from ratepayers in other areas” (*Hansard*, 26th November 1976, Col. 361).

**Unemployment.** According to Mr Reg Freeson, Minister of State for the Environment, the reduced Rate Support Grant

“implies an overall reduction of about 20–30,000 in the total number of local government jobs in England and Wales ... This reduction is within the rate of natural wastage for local authority employment as a whole. For this reason the Government do not consider that reductions of this order need entail a general recourse to redundancies” (*Hansard*, 3rd December 1976, W.A., Col. 281).

However, the Government's estimate has been widely challenged. As Mr Heseltine has said:

“Everyone has had the chance to see the reactions from the local authority associations ... and the reactions of the unions involved. They have all claimed that the Government's policies are designed to force compulsory redundancies among local authority staff ... I believe that the Secretary of State knows these assertions are true and should have explained why there is no other choice for the present Government” (*Hansard*, 26th November 1976, Col. 364).

## **4. SPENDING BY LABOUR COUNCILS**

In his statement on the 1977–8 Rate Support Grant settlement Mr Shore explained that he intended to make no attempt to discriminate in the distribution of grant between councils which made the cuts in spending in 1976–7 requested by him and those which disregarded his call. As Mr Speed emphasised:

“This (the reduced grant) will hit those councils which have cut back on spending just as hard as spendthrift Labour councils which have ignored their own Government” (Malvern, 26th November 1976).

Yet it was the refusal of Labour councils to heed its calls for restraint which mainly explains the Labour Government's failure to check overspending in 1976–7.

Examples of reckless spending by Labour authorities include:

**Haringey**, a London borough which refused to cut £3.8 million overspending from its 1976–7 budget, and to make increases in rents and charges (*Guardian*, 9th July 1976).

**Lambeth**, another London borough, which refused to cut £800,000 overspending from its 1976–7 budget (*Guardian*, 9th July 1976).

**Wandsworth**, the neighbouring borough to Lambeth, which was reported on 28th April 1976 as planning to recruit 219 additional social services staff at a cost to ratepayers of at least £621,000 (*Daily Telegraph*, 28th April 1976).

In 1975 the first half year's budget for municipalisation in Wandsworth was £7.6 million.

**Camden**, a North London borough which undertook a municipalisation programme of £30 million in the winter of 1974–5, and in November 1975 was reported to be at work on two housing schemes to provide 30 flats at a cost of over £70,000 each.

**Hillingdon**, which is still building a civic centre, estimated to cost £14 million in May 1975 (*Daily Mail*, 31–5–75). Hillingdon also planned to spend £17 million on land for council housing in 1974–6.

**Sheffield**, which was proposing to spend £300,000 on the extension of a council estate; the houses would cost £28,000 each (*Sunday Telegraph*, 13th July 1975).

**Sunderland**, which planned to build a leisure centre at a cost of £3.8 million (*The Guardian*, 26th August 1975).

Labour councils which have defied the Government received the endorsement of the Labour Party Conference in 1976. On 27th September the Conference passed with acclamation a resolution proposed by Mr Alan Fisher, General Secretary of NUPE, which gave support to councils which had refused to implement cuts, and called on Labour councils which had not already done so to refuse to implement public expenditure cuts. This was commented upon by Mr Speed at the Conservative Party Conference:

“We totally reject the Labour Party Conference resolution in Blackpool last week supporting local councils which overspend. First, the country cannot afford it and secondly they have forgotten, as they always do, that they are spending other people's money” (Brighton, 6th October 1976).

## **(D) CONSERVATIVE APPROACH TO LOCAL SPENDING**

### **1. CONTROL OVER LOCAL GOVERNMENT SPENDING**

Conservatives have consistently advocated more effective control over local government spending. This must be achieved by:

- a. Establishing cash limits for current local government spending.
- b. Controlling capital expenditure.
- c. Monitoring local government staff.
- d. Cutting out overlapping and waste.

**Cash Limits.** Conservatives believe that for the foreseeable future it will be necessary to set, and adhere to, strict cash limits covering overall levels of local government spending. Mr Speed has said:

“We need clear indication of what authorities can spend in cash terms and ... with that they should have much greater discretion to decide how they spend the money” (Brighton, 6th October 1976).

The greater discretion for local councils is an essential part of the application of cash limits. There must be less government by Circulars sent out to local authorities from Government Departments. Further, as *The Right Approach* states:

“Strict control will demand that central government does not add duties or new commitments to local authorities without providing the resources to discharge them, as has so frequently happened in the past.”

“Parliament, as well as people, has been overwhelmed by legislation in recent years. A self-denying ordinance for legislators is now greatly to be desired. Meanwhile, any new legislation that affects local authorities should be accompanied by an appraisal, agreed with the associations which represent them, of the revenue and manpower implications”.

**Capital Expenditure.** The Conservative Party believes that greater freedom for local authorities, within overall cash limits, to decide how to spend their money should include more freedom to decide their own capital programmes. This was proposed by Mr Speed at the Party Conference:

“Where capital spending is involved global limits should be agreed with the individual authorities and they should be left to spend on capital programmes as they decide and this is what local decision taking is all about. This of course will then mean an end to the detailed scrutiny of capital schemes by the big departments of Whitehall” (Brighton, 6th October 1976).

At the same time local authorities should be encouraged to assess more carefully the revenue and manpower implications of capital expenditure schemes to ensure that the schemes once initiated can be maintained within the limits of future revenue budgets.

**Manpower.** Conservatives have warned the Government that reductions in local government spending will inevitably mean cuts in staff. This appears to have been accepted by Mr Callaghan, who said:

“What concerns me about local authority expenditure is that when it is necessary to economise many authorities choose to cut services in preference to staff. As the purpose of the staff is to provide the services, I hope that they will keep a proper balance in these matters” (*Hansard*, 22nd July 1976, Col. 2005).

However, on 4th August 1976, when Mr Timothy Raison asked the Environment Secretary to endorse the Prime Minister's remarks in the House of Commons, Mr Shore failed to do so. Nor did he reply to a letter on the same subject from Mr Raison on 5th August. Furthermore, the Government refuses to recognise publicly the consequences for employment in local authorities of the reduced R.S.G. for 1977–8 (see p. 504).

For the Conservatives, Mr Speed has called for more realistic levels of staffing in line with the routine workload.

“We must see that local government staffing levels reflect the minimum demand rather than the maximum load” (Brighton, 6th October 1976).

Conservative councils have already shown that economies in staffing can be made without causing undue hardship. On 12th June 1976, in Aberystwyth, **Mrs Thatcher** referred to the record of the Conservative Council in Leeds:

“Even though the council has created 730 new posts, it has still managed to employ 700 fewer staff than were employed by the Socialists.

“And that has been done without any redundancies. It has been done by good housekeeping. It has been done by politicians who had the will to do it.”

**Other Economies in Local Government.** In addition to staff surveys and reductions, Conservative councils are making other economies in local administration while protecting essential local services. Many extravagant Socialist capital schemes have been discontinued. Direct labour departments are being scrutinised and streamlined, and overlapping of services is being eliminated. The result has been considerable savings for ratepayers living in many Conservative-held areas. In Bournemouth, rates in 1976–7 have been pegged to the previous year's level. In Brentwood in 1976–7, by following a policy of cutting back on all capital schemes, and where necessary reducing services without causing redundancies, the council has reduced the rate by 1p. In Leeds a Labour budget deficit of £4.8 million in 1974–5 was turned into a Conservative surplus of £2.6 million in 1975–6, and the district rate has been reduced by 6.3 per cent.

## 2. THE RATING SYSTEM

Conservatives believe that even when the overall level of local government spending is under control, the rating system will remain unsatisfactory.

Although there has been over recent years a fall in the share of total local revenue contributed by ratepayers, there have been unprecedented increases in individual rate

bills since Labour came to power. The table below shows average domestic rate increases in each year since 1973–4:

Domestic Rate Increases		
<i>Year</i>	<i>Average rate bill in England and Wales</i>	<i>Percentage increases on previous year</i>
	£	%
1973–4	65	+8
1974–5	74	+14
1975–6	92	+24
1976–7	100	+9

(*Hansard*, 6th December 1976, W.A., Col. 24)

The average figures conceal extreme variations in individual rate bills. Although it is argued that in 1974–5 the proportion of personal disposable income taken by household rates—about 2½ per cent—was little different from the proportion taken in 1938, there have been in recent years wide variations in rate increases. As a result, many families have had to face increases in their rate bills well above the average and considerably in excess of the rise in their incomes. The Layfield Report (May 1976) records that some rate bills in 1974–5 went up by over 160 per cent.

**Disadvantages of Rates.** In spite of its advantages, that it is certain of yield, simple to collect, recognisably local and independent, the rating system has serious flaws.

1. It does not reflect ability to pay. The single pensioner not in receipt of a rebate and living in a house similar to that of a family with several wage earners has to pay the same rates. Moreover, not all wage earners pay rates and so a section of the community, householders, are shouldering a disproportionate share of the burden. Not all electors pay rates and not all ratepayers have votes.
2. Most people do not understand the basis of rating valuations. Most owner-occupiers have little idea of the notional rental value of their homes. With the rapid shrinkage of the private rented sector, tangible evidence of market rental values for housing is disappearing and ratepayers are justifiably aggrieved at an increasingly unrealistic basis of valuation. It is also true that rateable values based on infrequent revaluations are out of date for most of the time, and that revaluations when they are carried out lead to dramatic and unpopular increases in valuation.
3. Rating lacks buoyancy. Because rates are based on fixed values which are altered infrequently, yields are not buoyant like those of income tax and VAT and cannot keep pace with the expenditure requirements of local authorities.
4. There are special problems for small businesses. After the rate increases of recent years some small businesses have been bankrupted by the increases in their rate bills. Many other businesses face serious cash flow problems where they are unable to pay their rates by instalments.



**The Conservative Pledge.** Recognising the essential shortcomings of the rating system the Conservative Party wishes to abolish domestic rates in their present form. As Mr Speed said at the 1976 Conservative Party Conference:

“We cannot continue with a system that means that a widow living alone has to pay the same rates as a family with several wage-earners living in a similar house” (Brighton, 6th October 1976).

**Small Businesses.** The Conservative Party supported the Private Member's Bill, Local Government (Rate Relief for Small Businesses) Bill (Second Reading, 18th April 1975), introduced by Mr John MacGregor, Conservative MP for Norfolk South, which proposed:

1. That small businesses should have the right to pay rates by instalments; and
2. that domestic rate relief should be available to ratepayers who live at their place of business.

These proposals were endorsed by Mr Speed:

“We are pledged to give a new deal so that the small business ratepayer has the right to pay by instalment and will get a substantial measure of relief when the ratepayer lives at his place of business” (Brighton, 6th October 1976).

## **(E) THE LAYFIELD REPORT**

### **1. MAIN PROPOSALS**

In contrast to the Conservatives, Labour have not proposed any reform of domestic rates. But in June 1974, the Government set up a Committee of Inquiry into local government finance under the chairmanship of Mr (now Sir) Frank Layfield, QC. The report was published on 19th May 1976.

**Recommendations.** The Report discusses the problem of local government finance at length and considers the alternative options of greater centralisation and increased local autonomy. The course of action they prefer is to enhance local autonomy and the Report accordingly makes the following recommendations:

1. Local Government must have an independent source of revenue.
2. The rating system should be retained, domestic rateable values being based on capital valuation, rather than existing rental values. Rating revaluations should be carried out regularly, preferably every three years. Rating should apply to the widest possible range of properties including agricultural land and buildings. Public utilities should be independently rated.
3. Precepting (the collection of rates for one authority by another) should be ended in England and Wales and each authority should be responsible for its own rate demand. Rate bills should normally be paid by instalments.
4. The rating system would be supplemented by a local income tax, collected through PAYE, at rates to be determined by the local authorities. It is

estimated that this would involve an increase in Inland Revenue Staff of 1,200 or more and cost £50 million each year plus an additional £50 million cost to employers.

5. There should be a review of policy and practice on charging for local services, to be carried out jointly by the Government and local authorities.
6. There is a need for a new forum to keep the financial relationship between the government and local authorities under continuous review. The consultative council on local government finance might be adapted to fulfil this role.
7. In the auditing of local authority accounts more emphasis should be placed on efficient financial arrangements. The audit service in England and Wales should be headed by an independent official responsible for appointing auditors to local government.
8. There should be no major transfer of functions away from local government although the government should meet the full cost of mandatory student awards, magistrates courts, probation and after-care (in England and Wales) and certain means tested benefits, as well as the whole cost of the Metropolitan Police.
9. Block grants should remain, incorporating grants for police and, in due course, transport.
10. Government Departments should work more closely together in dealing with loan sanction for local authorities.

## **2. REACTIONS TO THE REPORT**

The Government has made no pronouncement on the Layfield Report, although *Labour's Programme 1976* states:

“We believe it is possible for the new top-tier authorities or possible future regional authorities to draw their revenue wholly or partly from taxes other than rates under their own control, for example, the local supplement to income tax.”

For the Conservative Party, Mr Timothy Raison said:

“My early reading of the Report leaves me with considerable doubts. The notion of three major sources of local government finance—with a local income tax, costing £100 million to collect, and requiring a staff of 1,200 officials, on top of rates and the central government grant—looks costly and cumbersome. The idea of rating agricultural property is hardly likely to appeal at a time when we are trying to grow more food and when food prices have anyway risen as they have. Above all, I do not feel that the Report has really met the great objections to the unfairness of the present rating system, which have led us to demand its drastic reform” (Redruth, 22nd May 1976).

The problems of introducing the rating of agricultural land were also discussed by Mr Keith Speed at the 1976 Party Conference:

“We also reject the proposal to rate agricultural land. We cannot contemplate the lengthy and costly process of valuations and appeals when we know they will put our farmers at a disadvantage compared with their competitors in the EEC, will lead to

increases in food prices and provide a low net yield to local government revenue” (Brighton, 6th October 1976).

**Other Criticism.** The proposals of the Layfield Committee were also criticised by the Cambridge economists Francis Cripps and Wynne Godley in *Local Government Finance and Its Reform* (October 1976, University of Cambridge, Department of Applied Economics):

“The more radical reforms proposed by the Layfield Committee seem to us to be based on a defective analysis and have implications of which the Committee itself does not appear to be aware. At the same time the way in which the rate support grant (RSG) is distributed between authorities, the defects of the existing system, the possible alternatives, and improvements which might be made, are not adequately discussed. Worse than this, the Committee's own proposal for a local income tax raises severe problems for the equalisation of tax burdens of which it makes no mention at all.”

## (F) DIRECT LABOUR AND MUNICIPAL TRADING

### 1. DIRECT LABOUR

Local authority direct labour organisations (DLOs), their own building and maintenance departments, employ 261,100 people in Great Britain. They are supposed to operate at present under the general policy set out in Ministry of Housing and Local Government Circular 57/69 which recommends a manual of principles for controlling new construction by direct labour. In theory, new work is allocated on the basis of competition, and Ministers do not give loan sanction unless they are satisfied that this condition has been fulfilled. However, the manual recommends only that a considerable proportion of their work is obtained by tendering in competition with private contractors, and some building managers claim that in practice as little as 10 per cent is sufficient. Other work is then awarded by negotiation, ostensibly by reference to costs in a competitive scheme. The direct labour share of construction is growing, as shown by the following table:

	Construction Output—All Work Current Prices (£m)			
	<i>Direct Labour</i>	<i>Contractors</i>	<i>All Sources</i>	<i>DLO % of Total</i>
1973	808.9	8,187.3	8,996.2	9.9
1974	932.4	9,255.4	10,187.8	10.1
1975	1,288.6	10,320.9	11,609.5	12.5
1976	1,464.8	10,910.0	12,375.8	13.4

(Half Year as Annual Rate)

(Source: *DOE Housing and Construction Statistics*)

The Labour Party has made its intentions towards the building and civil engineering industries quite clear. It is explicitly stated in *Labour's Programme 1976* that:

“We believe that a major public stake must be created within the building and construction industry. In part, this need can be met by considerably expanding the use of efficient direct labour organisations, the resources of which should be developed and exploited across a much wider front.”

**Direct Labour in Operation.** Some direct labour departments are at present making heavy losses, and there is widespread concern that many are competing with local builders on unfair terms; and that direct labour departments are inefficient and wasteful. This was admitted by the Labour leader of Wandsworth Borough Council, Councillor John Tilley, in a recent Fabian pamphlet, *Changing Prospects for Direct Labour* (Tract 445, October 1976). Referring to criticism of direct labour from private contractors he wrote:

“There is some substance in their criticism ... While many (DLOs) are very well run, there are some which are not.”

He also makes this comment:

“A badly run department would combine the worst of both worlds by being shielded from public gaze in bureaucratic obscurity and protected by favoured treatment from the rigours of commercial competition.”

This criticism is borne out by experience and the very limited published evidence of the work of direct labour departments. In a study of direct labour in Glasgow, *Glasgow Belongs to... Whom?*, (Aims for Freedom and Enterprise, November 1976) Malcolm Hoppé showed that the Glasgow DLO, employing 6,000 men and with an estimated turnover in 1976–7 of £33½ million, was guilty of poor costing and poor performance. The Scottish Development Department criticised the Glasgow DLO over a £10 million building scheme which cost £1 million more than it ought to have done. This case was described by the Labour leader of Glasgow Council, Bailie Dick Dynes, as “the unacceptable face of Socialism” (6th September 1976), and Councillor Neil Stobo, a Labour councillor in Glasgow, described the DLO as “a monster which is inefficient and costly” (*Scotsman*, 8th December 1976). In other schemes the DLOs' performance lagged behind targets. Between April and September 1976, the Department completed only 101 houses against a target of 438. At a council housing development at Darnley, the Glasgow DLO built houses costing £9,600 each, 62 per cent more than almost identical housing schemes built by private contractors over the same period.

Glasgow is not the only place with a bad direct labour record. On 23rd August 1976 the District Auditor reported on the Manchester DLO, where the bonus scheme for maintenance work had been abused for a number of years. The general lack of control led to over-generous targets and payments for work not done. These abuses cost at least £340,000 in each of the two years 1974–5 and 1975–6.

**The CIPFA Report.** New rules for the operation and accounting of direct labour departments were proposed in a report by the Chartered Institute of Public Finance and Accountancy (CIPFA), *Direct Works Undertaking Accounting* (June 1975).

The Report argues that “The only reason for the continued existence of a direct works undertaking is its ability to produce a service at least as effective and economical as its competitors”, and puts forward the following main recommendations:

1. “Contracts should be put out for competitive tender except in a limited number of cases where the contract is a continuation of an earlier contract won in competition, in which case the negotiated rates should be tied to those of the earlier contract.
2. “The accounts of direct works undertakings must clearly demonstrate to the ratepayer whether or not the undertaking is able to produce a service at no more overall cost than alternative competitive organisations.
3. “It is essential that the same standards are adopted in dealing with contracts undertaken by direct labour and those carried out by independent contractors. There should be valuations by an independent quantity surveyor of the value of work performance.
4. “Direct Labour Departments should be established as separate trading units, putting in firm tenders for work on the same basis as outside contractors. This means that departments would show an annual profit or loss, and, over a period of time, give the ratepayer a clear indication of their value and efficiency.”

The need for new rules was conceded by Mr John Tilley in his Fabian pamphlet (see p. 511):

“The relationship with the rest of the council structures must be based on two rules—that the accounts of the department are kept fully and quite separately and that the department receives no favours from the other departments which are its clients. These rules must be kept if there is to be a genuine basis for comparing the performance of the department with that of private contractors.”

The Conservative Party has welcomed the CIPFA Report and its recommendations. Mr Speed, said:

“I hope every Conservative council in the country ... will implement these recommendations at the earliest opportunity” (Eastbourne, 18th November 1975).

In contrast, the Government did not endorse immediately the recommendations of the Report but set up a working party to review the operation of direct labour organisations (announced by Mr Freeson on 14th October 1975).

**New Powers for Direct Labour.** The Labour Government's commitment to extend the powers of direct labour departments was foreshadowed in *Labour's Programme 1976* which states:

“The work of Direct Labour Departments will need continuing encouragement from central Government. New legislation should provide such departments with powers to build council houses for other local authorities, to build for private contractors and to contract for repair and maintenance work in the private sector.”

A number of Private Bills promoted by Labour councils have included provisions to expand direct labour departments. These included the Greater London Council (General Powers) Bill 1976, which would have given councils in Greater London wide powers to carry out direct labour activities outside their own areas. On 3rd March 1976 Conservatives succeeded in deleting the provisions of Clause 6 which dealt with direct labour.

On 14th July 1976, following the failure of these Private Bills, Mr Freeson said:

“I accept the need for greater flexibility for local authority direct labour organisations to undertake work for other authorities, and I propose to introduce legislation as soon as possible” (*Hansard*, 14th July 1976, Col. 649).

In Scarborough on 19th September 1976 Mr Ernest Armstrong, Under-Secretary of State, Department of the Environment, gave an outline of Labour's new proposals. Under the proposed legislation announced in the Queen's Speech on 24th November 1976 local authorities will be able to carry out:

1. New construction work for other authorities in the same county and neighbouring districts in other counties.
2. New construction for New Town Development Corporations and for registered housing associations.
3. Improvement and maintenance work for private house owners in Housing Action Areas and General Improvement Areas.
4. Anything else that the Secretary of State is inclined to permit, by order.

The Government's justification for introducing new legislation was the imminent necessity to replace orders under the Local Government Act 1972 empowering certain district councils to carry out direct work for other authorities. But it has been pointed out by the National Federation of Building Trades Employers that this could be achieved by renewing the orders or introducing a simple Bill which would in no way extend the powers of direct labour departments.

On 23rd October 1976 at Charing, Kent Mr Speed referred to Mr Armstrong's speech:

“In his speech Ernest Armstrong referred to the devastating effects of peaks and troughs on ‘those who depend on building for their livelihood’. What thought has he given to the small builders whose livelihood depends on the improvement and maintenance work for private house owners, which the Government proposes to transfer to direct labour departments of local councils?”

Mr Speed concluded:

“This Bill is a doctrinaire Socialist measure designed to damage the private sector. Many of the proposals it implements are unacceptable to us as Conservatives, and we will vehemently oppose them. We are not alone. Builders, civil engineering contractors and many people in local government, in District and County Councils are opposed to these proposals. We will take a firm stand against this insidious backdoor nationalisation which would use ratepayers' money to subsidise inefficient competition against free enterprise.”

There has also been local government criticism of the proposal to extend the powers of direct labour departments. The Association of County Councils in October 1976 passed this resolution:

“That there should be no extension of direct labour schemes in local government and that where new construction is involved such schemes should gradually be cut back”.

On 25th February 1977 the Government was forced to postpone the publication of its Local Government (Works) Bill, the direct labour measure, because of uncertainty over its ability to get controversial legislation through Parliament without a majority, and in view of widespread hostility to the Bill's provisions within and outside Parliament.

## **2. MUNICIPAL TRADING**

As well as a commitment to the expansion of direct labour, the Labour Government has given encouragement to Labour councils intent on extending their activities to a wide range of municipal trading. In April 1975 Mr John Silkin, then Minister for Planning and Local Government, was asked by Mr Gwilym Roberts, Labour MP for Cannock, if he would introduce legislation to enable local authorities to act as estate agents, undertake the legal side of house purchase, and provide a wide range of community services such as financial arrangements and taxi services.” Mr Silkin replied:

“I sympathise with the general objectives to which my Hon. Friend has referred” (*Hansard*, 16th April 1975, Col. 423).

Subsequently, the Labour-controlled West Midlands County Council promoted a Private Bill which included controversial powers enabling the council to engage in a wide range of municipal trading, including food retailing, petrol filling stations, estate agencies, travel agencies, taxis, and the provision of hotels and catering facilities. The Bill was criticised by USDAW, the shop workers' union, which argued that municipal trading would lead to more unemployment, and by the Walsall Co-operative Society which pointed out:

“Local authorities now act as enforcement agents in respect of many laws affecting retailers. In addition they are planning authorities with wide powers including compulsory purchase ... In our opinion, no local authority could compete fairly with other traders in view of its special position” (Letter to West Midlands MPs, 31st December, 1975).

In the Second Reading Debate on the Bill on 11th February 1976 Mr Speed summed up the Conservative view of municipal trading:

“It is bad for local government, which in the West Midlands and elsewhere already has more than enough to do without being diverted down the highways and byways. Local Government is ill-equipped for entrepreneurial activities of this kind. The Bill is bad for the ratepayer and the taxpayer, who are likely to have to pay for the losses” (*Hansard*, 11th February 1975, Col. 547).

The Bill was defeated on Second Reading by 268 votes to 104. Nevertheless, *Labour's Programme 1976* states:

“A general power will be introduced giving local authorities the right to undertake a range of industrial and commercial activities”.

## 21. DEVOLUTION

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### Speaking Note

- The Scottish Office already exercises a wide range of administrative powers in Scotland.
- Conservatives want closer democratic control of this administration; improved provision for Scottish legislation; and a forum for the expression of Scottish opinion.
- The Douglas-Home proposals involved a directly-elected Assembly—for main stages of Scottish Bills, questioning ministers and debating Scottish affairs.
- The Scotland and Wales Bill proposes a directly-elected Scottish Assembly with power to legislate, and its own Cabinet with executive powers.
- Conservative criticisms of the Bill centre on the extra bureaucracy that it will entail and the opportunity it provides for conflict between Edinburgh and Westminster.
- The Welsh Office has administrative powers.
- Conservatives propose to increase the powers of the Secretary of State and establish a select committee of Welsh MPs.
- The Scotland and Wales Bill proposes an Assembly for Wales without legislative powers but with executive powers.
- Conservatives criticise the Bill because it will impose expense, confusion, conflict and an extra tier of government on the people of Wales. Opinion polls show that the Welsh people do not want an Assembly.



- After the Bill had been criticised from all sides, Conservatives proposed an all-party Convention to see whether or not it was possible to reach agreement on the issues raised by the call for devolution.

# SCOTLAND

## (A) CONTEXT OF DEVOLUTION

### 1. THE SCOTTISH IDENTITY

Since the Act of Union Scotland has continued as a nation, though not a state, its identity established and maintained through a matrix of customs, traditions, conventions and a distinctive culture, history and way of life. Religion, law and education are the institutional pillars of this identity.

The General Assembly of the Church of Scotland has long been regarded as a body broadly representative of Scottish opinion and its views on national as well as religious issues carry considerable weight.

The Scottish legal system is now derived from both the Roman and English systems, with a tendency to be more tied to principle than precedent. Statute law of the old Scottish Parliament remains in force.

The Supreme Civil Court is the Court of Session, with appeal to the House of Lords, while on the local level the Sheriff Courts also take civil actions. The Supreme Criminal Court is the High Court of Justiciary, with appeal to the Court of Criminal Appeal. There is no appeal to the House of Lords in criminal cases. Criminal proceedings are in the hands of the Lord Advocate, or in the case of the Sheriff Court, the local Procurator Fiscal, a lawyer who decides whether or not to prosecute on the basis of evidence supplied by the police. The police themselves never prosecute.

Advocates and solicitors, both of whom have the right to appear at the Sheriff Court, combine to form a legal profession totally separate from the English.

A tradition of education for all is far older in Scotland than in England, with four universities established by the sixteenth century, three by Papal Bull. Today, Scottish education is still more generalised so that students go up to university a year younger than in England and stay a year longer, specialisation taking place in the last three years.

These distinctive institutional characteristics have been reinforced by a separate history and different cultural achievements, particularly in poetry and music. In part, especially in the Highlands, this is allied to Gaelic but is not totally reliant upon it.

Equally important in shaping the Scottish identity has been the development of the Scottish economy. Economic benefits were expected to be among the main advantages of Union. In the 150 years following the Industrial Revolution, Scotland

shared in, and contributed its inventiveness to, British industrial prosperity, but excessive reliance on a small number of basic heavy industries left the country vulnerable to their decline. After the Second World War the rate of growth lagged behind that of England as a whole, with which it is always compared, while unemployment and emigration were relatively high.

**The Scottish Office.** After the Act of Union the post of Secretary of State for Scottish Affairs was established, but was abolished after Culloden, power being transferred to the Home Secretary. The Lord Advocate remained head of the Scottish system of public prosecution, and a number of Boards were established to deal with education, fisheries and prisons.

Lord Salisbury's Conservative Government passed the first Act to set up a Scottish Office in 1885, bringing the Scottish Secretary into the Cabinet in 1892.

The modern Scottish Office, established in Edinburgh in 1939 with the idea that those functions of government separately administered in Scotland should be entrusted to the Secretary of State, has evolved so that its activities now cover nearly every aspect of life in Scotland where there is a separate Scottish code of law, tradition of administration or distinctive Scottish need.

There are five principal departments under the control of the Scottish Office:

1. *Agriculture and Fisheries*, including forestry.
2. *Education*, covering all aspects of education (except universities), youth services, sport, arts, social work, urban programme, voluntary organisations.
3. *Home and Health*, dealing with police, fire, home defence, legal aid, criminal justice administration, liquor licensing, prisons, health service.
4. *Development*, including environment, trunk roads, grants for principal roads, urban transport, planning, housing, water, sewerage, local government, urban development, rents.
5. *Economic Planning*, covering regional policy, on-shore development in connection with North Sea Oil, new towns, tourism, Highlands and Islands Development Board, Scottish Development Agency, aid to industry, electricity, Scottish Transport Group, industrial and economic development, employment.

There is also the Lord Advocate responsible for legal aspects of Scottish administration and for criminal law administration and prosecution.

In all these spheres the distinctive Scottish legal system and administration usually require separate Scottish legislation, which is debated and amended in the Scottish Grand and Standing Committees of the House of Commons.

## **(B) PUBLIC OPINION**

Much of the case for devolution has centred on the interpretation of public opinion in Scotland. While this is difficult to measure accurately, the following is an indication of the findings taken before the publication of the Scotland and Wales Bill.

The Scottish sample of the British Election Study financed by the Social Science Research Council suggested that 73 per cent of those who voted Conservative at the last election were in favour of a separate Scottish Assembly (*Scotsman*, 11th October 1975).

More recently, an ORC survey (*Scotsman*, October 1976) found that 23 per cent of all Scottish voters believed the present system should be retained, a figure that has remained generally consistent since 1974. 73 per cent wanted some form of Assembly, with 45 per cent in favour of full internal self-government or independence. With regard to the Government's proposals as revealed in its White Papers (see p. 522) 5 per cent of Scottish voters thought they went too far, while 57 per cent thought they were about right or did not go far enough. 31 per cent of Scottish voters thought Parliament should be able to change Assembly decisions if it disagreed with them. In the event of a referendum on the Government's plans for an Assembly 65 per cent of Scottish voters would vote in favour.

These figures were backed up by a survey for Independent Television News taken after the publication of the Scotland and Wales Bill in December 1976. This revealed that 20 per cent of Scots voters wanted no change, while 74 per cent wanted some change. In a referendum on the Bill, 64 per cent would vote in favour and 28 per cent against.

Of Conservative voters in the ORC survey, 65 per cent wanted a Scottish Assembly; 8 per cent thought the Government's plans went too far; while 38 per cent thought they were about right or did not go far enough; and 61 per cent would vote in favour of the Government's White Paper proposals in a referendum.

In all the polls, the proportion of voters wanting independence has been consistently around the 20 per cent mark.

## **(C) EVOLUTION OF CONSERVATIVE POLICY**

### **1. KEY DATES**

*June 1967*—Mr Heath established a Scottish Policy Group to examine the machinery of government in Scotland after a request by the Scottish Conservative Party.

*May 1968*—After a debate at the Scottish Conservative Conference Mr Heath proposed an elected Scottish Assembly as suggested by the Scottish Policy Group.

*August 1968*—Mr Heath established the Scottish Constitutional Committee under Sir Alec Douglas-Home to investigate the need for, and type of, a Scottish Assembly.

*April 1969*—Labour Government established a Royal Commission on the Constitution.

*March 1970*—Scottish Constitutional Committee proposed a directly elected Scottish Assembly, with a legislative role.

*June 1970*—Scottish and UK Conservative Manifestos promised legislation on the lines of the Report. (This was postponed to await local government reform.)

*October 1973*—Royal Commission recommended an Assembly.

*February 1974*—Scottish Conservative Manifesto promised that Conservatives would present proposals for devolution.

*May 1974*—Scottish Conservative Conference motion supporting devolution passed by a large majority.

*October 1974*—Scottish and UK Manifestos promised a Scottish Assembly.

*May 1975*—Scottish Conference, by a large majority, called on the Party to prepare without delay its plans for a Scottish Assembly.

*January 1976*—Conservatives proposed a reasoned amendment to the Government's 'Take Note' motion on the November 1975 White Paper which read, "This House affirms the need for an Assembly in Scotland but rejects the Government's particular proposals for Scotland and Wales which will lead to confusion and conflict, and which will threaten the unity of the UK".

*May 1976*—Scottish Conservative Conference motion confirming the Conservative Party's commitment to a directly elected Assembly for Scotland passed by a substantial majority.

*January 1977*—Conservatives opposed the Second Reading of the Scotland and Wales Bill on the grounds that Labour's proposals were defective.

## **2. PERTH 1968**

Mr Heath based his speech on the report of a Scottish Policy Group which he established after a meeting of the Scottish Central Council in June 1967. He said:

"The Conservative Party is determined to effect a real improvement in the machinery of government in Scotland. And it is pledged to give the people of Scotland genuine participation in the making of decisions that affect them—all within the historic unity of the United Kingdom" (Scottish Conservative Conference Perth, 18th May 1968).

He proposed the creation of an elected Scottish Assembly, a single chamber to take part in legislation in conjunction with Parliament. The purpose would be to keep the UK united; improve the machinery of government in Scotland; allow the Scots to take decisions on Scottish legislation in Scotland; and provide an opportunity to propose and discuss UK policy as it affected Scotland.

## **3. DOUGLAS-HOME PROPOSALS**

The Scottish Constitutional Committee was established in August 1968 shortly before the Royal Commission (see p. 521). Its members included Sir Alec Douglas-Home (now Lord Home of the Hirsel) as Chairman, Viscount Dilhorne, Professor Goodhart, Lord Polwarth and Lady Tweedsmuir, with Sir Robert Menzies and Sir Kenneth Wheare as advisers.

Its Report, *Scotland's Government*, published in March 1970, recommended:

- a. The maintenance of the UK as an economic union, essential for the future of Scottish industry.
- b. Greater flexibility in the application of basic economic and fiscal policies.
- c. No reduction in the number of Scottish MPs in the House of Commons.
- d. Maximum devolution of control of nationalised industries.
- e. A Scottish Assembly, directly elected at the time of Parliamentary elections, with power to co-ordinate regional views, meet and question the Scottish ministers, discuss government proposals at an early stage, comment on the Scottish estimates and debate matters of concern to Scotland.
- f. Assembly participation in the framing and passage of Scottish legislation.
- g. The continuance of the Secretary of State and other Scottish ministers as the Scottish Executive.

The Committee's findings formed the basis for Conservative thinking. In particular a Scottish Policy Committee under Mr Malcolm Rifkind, MP for Edinburgh Pentlands, proposed one way in which the legislative proposals might operate. It was suggested that all Scottish Bills would go to the Assembly for Second Reading, Committee and Report stages and any Bill refused a Second Reading would be amended or withdrawn. There would be a modified Report and Third Reading stage in the House of Commons so that all Scottish MPs could have an influence. The Secretary of State would have the right to speak in the Assembly with junior ministers being able to be appointed from the Assembly from the same party as the Secretary of State. The Assembly could form select committees which would scrutinise the Scottish administration, propose new policies and amend legislation.

As an integral part of Parliament such an Assembly would avoid a single chamber legislature unlike under the Labour Government's proposals; would retain the Secretary of State in the UK Cabinet; would provide a full role for Scottish MPs in the House of Commons; and would avoid the creation of a second executive and bureaucracy.

## **4. CONSERVATIVE COMMITMENT**

Speaking in the Debate on the White Paper, *Our Changing Democracy: Devolution to Scotland and Wales* (Cmnd. 6348), Mr Alick Buchanan-Smith, then chief Conservative spokesman on Scotland, explained why Conservatives believed devolution was necessary:

“First, it is generally accepted that we have developed in this country, because of the complexities of Government, an over-centralised system of government. Going hand in hand with that system there is a feeling of remoteness from Government ... Second,

the House of Commons is heavily and dangerously overloaded ... Third, in Scotland there has always been a feeling, which has grown in recent years—a feeling based on perfectly legitimate, fair and proper claims—of a difference from the rest of the United Kingdom ... there is the simple fundamental fact that our legal system is different ... I am in no doubt that Scotland is suffering and has suffered in recent years from a log-jam of Scottish legislation.

“In administrative terms a great deal of government has already been devolved to Scotland ... We have divorced the Scottish Civil Service from direct contact with, and control by, Scottish Members of Parliament, but by so doing we have served to emphasise the remoteness of Scottish Members and of Westminster from the real things that happen in Scotland” (*Hansard*, 14th January 1976, Cols. 420–429).

Both Mrs Thatcher and Mr Whitelaw, then chief Opposition spokesman on Devolution, made clear the Conservative commitment at the Scottish Party Conference in Perth in May 1976. Proposing the establishment of a directly-elected Scottish Assembly as a third chamber of the British Parliament, Mr Whitelaw said:

“There is a clear feeling that Scottish legislation based on a separate legal system is not adequately considered at Westminster ... Nor is it felt that the Secretary of State for Scotland, the Scottish Office, and other public bodies in Scotland, are scrutinized as searchingly as they need be ... They would certainly get more time for debate in another Assembly. This is a feeling which I believe we neglect at our peril.

“It was the purpose of the proposals of the Douglas-Home Committee to meet this need and it is on that basis, and on behalf of Margaret Thatcher and the Shadow Cabinet, that I restate our commitment to a directly elected Assembly in Scotland ... Such an Assembly would be, in effect, another chamber of the Westminster Parliament. Its functions would be to take an important part in legislation in conjunction with the Westminster Parliament and to subject the Secretary of State and the Government bodies in Scotland to full democratic scrutiny.

“It differs completely from the Government's proposals in that it does not include a new executive with an extra layer of expensive government. The Secretary of State and his ministers would remain as the executive representatives of the United Kingdom Government with the substantial powers already devolved to the Scottish Office.

“I do not think that anyone can deny that such a directly elected Assembly is consistent with the political and economic integrity of the United Kingdom”.

After the Labour Government's Bill had been introduced and the Conservatives had decided to vote against the Second Reading, the Shadow Cabinet issued a statement on 8th December 1976 reaffirming the Party's commitment to a directly elected Assembly for Scotland.

## **5. A PROPOSAL FOR A CONSTITUTIONAL CONVENTION**

When it became clear that there was no consensus in favour of the Scotland and Wales Bill in any part of the House of Commons the Conservatives proposed that a Constitutional Convention should be called. Mr Pym, Chief Opposition spokesman on Devolution, in a statement on 19th February 1977 said:

“On behalf of the Shadow Cabinet and the Conservative Party, I have proposed to the Government that they should enter into talks immediately with a view to establishing an all Party Convention ... The object of such a Convention would be to try to see whether or not it is possible now to reach broad agreement on the problems revealed by the calls for devolution. If it proved impossible for it to agree on any one solution, at least it might be able to present alternatives for the House to consider ... If such a Convention is to work it would be necessary to enter into it without any preconditions, without any pre-conceptions as to what should emerge and without any pre-commitment to a particular policy. This Convention could be limited to six months in duration.”

After the Government had accepted the idea of talks (see p. 531), having first rejected any such proposal, Mr Pym outlined what he thought should be the initial agenda.

“Any talks on devolution must have as their sole starting point a desire to improve the government of the UK as it affects Scotland ... They must start with a thorough consideration of what is wrong (with it) and what is needed to improve it.”

He suggested that there were six problems in particular:

“First, there is a need to subject to closer democratic control and scrutiny the decisions of the 9,000 strong Scottish Office, in Edinburgh ...

“Second, there is a need to ensure there is a full opportunity to debate matters specifically affecting Scotland so that the Government is fully aware of Scotland's needs and opinions in formulating its policies ...

“Third, there is a need to ensure there is adequate time for a thorough consideration of Scottish legislation, taking into account Scotland's distinctive legal system; time to consider secondary legislation such as orders and statutory instruments and EEC orders as they affect Scotland. We also need more time to debate the reports of public bodies that operate in Scotland ...

“Fourth, there is a need to overcome the sense of remoteness of the people of Scotland from those who make and implement the day to day decisions that affect their lives and from those who subject them to democratic control.

“Fifth, there is a need to ensure that where priorities in Scotland for public expenditure may be different from elsewhere in the UK there should be adequate flexibility within an overall budget to ensure that these differing needs and priorities can be catered for.

“Sixth, there is a need to ensure that Scotland's distinctive institutions, traditions of administration and more particularly her economy are adequately considered in framing policy”.

He went on to say that once the problems had been identified,

“we can go on to consider how best to meet them, both in terms of reforms in Parliament and, where necessary, the creation of any new institutions that may be required” (Speech, 26th February 1977).

## **(D) GOVERNMENT REPORTS**

### **1. KILBRANDON REPORT**

The Royal Commission on the Constitution, set up in April 1969 under the late Lord Crowther, reported in 1973 under Lord Kilbrandon. Eleven members of the Commission of thirteen signed the majority Report. All members rejected complete self-government for Scotland and Wales but accepted that there should be more devolution.

The Commission concluded that devolution must be consistent with preservation of the essential political and economic unity of the United Kingdom and the retention of the legal and effective sovereignty of Parliament. There was a feeling that government was remote and insufficiently sensitive to the views and feelings of the people. In Scotland and Wales this had an additional dimension of national feeling, based in Scotland on economic considerations.

### **2. WHITE PAPERS**

**“Devolution within the UK: Alternatives for Discussion” June 1974.** This paper summarised the various possible schemes recommended by the Royal Commission. The three main possibilities were:

- a. Legislative devolution, where responsibility for legislating on specifically defined matters would be totally transferred to directly elected Scottish and Welsh legislatures and cabinets.
- b. Elected Assemblies and local authority-type executives in Scotland, Wales and the English regions to adjust policies for the special needs of their areas and put them into effect (within the framework of UK legislation).
- c. Executive devolution for Scotland, Wales and the English regions with the UK Parliament responsible for the framework of legislation and policy, but transferring to directly elected assemblies responsibility for specific policies.

**Attitude of the Labour Party in Scotland.** The Labour Party in Scotland has a chequered history in the context of devolution. On 24th June 1974 it was reported that the Executive Committee of the Scottish Council of the Labour Party had come out against the Government's devolution proposals. The Executive was put under pressure by Transport House to reconvene the full conference to consider the proposals. In their submission to this conference, which was held on 17th August 1974, the Executive put forward the view that an Assembly was unnecessary for Scotland. However, the Conference as a whole rejected their advice and voted in favour of devolution.



**“Democracy and Devolution: Proposals for Scotland and Wales”** (Cmnd. 5732). Published in September 1974, just before the General Election, this White Paper summarised the Government's decisions of principle. It proposed a directly elected Assembly for Scotland with a legislative role and powers within fields where there was already separate Scottish legislation and administration. Finance would be by a block budget voted by the UK Parliament.

**“Our Changing Democracy: Devolution to Scotland and Wales”** (Cmnd. 6348, November 1975). This White Paper, together with a Supplementary White Paper (Cmnd. 6585) of August 1976, set out for discussion the proposals on which the Government intended to base legislation in the following session.

In her speech during the debate on the White Paper, **Mrs Thatcher** suggested improvements to the Government's scheme:

“The Government should try to mitigate the conflict by first subjecting the use of devolved powers to judicial control by the courts and not to political control by the veto” (*Hansard*, 13th January 1976, Col. 236).

In case the Assembly should use its powers to deny fundamental freedoms Parliament should,

“enshrine Bill of Rights clauses in the devolution statute” (Ibid, Col. 236).

Mr Whitelaw, at the Scottish Conservative Conference in May 1976, said:

“We should make it clear that if the Government produce a Bill in the terms of the White Paper we as a Party will oppose it” (Perth, 14th May 1976).

In framing the legislation Mr Michael Foot, Lord President of the Council, took some of the criticisms into account. He dropped the proposal to allow a surcharge on the rates; agreed to use the Privy Council to decide matters of vires; and removed the veto of the UK Government on grounds of general policy.

**Attitude of Industry.** In its reaction to the White Paper (Cmnd. 6348) Scottish industry emphasised the need to retain the overall unity of the UK. The CBI (Scotland) said:

“The apparatus and method by which work and power is delegated is, we accept, a political decision, which must be reached by democratic means reflecting as all these decisions must do, the wishes and aspirations of the electorate. Nevertheless, speaking as we do on behalf of industry as a whole in Scotland, we are bound to express the view that the elected Assembly is unnecessary from industry's viewpoint. As proposed, it could lead to confusion, disputes and delay in decision making on matters which affect business”.

The Scottish Council (Development and Industry) said:

“The Scottish Council has kept constantly in view the importance of preserving the political and economic unity of the UK. The guiding principle must remain the

evolution of a legislative, administrative, and executive system for Scotland which will dispel the present mood of frustration and satisfy the legitimate aspiration of the Scottish people for good government whether in the social, educational, legal, financial or industrial fields”.

## **(E) SCOTLAND AND WALES BILL**

### **1. PROVISIONS AFFECTING SCOTLAND**

**Principle.** The Bill establishes an Assembly for Scotland of about 150 members, with legislative powers, and with a cabinet executive based on the majority party in the Assembly.

**Elections.** Elections will be held every four years on the third Thursday in March on the first-past-the-post system. In the initial election there will be three members for those Parliamentary constituencies where the electorate is over 125 per cent of the average and two for the rest. For subsequent elections there will be single-member constituencies.

**Legislation.** The Scottish Assembly may make new laws, and may amend or repeal a provision made by or under an Act of Parliament.

The Secretary of State is to consider every Bill passed by the Assembly. If he believes it is not within the legislative competence of the Assembly he will refer it to the Judicial Committee of the Privy Council for a ruling. If he believes any Bill is not compatible with Community (EEC) obligations or any other international obligations of the UK he will not submit it for approval.

**Executive.** The Chief Executive will be nominated by the Assembly and will advise on the appointment of the other members. The Executive will have the power to make, confirm or approve orders, rules, regulations or other subordinate legislation; and where it was hitherto necessary to lay these before Parliament for annulment or approval they will in future be laid before the Assembly.

In certain specified cases action may only be taken after reference to a Minister of the Crown or in conjunction with the Secretary of State.

**Limitations on Devolved Matters.** If a matter either involves, or is affected by, the implementation of a Community obligation or of any other international obligation of the UK, it may only be devolved by an Order in Council.

**Committees.** There will be committees in all the devolved subjects to examine the exercise of powers by the Executive and advise and assist in the formulation of policy. Normally no Bill will be introduced except after consultation with the subject committee. The Committee membership will reflect the overall party balance.

**Veto of Bills.** If the Secretary of State believes a Bill passed by the Assembly contains any provision that might affect a matter for which only Parliament has power

to legislate, and that the enactment of that provision would not be in the public interest, he may bring the Bill to the notice of Parliament. It will not then proceed for Assent if both Houses of Parliament annul it within 28 days or the House of Commons does so and then confirms its resolution by a second vote.

**Veto of Executive Acts.** Similarly, if the Secretary of State believes that a member of the Scottish Executive proposes to take action that might affect a matter which is beyond the Executive's power the Secretary of State may direct that the action shall not be taken. Such a direction will cease to be binding after 28 days unless both Houses of Parliament pass a resolution confirming it or the House of Commons passes a resolution and confirms it. A similar procedure will apply to a subordinate instrument. However, if the order or direction refers to a Community or international obligation, there will be no need for Parliamentary approval.

**Secretary of State's Specific Powers.** The Secretary of State may issue guidelines to the Scottish Executive on the exercise of the industrial investment functions of the Scottish Development Agency; on the economic activities of the Highlands and Islands Development Board; and on the terms on which public bodies may dispose of industrial premises.

He may also limit rent increases in the interests of counter-inflation policy, and may also prescribe a model rent rebate and allowance scheme and rate rebate scheme.

The Secretary of State may take over the planning role of the Executive in specific cases, where the decision may affect the wider UK interest.

**Financial Provisions.** Provision is made for a block budget to be allocated to the Assembly annually and for a Loans Fund. There will be a limitation on capital expenditure, financed by borrowing, by public bodies.

The Scottish Executive will be responsible for the Rate Support Grant.

**Taxation.** The Scottish Assembly will not be able to legislate to impose, alter or abolish any tax.

**Reports.** Where any Act makes provision for any report to be laid before Parliament and it relates exclusively to devolved matters it will be laid instead before the Assembly.

**Devolved Powers.** Legislative and Executive powers will include control over:

Education (not universities), the arts, recreation, libraries, health, social welfare, water, local government, local licensing, rating, rate support grant, environment, land use, industrial sites, roads, new towns, conservation, crofting, tenure of agricultural land, housing, rent control, fire service, public road transport, ferries, Scottish Transport Group, aerodromes, inland waterways, forestry, tourism, general pollution control, salmon and freshwater fishing, private law, criminal offences, legal aid, the legal profession, and the courts.

Only Executive powers will be exercised over the Scottish Development Agency, Highlands and Islands Development Board, Community Land Act and Road Traffic Acts.

*Specifically excluded from Assembly control are:*

- a. the continued existence of (i) the High Court of Justiciary as a criminal court of first instance and of appeal; (ii) the Court of Session as a civil court of first instance and of appeal; and (iii) the Sheriff courts.
- b. The appointment of judges of the High Court and Court of Session.
- c. Jurisdiction of the High Court, the Sheriff Court, Court of Session, Appeals to the House of Lords in civil cases, or to the High Court of Justiciary.
- d. The following functions of local authorities: police, electoral registration, offices, shops and railway premises, factories, careers service, consumer protection, traffic wardens, ports, dog licensing.

**Cost.** The annual running cost of the Assembly is estimated at £12 million, with a capital cost of £4.65 million. As the Bill makes clear, the additional costs arise “partly from entirely new activities, partly from loss of economies of scale in support services and partly from divisions of responsibility between Westminster and the new devolved administration”. About 750 additional civil servants are envisaged.

**Referenda.** The Government was forced by the pressure of backbench opinion during the Second Reading of the Bill to announce its intention to hold referenda on its provisions. Subsequently it introduced and debated out of turn new clauses to provide for referenda in Scotland and Wales to ask people whether they agreed that the provisions of the Bill should be put into effect. At first the referenda were to be mandatory in the event of a ‘No’. Under pressure from all sides of the House the Government conceded that they should become consultative.

**Number of Scots MPs.** There is no provision to reduce the number of Scots MPs below the present 71, although the Royal Commission (see p. 521) pointed out that if Scotland were to have the same proportion of MPs to population as England there would have to be a reduction to 57 Members.

## **2. REACTIONS TO THE BILL**

**Conservatives.** Conservative spokesmen stressed that by insisting on an extra tier of government on top of an Assembly the proposals could lead to conflict, bureaucracy and increased costs. In spite of the Government's agreement to refer matters of vices to the Judicial Committee of the Privy Council, considerable areas of conflict remained without satisfactory methods for their resolution. In particular there were those areas where the Secretary of State may intervene without reference to Parliament; those matters that might affect areas for which the UK remains responsible; areas of dual responsibility; and areas where guidelines may be issued. Conservatives also disliked the element of power without any financial responsibility. In turn this would limit the Assembly's freedom of action and could cause frustration. In addition, at Westminster Scots MPs would be able to vote on certain matters as they affect England but not as they affect Scotland.

In the Second Reading Debate **Mrs Thatcher** said:

“We must be absolutely certain that we should achieve a stable and lasting solution ... The more one goes through the Bill the more one sees how unwise the Government have been to put Scotland and Wales in the same Bill. There are two basically different Assemblies”.

Criticising the Scottish arrangements, she said:

“The Scottish Assembly is always subordinate to the UK Parliament and always subject to supervision. The Scottish Executive is subordinate to the Secretary of State for Scotland ... Power is given away with one hand and very largely taken away with the other. It is absurd for the Government to give power to legislate in one clause and to take it back in another. It will create an unstable legislature ... One either has a system based on Lord Home's proposals or one goes further (than the Government) ... The Government propose two legislatures, two Executives and two groups of civil servants. Such a structure does not make for efficient government for the citizens of any part of the United Kingdom” (*Hansard*, 13th December 1976, Cols. 993–1007).

Mr Edward Taylor, chief Conservative spokesman on Scottish affairs, pointed out a major defect of the Bill;

“On legislation, there appears to be a logical case for permitting a devolved Assembly to participate in the law-making process, just as there appears to be a logical case for giving full powers in specified areas, subject, of course, to ultra vires restrictions. But there is surely immense danger in provoking conflict by appearing to give full legislative powers but restricting the freedom by such a mass of clauses, subsections and schedules.

“We therefore oppose the Bill because it is about as bad a way of producing devolution as possible. It is costly, bureaucratic, and full of ingredients which could precipitate constitutional clashes and thereby lead to the break-up of Britain” (*Hansard*, 14th December 1976, Col. 1259).

In winding up the debate, Mr Francis Pym, chief Conservative spokesman on Devolution, said:

“There has been no attempt to reach common ground in the interests of the United Kingdom, to analyse and diagnose the problem which we all appreciate exists or to recommend possible changes and improvements ... We do not have to adhere to the existing system of government. In any case, I doubt that that is a possible option ... In Scotland there is a current of emotional opinion which is understandable. It wants important decisions affecting Scotland to be taken in Scotland in a new and different way” (*Hansard*, 16th December 1976, Cols. 1852–1863).

In voting against the Second Reading of the Bill, Conservatives were not voting against the principle of a devolved Assembly, but only against a bad Bill. In a statement after the Second Reading, Mr Pym said:

“The Conservative Party will play its full part in amending the Bill constructively. In particular we shall seek to ensure that there is a clear division of powers so as to minimise conflict and that there are effective institutional procedures to overcome such conflict as may arise” (19th December 1976).

**Liberals.** The Liberals have long campaigned for a federal system for the UK. The Liberal Leader, Mr David Steel, criticised the Bill for lacking a clear division of powers. He pointed to several defects in the Bill: the over-representation of Scotland and Wales at Westminster; the too-powerful role of the Secretary of State for Scotland; lack of revenue-raising powers; lack of power over industry and nationalised industry; and lack of Proportional Representation.

**SNP.** The SNP's aim is an independent Scotland under the Crown within the Commonwealth and NATO, though opinion polls reveal that under 50 per cent of their supporters want independence. It would accept an Assembly as a first step towards that end. The SNP leader, Mr Donald Stewart, MP for the Western Isles, regretted that the Bill lacked any transfer of economic and industrial powers. Of the Assembly he said:

“We accept it and we shall play a constructive part, but we shall pursue a policy of widening its control over the economy and Scottish society as a whole” (*Hansard*, 13th December 1976, Col. 1023).

**Scottish Labour Party.** Like the SNP, the Scottish Labour Party, a breakaway party formed by MPs Mr Jim Sillars (Ayrshire S.) and Mr Robertson (Paisley) who believed that the Government was not going far enough in its support for Scottish self government, claimed that the Bill gave insufficient economic and industrial control to the Assembly.

## WALES

### (F) THE WELSH OFFICE AND THE WELSH COUNCIL

There has been a steady tide of administrative devolution to Wales. Labour publicity tends to suggest that the process only began in 1964. In fact, the first Minister for Welsh Affairs who could “speak in the Cabinet on behalf of the special interests and aspirations of Wales” was appointed in 1951 under Sir Winston Churchill. The first Minister of State for Wales was also appointed under the Conservatives in 1957. From 1954 onwards an increasing number of government functions affecting Wales was transferred to the Welsh Office at Cardiff. In 1960 the Welsh Grand Committee of the House of Commons was set up.

In 1970 the Conservative Government devolved full responsibility for primary and secondary education in Wales, and in 1971 the urban programme, to the Welsh Office.

By 1974 the Welsh Office exercised responsibility for health, housing, primary and secondary education, child care, town and country planning, local government, water and sewerage, roads, forestry, rural development, sport, recreation, social work, tourism, national parks and historic buildings. A recently acquired responsibility is the Welsh Development Agency (see Chapter 23, p. 561).

**Welsh Council.** Established in 1968, its terms of reference include economics, cultural matters and promotional and advisory functions, though its main activities have been related to the Welsh economy, the environment and social services. It has produced reports on matters such as the reorganisation of the water supply, the rural depopulation of mid Wales and housing. Its members are drawn from industry, the professions, trade unions, local government and the academic world.

## **(G) PUBLIC OPINION**

An opinion poll for HTV, commissioned in December 1976 after the Scotland and Wales Bill had been published, revealed that 40 per cent of Welsh voters were opposed to the Government's proposals, with only 27 per cent in favour and 33 per cent neutral or undecided. 79 per cent wanted a referendum. 35 per cent believed that the Assembly should have more power and 19 per cent less power with 33 per cent believing it to be about right. Of Conservative voters in Wales only 16 per cent were in favour of the plans, with 58 per cent opposed and 26 per cent neutral or undecided. Only 22 per cent of these Conservative voters thought the Assembly should have more power, with 32 per cent wanting it to have less and 34 per cent believing it to be about right.

## **(H) CONSERVATIVE POLICY**

Conservatives have consistently opposed the creation of a Welsh Assembly on the grounds that it is not wanted by the Welsh people and that, unlike Scotland, Wales has no separate legal system. In addition, as Mr Nicholas Edwards, chief Conservative spokesman on Wales, said in the Debate on the Scotland and Wales Bill:

“Wales has benefited far more from the influence of Welsh Members of Parliament at Westminster and a Welsh Secretary of State in Cabinet than it will ever benefit from a separate Assembly” (*Hansard*, 15th December 1976, Col. 1580).

However, Conservatives have recognised the case for further administrative decentralisation and for closer democratic scrutiny of Welsh Affairs by Welsh MPs. As Mr Edwards said:

“There are problems that are peculiarly Welsh, that need to be fought about in Government. It is wholly in the tradition and within the principles of the Conservative Party that we shall seek to sustain and to foster Welsh individuality. It follows that if there were a clear demand from among the Welsh people for an Assembly we shall seek to meet it, if at the same time we could retain the unity of the Kingdom. Faced by such a demand in Scotland we have sought to meet it. We recognise no such demand in Wales. We believe that the majority of the Welsh people consider the proposed

Assembly irrelevant to the problems of Wales, that it will be costly, cumbersome and will lead to conflict” (Aberystwyth, 12th June 1976).

Conservative proposals aimed at an evolutionary development were outlined first by Mr Edwards in July 1974 in a memorandum to the Secretary of State, then in the Manifesto for the October 1974 General Election, and more recently during the Second Reading Debate on the Scotland and Wales Bill on 15th December 1976. This development would:

- a. Continue the process followed by successive Governments which have increased the range of responsibilities of the Secretary of State.
- b. Seek to extend the freedom and responsibility of the local authorities, which are the units of government closest to the people.
- c. Seek, through the Select Committee procedures, to enlarge the opportunities for Welsh Members of Parliament to probe, examine and expose the performance of Government and of public organisations.
- d. Strengthen the role of the Welsh Council so that, with members drawn from those elected to the County and District Councils, it would co-ordinate on an all-Wales level the extended role of the local authorities, tender advice to the Government, debate publicly matters affecting Wales, invite the attendance of Welsh Office ministers and officials, and receive reports from nominated bodies.
- e. Allocate the money voted by Parliament for expenditure by the Welsh Office in the form of a block budget to be spent in the light of Welsh advice and interests.

## **(I) GOVERNMENT REPORTS**

The report of the Royal Commission on the Constitution is discussed on p. 521, and the document, *Devolution within the United Kingdom: Alternatives for Discussion* (June 1974), on p. 522.

The September 1974 White Paper, *Democracy and Devolution: Proposals for Scotland and Wales* (Cmnd. 5732—see p. 522), proposed for Wales a directly elected Assembly with powers over delegated legislation, and over many of the executive functions at present carried out by nominated bodies in Wales and by the Secretary of State. It was to be financed by a block budget.

The proposals in the November 1975 White Paper, *Our Changing Democracy: Devolution to Scotland and Wales* (Cmnd. 6348) were criticised by Conservatives on the grounds that there was no evidence of substantial demand in Wales for an Assembly; that it would be dominated by the industrial south (44 out of 72 seats) to the disadvantage of mid, north and rural Wales, and thus by the Labour Party machine of Glamorgan and Gwent; that divided responsibility between Westminster and Cardiff for bodies like the Welsh National Water Development Authority would lead to added bureaucracy and confusion; and that any surcharge on the rates would adversely affect Wales's competitive position to attract and retain business.

As Mr Edwards said:



“We shall have more government, a whole extra tier imposed upon an unchanged local government structure—an extra tier that, as the White Paper makes clear, has to be scrutinised and supervised by the Government at Westminster” (*Hansard*, 15th January 1976, Col. 592).

“We are to have more complicated government, more expensive government and more bureaucratic government” (*Western Mail*, 4th December 1975).

Several Labour MPs also criticised proposals for an Assembly. Mr Neil Kinnock (Bedwellty) said:

“Devolutionary reform will not provide a factory, a machine or jobs, build a school, train a doctor or put a pound on pensions” (*South Wales Echo*, 1st November 1975).

Mr Leo Abse (Pontypool) said:

“At a time when we should be dealing with the acute difficulties of unemployment the Labour movement does not want to see us squandering our energies and efforts on a constitutional device which, whatever its merits, may be irrelevant to our real problems” (*Hansard*, 23rd October 1975, Col. 866).

## **(J) SCOTLAND AND WALES BILL**

### **1. PROVISIONS AFFECTING WALES**

**Principle.** The Bill establishes an Assembly for Wales of about 80 members with executive powers and powers over secondary legislation but not over primary legislation. There will be a Committee-based Executive.

**Elections.** As for Scotland (see p. 523).

**Executive.** The Welsh Assembly itself will exercise the executive powers, including the power to make, confirm or approve orders, rules, regulations or other subordinate legislation. Where it was hitherto necessary to lay these before Parliament for annulment or approval the Assembly itself must exercise them and not delegate its powers to a Committee. In certain specified cases action may only be taken after reference to a Minister of the Crown or in conjunction with the Secretary of State.

**Limitations on Devolved Matters.** As for Scotland (see p. 523).

**Committees.** The Assembly is to appoint Committees in each of the devolved subjects, to which the Assembly will be able to delegate the exercise of its power. In turn this may be delegated to a sub-committee or the leader of the Committee, though this will not preclude the exercise of the powers by the full Committee or the Assembly. The leaders of Committees will form an Executive Committee to take the initiative in policy and to negotiate the block budget, and the leader of this Committee will be the Chief Executive. With the exception of the Executive Committee, all Committees will reflect in their membership the balance of parties in the Assembly.

**Veto of Executive Acts.** As for Scotland (see p. 524).

**Secretary of State's Specific Powers.** The Secretary of State may issue statutory guidelines to the Welsh Assembly on the exercise of the industrial investment functions of the Welsh Development Agency and the terms on which public bodies may dispose of industrial premises. He may limit rent increases in the interests of counter inflation policy and may prescribe minimum standards for the rent rebate and allowance schemes and the rate rebate scheme. When planning proposals affect wider UK interests the Secretary of State may replace the Assembly in the exercise of its powers.

Responsibility for the Welsh National Water Development Authority and the Severn Trent Water Authority is divided between the Assembly and the Secretary of State, though the latter retains substantial powers to take over responsibility where English or overall interests are threatened.

**Financial Provisions.** As for Scotland (see p. 524).

**Devolved Powers.** These include: Education (not universities), arts, libraries, museums, youth and community services, health service, social welfare services, water and land drainage, local government, rates, ancient monuments, environmental powers, town and country planning, national parks, landlord and tenant, housing, agricultural land, tourism, forestry, roads, fire services, licensing arrangements.

*Local government powers specifically excluded* are: police, food, drugs and medicine, electoral registration, careers service, consumer protection, nature conservation, dog licensing, awards to students, court houses, civil defence.

**Miscellaneous.** The Welsh Assembly will be able to assume, subject to the Secretary of State's agreement, some or all of the powers of those statutory bodies operating only in Wales and, where appropriate, to dissolve those bodies. The Welsh Tourist Board gains power to promote Welsh Tourism overseas and a separate Countryside Commission for Wales is to be established. There will be a separate rating and valuation system.

**Referendum.** The Government introduced a new clause providing for a referendum in Wales before the Bill was implemented (see p. 525).

**Cost.** The Assembly will require an extra 1,300 civil servants in Wales and will have an annual running cost of £12½ million, with a capital outlay of £3.8 million.

**Number of Welsh MPs.** This will remain at 36, against the Kilbrandon suggestion of 31 if parity with England were to be achieved.

## 2. REACTIONS

**The Conservatives** did not find the Bill any more acceptable than the White Paper, though they welcomed the Government's abandonment of its scheme to allow the Assembly to raise extra revenue by a surcharge on the rates. They emphasised that the

Assembly would lead to extra costs and bureaucracy in the government of Wales, and that the North would be dominated by the industrialised South. There were many areas in which there was a strong likelihood of conflict between Cardiff and Westminster, especially where the Secretary of State could intervene in the Assembly's decisions; in the annual negotiations for the block budget; and in the divided responsibility for, *inter alia*, the Water Authorities and local authorities. Above all, the Assembly was not wanted by the majority of the Welsh people.

As Mr Pym said in the Second Reading debate:

“The evidence that I have seen suggests that the Welsh people do not want an Assembly, and many Government supporters have expressed this view most strongly. There is little case for an Assembly in Wales unless the Welsh people really want it. They are not so far away as Scotland. They have no separate legal system. The Bill creates an extra tier of Government at considerable cost in terms of money and manpower in Wales. The Welsh Assembly as proposed in the Bill will be responsible for administering legislation which it has no power to shape ... it is not wise to have a different form of government for Wales with the result that all four constituent parts of the United Kingdom will each be governed by a different system” (*Hansard*, 16th December 1976, Cols. 1862–3).

**Plaid Cymru.** The Nationalist Party seeks independence for Wales, as its leader, Mr Gwynfor Evans made clear when he said that its policy,

“is one of full national status for Wales ... (We) see Wales in the future as a member under the Crown of a closely knit partnership of nations in no way subordinate one to the other in any aspect of their domestic or external affairs but freely co-operating as members of the Britannic confederation” (*Hansard*, 13th December 1976, Cols. 1037 and 1042).

With regard to the Bill, Mr Evans said:

“Despite the glaring weaknesses of the Bill it has the very considerable virtue of proposing to decentralise some power, to democratise an existing tier of bureaucratic government, and to give to people in Wales some measure of control, a little more initiative and power, something that will encourage them to develop their own sense of self-reliance and of social responsibility ... (but) what a great disappointment it is that the Government should not propose to decentralise more effectively control over industry and the economy” (*Hansard*, 13th December 1976, Col. 1039).

## **(K) THE GUILLOTINE DEBATE**

On February 22nd 1977, the Government attempted to introduce a timetable motion to limit the debate on the Committee Stage of the Bill.

This was rejected by a majority of 29, a defeat brought about by the combined votes of the Conservatives, 11 of the 13 Liberals, 7 of the 9 United Ulster Unionists, and 22 Labour MPs who voted against the Government. 21 Labour MPs abstained. The Nationalists voted for the guillotine to curtail discussion.

Mr Foot said that he did not believe there had been any attempts to filibuster on the Bill, but that without a guillotine the Bill could not reach the Statute Book “in any reasonable amount of time” (*Hansard*, 22nd February 1977, Col. 1239).

However, Mr Pym made clear the debate had raised many fundamental issues, all of which flowed directly from the Bill and which had to be fully discussed: whether devolution was possible within the overall unity of the UK; whether Wales should have an Assembly; the number and role of Scots and Welsh MPs; proportional representation; and the principle of referenda. He said:

“The sheer force of the argument from all sides of the House has been a powerful expression of alarm at the implications of the Bill. Scarcely have we heard a word in support of the Treasury Bench. We in this House are all trustees for the time being of our Constitution, the trustees of the life and liberties of the British people. We have a heavy responsibility for the well-being and prosperity of our nation. That well-being cannot be expected to exist unless Parliament is doing its job. Surely Parliament must take particular care with a Bill of this sort, and be as certain as it can be that it will benefit the UK ... (If discussion is curtailed) some clauses, some amendments and new clauses will never be debated” (*Hansard*, 22nd February 1977, Cols. 1253–61).

After the rejection of the guillotine the Government decided to ask other parties to talks, a course of action it had refused to accept during the debate. The Conservatives accepted the offer of such talks, but made it clear that they did not consider the proposals in the Bill would provide a basis for agreement.

## **APPENDIX**

### **ENGLAND AND DEVOLUTION**

In December 1976 the Government published a Consultative Document entitled *Devolution: The English Dimension* (see also Chapter 20, p. 497). The Document upholds no firm policy, cautiously pointing out that it is intended only to put the broad issues before the public while the Government forms its conclusions as to whether there is need for change in England. Nevertheless it seems to go out of its way to underline heavily the objections to most of the arrangements that can be envisaged for devolving responsibility in England.

It is admitted that there is a case for change based on lightening the burden on central government and bringing government closer to the people. But the Document concludes that the establishment of an English Assembly could damage the structure of the UK in ways which the creation of a Scottish Assembly would not. It would involve diminution of the role of Parliament and its members; and Regional Assemblies with legislative powers could lead to marked differences in standards in England in matters such as education, health, housing and local government.

With regard to economic development the Government is prepared to consider an *English Development Agency* if it could be shown that this would be useful.

Possible forms of change fall into two groups.

- i. *Radical change*, involving new elected regional authorities with executive powers, possibly along the lines of the proposed Welsh Assembly, or with powers drawn from existing local authorities and nominated bodies.
- ii. *Limited change*, with the regional advisory bodies being strengthened, possibly with their membership expanded to include local councillors. At the same time the division of powers between the local government tiers could be examined and nominated bodies subjected to greater democratic control.

The Consultative Document points out:

“The transfer to elected English regional bodies of powers at present exercised by Ministers would have far-reaching constitutional implications. In particular it could directly reduce their ability to maintain national policies on devolved subjects, limit the role of Parliament and restrict the scope of the work of its members ... The creation of a dozen regional authorities with powers similar to those of the Welsh Assembly would involve thousands of additional staff and additional costs probably running into hundreds of millions of pounds”.

Some of the problems which would face English regions as a result of devolution in Scotland and Wales were set out by Mr Leon Brittan, a Conservative spokesman on Devolution:

“The Government also point out in the English White Paper that some investment in the infrastructure will pass over to the newly-elected Governments of Scotland and Wales. That means that, as the block grant permits the devolved Administrations to spend money as they wish, they may wish to spend more money on their industrial and regional infrastructure and less on other matters. Scotland and Wales, as a result of decisions of the devolved Administrations, could easily fare better from this type of regional policy than could the North-East and North-West of England.

“The devolved Administrations in Scotland and Wales will be able to affect unemployment in their areas, and that is bound to have an effect on the non-devolved English regions, such as the North-East and North-West. By operating within the block grants, Scotland and Wales will to some extent be able to operate the equivalent of a different regional policy, at least for the infrastructure” (*Hansard*, 16th December 1976, Col. 1760–1).

## 22. SCOTLAND

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## **(A) THE SCOTTISH ECONOMY**

### **1. LONG-TERM TRENDS**

The main long-term problems of Scottish industry may be characterised as the decline of heavy industry, lack of investment in new growth industries which are labour intensive, lack of skilled labour and a high percentage of branch plants and offices.

The Scottish Council's report *A Future for Scotland* (October, 1973) estimated that 80 per cent of the decline in total employment on Clydeside which occurred from 1961–71, after allowing for general UK employment trends, could be attributed to the prevalence on Clydeside of industries which have experienced a decline throughout the United Kingdom.

However, in addition, there are various non-structural factors such as overmanning, out-of-date capital equipment, high average earnings, poor management, and a bad strike record.

A Factsheet issued by the Scottish Information Office Reference Unit in August 1976 states that in the last 20 years Scotland has seen a decline of about 100,000 in employment in steel (resulting from a switch to more efficient capital intensive production), shipbuilding and heavy engineering, and railway locomotive manufacturing. Between 1964 and 1973 the number of workers in the primary sector (i.e., agriculture, forestry, fishing, mining and quarrying) fell by 64,000 to 87,000, in the manufacturing sector by 51,000 to 657,000, and in construction by 3,000 to 173,000. During the same period there was a net gain in services of 43,000 to a total of 1,133,000.

Industry wishing to move to Scotland faces a number of problems. In spite of high unemployment there is a lack of skilled labour. Estimates suggest that 60–70 per cent of the total unemployed are unskilled. At the same time, many of the unemployed in the West Central Belt are unwilling or unable to move, in part because the high proportion of public sector housing leads to immobility. Finally, the firms themselves face increased costs in additional stocks, communications, and duplication of administration, while distance from markets leads to extra transport costs as high as 4 per cent.

In his speech to the Scottish Party Conference at Perth in May 1976, Mr Alick Buchanan-Smith, then chief Conservative spokesman on Scotland, emphasised that

Scotland's revival depended on an end to the excessive burden on small firms; a concentration of help for adjustment and adaptation rather than propping up declining firms; and greater mobility of labour.

## 2. EMPLOYMENT

When the Conservative Government left office in March 1974, at the height of the crisis brought about by the miners' strike, 89,700 people in Scotland were unemployed, a number which had fallen from a peak of 150,200 in January 1972. Under the Labour Government the number rose to 170,100 in August 1976, of whom over 141,000 had been unemployed for over four weeks. In January 1977 unemployment reached a post-war record of 183,418. Seasonally adjusted, the figure has crept up consistently over the past year, reaching 7.4 per cent in January 1977. As Mr Buchanan-Smith said:

“The Labour Party may very well in its manifesto claim to be a party which creates jobs and tries to shout about what it has done in order to obtain jobs, but on its record and on the figures for unemployment today, it has shown that it is no longer the party of employment; it has earned the name of the natural party of unemployment”  
(*Scottish Grand Committee*, 27th July 1976, Col. 282).

### Total Unemployed (Thousands)

1975 Dec.	1976 Jan.	Feb.	Mar.	April	May
131.0	150.1	146.8	145.1	145.6	141.9
1976 June	July	Aug.	Sept.	Oct.	1977 Jan.
144.1	165.6	170.1	161.4	158.0	183.4

(*Department of Employment Gazette*)

In the 1960s unemployment in Scotland was between 55 per cent and 128 per cent higher than the rest of Britain. By the first quarter of 1976 it was only 18 per cent worse, though it rose to 24 per cent in June. This sharp fall began in 1972. The *Scottish Economic Bulletin*, Winter 1976, notes:

“The period 1972–4 was notable in that employment in Scotland rose more rapidly than in the country as a whole”.

In 1973–74 employment in Scotland grew at over three times the national rate. The *Bulletin* attributed this to the strengthening of regional policy following the Conservatives' Industry Act 1972 and the employment effect of North Sea Oil.

**School leavers** have been particularly badly affected by rising unemployment under Labour. In October 1976, 10,638 July school leavers were still unemployed, as against 700 in October 1973. Similarly, in May 1976 2,871 young people were still without work from the previous December, compared with 800 when the Conservatives left office in March 1974.

The Government has tried to alleviate some of the problems created for young people. It slightly expanded the Community Industry Programme, whereby the personally or socially disadvantaged undertake specific projects for the community, bringing the

areas of operation in Scotland up to seven with places for 750 young people. In addition, it introduced the Jobs Creation Programme whereby money was made available to any local authority or voluntary organisation to create jobs in socially useful work. Scotland received £8 million of the original £30 million allocation. Although only £3.5 million had been spent by March 1976, another £8 million was allocated to Scotland. By October 1976 a total of £21 million had been made available. By December 1976, 16,326 jobs had been created at a cost of £20.3 million.

In a debate in the Scottish Grand Committee on 27th July 1976 Scottish Conservatives criticised the lack of training and lack of industrial involvement in the programme. Mr Buchanan-Smith said:

“If there were a greater industrial involvement in these short term schemes, there would be more chance of these young people finding jobs when the economy starts to pick up” (*Scottish Grand Committee, 27th July 1976, Col. 285*).

Subsequently, in September, the Government introduced a Work Experience Programme under which 16, 17 or 18-year olds could spend a period of six months or more gaining experience and some training in a work environment. By the beginning of November, 11 Scottish projects for 211 people had been started. Combined with the other job schemes, over 25,000 jobs were estimated to have been saved or created in Scotland by July 1976—but Socialist policies had destroyed many more than this.

In June, Scottish Conservatives criticised the Government for having no long-term strategy for the 65,000 school leavers of 1976. They proposed a plan involving better training facilities; attention to accommodation for single people in places where there are jobs; and attention to the relevance of the school curriculum in the final years. In a debate on 21st June 1976 Mr Buchanan-Smith said:

“I ask the Secretary of State to consider whether more of this (Job Creation Programme) money ought to be used for longer term training, because when the upturn occurs in the economy we shall need to make sure we have the necessary skilled labour” (*Hansard, 21st June 1976, Col. 1227*).

**Training for Adult Workers.** Mr Buchanan-Smith said:

“Despite our relatively high level of unemployment generally, we have suffered from a chronic shortage of skilled labour in Scotland. This has hindered the advantage we have had of some of the opportunities of industrial development, when the economy has turned ... We must look to much better training facilities in order to make sure that we can increase our pool of skilled labour in Scotland. A country such as Sweden can train in a relatively short period 60,000 to 70,000 people ... equivalent to the whole of the UK ... We must consider seriously what we provide to our training centres of the Dept. of Employment, to the skillcentres and the further education colleges, to make sure that we try to meet the need of longer-term training” (*Scottish Grand Committee, 27th July 1976, Col. 286*).

Mr Buchanan-Smith's remarks were borne out by the CBI, whose survey of industrial trends in Scotland for October 1976 showed that 16 per cent of firms mentioned lack of skilled labour as a factor limiting output, in spite of record unemployment levels.



**Movement of Office Jobs.** Further employment opportunities are also to be provided by moving 7,000 civil service jobs out of London to Glasgow, though public spending cuts have threatened this project. Since 1963 the headquarters of the National Savings Bank with 4,700 jobs, the headquarters of the Forestry Commission with 150 jobs and a branch of the Inland Revenue with 1,100 jobs have been dispersed to Scotland. In the private sector only 342 jobs out of a total of 140,000 were moved from London to Scotland by the Location of Offices Bureau.

### 3. WAGES

While Scottish wages once lagged behind those in the rest of the UK they have now improved so much that on average Scottish male manual workers received £66·20 a week in April 1976, £1·10 more than in Great Britain, £1·20 more than in England, and only 50p behind the South-East England region. For all male employees Scotland at £71·60 is just 20p a week behind Great Britain.

Average Earnings of Scottish Male Manual Workers (% of UK figure)

1960	1965	1970	1971	1972	1973	1974	1975
91·6	94·2	96·4	96·6	97·5	98·6	99·5	101·9

(*Hansard*, 5th February 1976, Col. 711. *Scottish Economic Bulletin* No. 10, 1976.)

### 4. EMIGRATION

The improvement in the wage and employment situation, together with oil development, helps to explain the improvement in the figures for emigration, though Labour policies have once again brought an increase. Most of the loss continues to be from Strathclyde. In 1974–5 this accounted for 26,000 people.

Net migration

1966–7	1970–1	1971–2	1972–3	1973–4	1974–5
43,100	21,700	27,600	10,700	2,000	19,000

(*Scottish Economic Bulletin*, Winter 1976).

### 5. REGIONAL AID

Scotland receives the full range of regional aid benefits, with the whole of the country in a development area or special development area attracting the 20 per cent or 22 per cent grants for plant and building introduced by the Conservatives in 1972 and amounting to £98 million for Scotland in 1975–6. Scotland has been granted a high percentage of the available aid under regional programmes, often in excess of 30 per cent, with total government assistance for private industry in Scotland between 1972 and 1975 being over £400 million.

Government Assistance to Private Industry  
(£m at historic prices and net of repayments)

1972–3	1973–4	1974–5
--------	--------	--------

Government Assistance to Private Industry  
 (£m at historic prices and net of repayments)

	1972-3	1973-4	1974-5
England	351	405	542
Scotland	122	121	173
Wales	52	59	68
Unallocated	121	112	110

(*Hansard*, 18th December 1975, Col. 775).

In 1974-5 expenditure on regional preferential assistance to industry amounted to £473 million for the Assisted Areas of Great Britain, of which £146 million went to Scotland. In 1975-6 expenditure rose to £200 million, including £98 million on regional development grants.

Regional Industrial Policy Expenditure 1974-5

(£m net of repayments)

	Total Assistance	Per Cent of Total
England	245.6	52
Scotland	146.3	31
Wales	81.5	17
Britain	473.4	100

(*Hansard*, 5th February 1976, Col. 711)

With 22 per cent of employees in the Assisted Areas, Scotland received 31 per cent of total expenditure. In terms of £s per head of employees in the Assisted Areas expenditure was: England £37, Scotland £68, Great Britain £48 (*Hansard*, 5th February 1976, Col. 711).

Since the Conservative Industry Act came into force in 1972, selective financial assistance of £70 million had by August 1976 been offered to industry in Scotland in over 550 projects involving over £500 million of investment and 50,000 jobs.

As from 1st July 1975 powers under this Act for selective financial assistance, including loans, were devolved to the Secretary of State for Scotland. During the year 1975-6, the amount of assistance offered was £28 million, £4.5 million higher than in the previous year. This was associated with 19,900 jobs and projects totalling £246.9 million. £1.5 million was offered for schemes involving investment of £26.9 million in the Accelerated Projects scheme under Section 8 of the 1972 Act (see also Chapter 6, p. 147).

From October 1976 improved assistance was made available to employers to encourage the growth of employment in service industries, including offices, in the assisted areas. The fixed grant for each employee moved was raised to £1,500; and an additional grant of £1,000 in development areas and £1,500 in special development areas for each job created was introduced. Rent relief grants for five years for office premises in development areas and seven years in special development areas are also

available. Loans at concessionary rates are available for capital expenditure other than on accommodation.

Up to the end of 1976 Scotland had received £24.5 million in regional aid from the E.E.C.

Some research suggests that between 1960 and 1971 regional policy generated 70,000 to 80,000 jobs in Scotland with nearly three-quarters of the employment arising from 273 new firms. Since 1971 it is claimed that a further 20,000 jobs have been generated (Rhodes and Moore; *Scottish Journal of Political Economy* 1974).

Scottish Conservatives have stressed that resources should be directed towards developing the growth firms of the future rather than propping up the declining firms of the past. As Mr Buchanan-Smith said:

“I believe that the Government are getting their priorities wrong. They must not only look fundamentally at their industrial strategy. They must change it towards developing more strongly the resources and money behind the new developing industry, investing in Scotland's future and not Scotland's past” (*Hansard*, 5th February 1976, Col. 1515).

## **6. SCOTTISH DEVELOPMENT AGENCY (SDA)**

The SDA came into operation on 15th December 1975 with an initial budget of £200 million, extendable to £300 million, over five years. Its alleged objectives were to regenerate industry and increase employment—by providing loan capital and launching joint ventures with private companies, or operating wholly state-owned ventures and building advance factories—and also to improve the industrial environment. It has taken over the Small Industries Council for Rural Areas of Scotland, the Scottish Industrial Estates Corporation, and the overseas promotional functions of the Scottish Council. Since opening it has taken over Ranco Motors and Munrospan, a company forecasting substantial profits growth in the year to October 1977.

**Conservative Opposition.** The Bill to establish the Agency was opposed by Conservatives on the grounds that it was simply the Scottish arm of the National Enterprise Board and that it would divert resources away from useful investment in growth industry towards Socialist schemes of State involvement. They also questioned spending money on another State body to carry out the same constructive functions as other agencies and local authorities were already doing successfully. Since the SDA's establishment, Scottish Conservatives have pressed the Government to reveal how much new money it will have for new investment and to ensure that there is sufficient emphasis on this role. The Government has never denied the Conservative estimate that only £20 million new money would be available each year. Mr Buchanan-Smith said the Government had shown that the Agency would have £40 million a year,

“from which running expenses at about £3½ million have to be deducted. Against this has to be set the sum of £15 million to £16 million which is already being spent by

agencies which the SDA will take over. This leaves a net sum of about £20 million a year which is additional money” (*Hansard*, 25th June 1975, Col. 487).

This contrasts with Labour's claim that the Agency is “the main instrument for the regeneration of Scotland's economy” (*Manifesto*, October 1974). *The Economist* of 10th January 1976 estimated that only £50 million of the Agency's budget over the full five years would be available for new investment. It was in this context that the Conservatives questioned whether the spending of £162 million on propping up the ailing Chrysler Company was the best use of resources (see Chapter 6, p. 161).

As Mr Buchanan-Smith said:

“The Government have pinned their hopes on the SDA. While the Agency has an important job to improve the environment and as a replacement to the help formerly given direct by Government to particular firms and industries that have run into difficulties, they alone do not hold the key to a secure future ... In the last three years Scotland has gained some £200 million in loans and grants from the EEC's European Investment Bank. That is the equivalent to the budget of the SDA for five years for all its many functions” (Edinburgh, 5th November 1976).

## **7. OWNERSHIP OF INDUSTRY**

The proportion of Scottish industry owned or controlled by non-Scottish companies has been rising. This can lead to a branch plant economy with its associated lack of research, development and managerial posts. An analysis published in *The Scotsman* on 30th October 1973 estimated that only 41 per cent of Scottish manufacturing employment in 1973 was in plants whose ultimate ownership rested in Scotland. Of the rest, 40 per cent was controlled from England and 15 per cent from North America. Scottish ownership was well represented in older industries (textiles with 64 per cent of employment, shipbuilding 53 per cent) but not in the new growth industries (electronics 8 per cent, instrument engineering 17 per cent). Professor Dunning of the Economist Advisory Group (*Glasgow Herald*, 25th May 1976) suggested that 100,000 Scots now work in the 140 US-controlled firms which account for an investment of £300 million and a turnover of £843 million. The Scottish Council estimate that US firms account for one-third of Scotland's exports and, since 1960, for one in five new companies.

## **8. EXPORTS**

The Scottish Council Research Institute reported in 1974 that the exporting performance of Scotland's manufacturing industries since 1971 was consistently better than that of the rest of the UK, except in exports to the EEC. In 1973 Scottish exports rose to £1,136 million, an increase of 161 per cent on 1965 compared with 154 per cent for the UK. Per employee, the Scottish figures are higher than for the UK. However, in a Parliamentary Answer (*Hansard*, 5th February 1976, Col. 716) estimates of Scotland's Balance of Trade were given quoting from *Expenditure in Scotland 1961–71* (Begg, Lythe and Sarley), showing a deficit of £393 million in 1970 and £411 million in 1971.

## 9. STRIKES

Scotland's strike record is bad. With 8 per cent of Britain's work-force it has consistently had over 10 per cent of working days lost. In 1974, 2,423,000 days were lost—the majority in the last half of the year—against 797,000 in 1973. In 1975, the number of days lost declined to 753,000.

## 10. CURRENT INDICATORS

Scotland's Gross Domestic Product has increased from 87.7 per cent per head as a percentage of the UK in 1964 to 91.6 per cent in 1974 (*Scottish Economic Bulletin*, Summer 1976).

A new index of industrial production has recently been introduced. Since 1972 the output performance of Scottish industry had been better than in the UK as a whole, until the first quarter of 1976 when it stood 0.4 below the UK at 104.0 (1970=100). This in turn was 1.2 below the level of the first quarter of 1974, the period of the three-day week. The Index hit a peak of 115.2 in the fourth quarter of 1973.

CBI trends in Scotland in October 1976 indicated a deterioration in the level of optimism about the general business situation, with 61 per cent of firms still working below capacity. 74 per cent of firms indicated sales as a constraint on output but, in spite of record unemployment, 18 per cent indicated lack of labour and 14 per cent plant capacity as constraints.

## 11. STEEL

While Scottish steel produces 12 per cent of UK output, only 8 per cent of UK consumption is in Scotland. Integration in the UK industry is vital if the modernisation of the industry is to go ahead, particularly at Hunterston. Three projects have been approved for Hunterston: a £70 million iron ore and coal terminal handling ships up to 300,000 tons; two direct reduction plants producing 800,000 tons of iron a year; and an electric arc furnace by 1978. Work on an integrated steelworks should begin in 1982.

## 12. OTHER INDUSTRIES

**Natural Gas** is to be landed in Grampian Region in 1977 from the Frigg Field, east of Shetland.

**Scottish coal** mining is being concentrated on the most modern pits. About 65 per cent of current output of 11 million tons is burned by the South of Scotland Electricity Board. In the financial year 1974–5 the Scottish Area made an operating loss of £11.2 million.

## (B) OIL

## **(See also Chapter 9)**

It is five years since the first major oil strike off Scotland: in November 1975 the first oil landed by pipeline in Scotland came ashore.

### **1. OWNERSHIP**

The UK's right to underwater mineral resources was set out by the 1958 Geneva Convention on the Law of the Sea. The UK ratified the Convention in 1964 to give it sole rights on the area of the Continental Shelf therein defined. The 1964 Continental Shelf Act vested all mineral rights in the Crown and applied criminal and civil law to all installations.

Scottish law now applies to all areas north of a line drawn on an east-west axis at the border. This was an internal administrative arrangement, not an international boundary. If such a boundary were drawn it has been estimated that England would gain the Argyll, Auk, Josephine and possibly Montrose fields, with Scotland gaining Piper, Maureen, Forties, Lomond and possibly Montrose, the rest going to Shetland (*Independence and Devolution—the Legal Implications for Scotland*, Editor: John P. Grant, senior lecturer in public international law. University of Glasgow, 1976).

### **2. EMPLOYMENT AND INDUSTRIAL DEVELOPMENTS**

The Department of Employment has estimated that by July 1976, 26,350 new jobs had been created in over 300 firms wholly engaged in supplying the offshore industry. Of these, 42 per cent are in Grampian, 22 per cent in Highland, 17 per cent in Strathclyde and 6 per cent in Tayside. Additionally, 13,000 jobs have been created indirectly in 400 firms whose activity includes North Sea work. Major developments have included steel platform sites, oil pipeline landfalls, oil terminal facilities, tank farms and oil support bases. The total number of jobs, including construction and other activities, has been estimated in March 1977 as up to 65,000. As a result, unemployment in Grampian has been halved since 1971 (in June 1976 it was 3.3 per cent against Scotland's 6.7 per cent) while Aberdeen has one of the lowest rates in the UK. It has been estimated that about 80 per cent of employment in Scotland is directly dependent on the level of North Sea activity (*North Sea Oil through Speculative Glasses*: D. I. MacKay, Fraser of Allander Institute).

The production phase is less labour-intensive. For example, Forties field requires just 700 jobs against 7,500 during the exploration stage.

### **3. SCOTTISH OFFICE ORGANISATION**

The last Conservative Government established the Oil Development Council for Scotland, with members drawn from industry, local government and environmental interests, to advise the Government on all aspects of oil development such as infrastructure needs and environmental problems. A Standing Conference on North

Sea oil brings together the Government, local planning authorities, development authorities and oil companies. Committees were established in September 1975 to investigate the involvement of Scottish industry in supplying the requirements of the North Sea oil industry, and in early 1976 to consider continuity of employment in the industry and especially problems resulting from the fall-off in production platform orders.

In 1975 the value of orders for North Sea oil supplies and services was about £3,000 million, of which a quarter was placed in Scotland and a similar amount in the rest of the UK. The Offshore Supplies Office in Glasgow seeks to encourage UK industry to obtain a larger share of business. Scottish Conservatives criticised the choice of Glasgow for both this and the headquarters of the BNOC, saying they should be located in Aberdeen where better contact could be made with the industry.

## 4. PLANNING

The Secretary of State is informed about all major planning applications associated with North Sea oil. The Offshore Petroleum Development (Scotland) Act 1975 provides for the acquisition and reinstatement of oil sites in Scotland and for the control of certain oil related operations in territorial waters, e.g., the south part of Loch Fyne and the Inner Sound of Raasay. The Secretary of State can acquire land for oil-related purposes, once planning permission is given, if necessary by an expedited acquisition order. Local authorities are empowered to make financial arrangements with developers to ensure money is available for restoration.

Scottish Conservatives criticised the Bill as unnecessary. Mr Buchanan-Smith said:

“The Bill does not deal with the root of the problem of delays in offshore oil development which is planning ... it is questionable whether the expedited acquisition procedure will be necessary to get more platforms built. It can be argued that we now have an adequate number of sites for building” (*Hansard*, 14th January 1975, Col. 318).

However, Mr Bruce Millan, then Minister of State, insisted:

“(Public Ownership) enables the maximum use to be made of sites and avoids proliferation” (*Hansard*, 19th November 1974, Col. 1110).

In fact, two of the sites acquired under the Act, Hunterston and Portavadie, had by November 1976 failed to acquire an order while others, Nigg, Methil and Ardyne, faced great uncertainty regarding further orders, and redundancies were possible.

Scottish Conservatives have also criticised government interference and delay which are slowing down development. The UK Offshore Operators Association was reported in *The Scotsman* (15th June 1976) as saying that recent legislation reflected a “disturbing shift of emphasis from stimulus to restriction”.

The Petroleum and Submarine Pipelines Act 1975 aims to avoid proliferation of pipeline routes and landfalls by encouraging arrangements for joint use, and places

controls on building or extending refineries. The Secretary of State for Energy's permission is needed before planning approval is given.

## 5. INFRASTRUCTURE SERVICES

**Local Authorities.** Some local authorities have had to provide services such as schools, water, sewerage, social and community services and roads before gaining any return in rateable income. In 1975–6 a special oil-related element of the Rate Support Grant was established at £2.5 million. Scottish Conservatives criticised this as being inadequate and too closely defined to take account of all development. In 1976–7 it was raised to the higher level of £4.9 million.

**Housing.** New housing has been necessary, especially in the Moray Firth, Aberdeen and Shetland areas. 10,000 houses are estimated to be required in the next three or four years. The Scottish Special Housing Association has been authorised to undertake an overall programme of 4,600 homes in the oil areas, some of which have already been completed, at a cost of £55 million.

**Roads.** In spite of cutbacks elsewhere, the Government is continuing the programme for the oil areas. In particular, it is proceeding with the Conservative Government's scheme to rebuild the A9 Perth—Inverness—Invergordon road, including further stretches of dual carriageway and bypasses. Also on the programme are improvements to the A94 Dundee—Forfar—Stonehaven, A92 Stonehaven—Aberdeen—Peterhead and A96 Aberdeen—Inverness, with the A85 Perth—Dundee completed.

**Railways.** The West Highland railway from the Kyle to Inverness is being kept open. Approval has been given for dual tracking 46 miles of the Perth—Inverness line at a cost of £3.7 million providing for six additional trains a day in each direction. Passenger traffic has increased by 25 per cent since 1971 on this route.

**Ports.** Work has proceeded on harbour improvements in Montrose, Aberdeen and Peterhead.

**Airports.** Improvements have been completed at Shetland (Sumburgh), Inverness and Aberdeen.

## (C) PUBLIC EXPENDITURE

### 1. CUTS

In its February 1976 Public Expenditure White Paper (Cmnd. 6393) the Government indicated that in 1978–9 cuts of £105 million over its previous estimate (£2,712 million) would be made in the Scottish Office budget. However, by 1978–9 expenditure would still have increased by £45 million over 1975–6. Education would suffer most from the cuts, while nationalised industries' capital programmes would receive £24 million more. Local authorities' current expenditure would decline marginally after 1976–7 but capital expenditure would be reduced by almost £100 million per annum by 1979–80, particularly in roads (£13 million), housing (£42



million), law and order (£3 million, a cut of one-third) and education (£33 million, or nearly one-half). Scottish Conservatives criticised the Government's expenditure priorities, such as an extra £1 million for free school milk, the 55 per cent subsidies on rents and the extra administrative costs of the Scottish Development Agency.

In December 1976, the Government announced further cuts, particularly in regional aid, with an overall reduction of some £70 million (Oct. 1976 prices) by 1977–78, though the SDA would get more (*Scotsman*, 26th February 1977).

Expenditure in Scotland within Secretary of State's responsibility

(£m at 1975 survey prices)

1970–71	1973–4	1975–6	1978–9
2,149	2,350	2,596	2,607

(Source: Cmnd. 6393)

## 2. PER CAPITA EXPENDITURE

The level of public expenditure per head in Scotland has been consistently above that in England and Wales. While this partly reflects the scattered population, it represents a real diversion of resources to Scotland. For about 9 per cent of the British population, Scotland obtained 20.3 per cent of the house improvement grants in 1975; 14.8 per cent of public sector housing completions in 1975; 13.8 per cent of total housing expenditure in 1976–7; a 50 per cent higher rate support grant per head than England and Wales in 1975–6; and 15 per cent of UK university places in 1975–6 (*Hansard*, 29th March 1976, Cols, 372, 409, 364; and 5th April 1976, Cols. 93–6).

In 1971–2 Scotland contributed about 8.75 per cent of total UK central government tax revenue (*Hansard*, 28th March 1974, Col. 175). In 1974 the Scottish Council Research Institute estimated there was a Scottish budget deficit of around £650 million for 1972–3. In 1967–8 the Treasury estimated the deficit as £466 million.

Identifiable Expenditure per Head

	<i>Total</i>		<i>Excluding Nationalised Industries</i>	
	1970–71	1973–4	1974–5	1974–5
	£	£	£	£
England	276	431	582	545
Scotland	364	517	691	636
Wales	316	452	601	578
G.B.	287	440	593	555
	%	%	%	%
England	100	100	100	100
Scotland	132	120	119	117

(*Hansard*, 5th February 1976, Col. 709.)

In 1975–6 the breakdown of expenditure per head by programme in England, Scotland and Wales is shown in the following table.

Identifiable Public Expenditure per head by Programme

<i>Programme</i>	<i>1975-76<sup>‡</sup></i>	
	<i>England</i>	<i>Scotland</i>
	<b>£</b>	<b>£</b>
Agriculture, fisheries and forestry	24	38
Trade, industry and employment	26	73
Roads and transport	38	47
Housing	81	105
Other environmental services	45	56
Law, order and protective services	29	29
Education, libraries, science and arts	128	155
Health and personal social services	111	134
Social security	173	173
Other public services	12	13
Common services	9	7
Total exc. nationalised industries*	678	829
Nationalised industries' capital expenditure	54	99
Total incl. nationalised industries*	732	928

\* Figures may not add to total because each element is rounded independently.

‡ Provisional.

(*Hansard*, 29th November 1976, Col. 48)

## **(D) LOCAL GOVERNMENT**

### **1. REORGANISATION**

The new structure of 9 Regional, 53 District and 3 Island authorities created by the Local Government (Scotland) Act 1973 came into operation in May 1975. Regional authorities deal with major functions like strategic planning, transport and education, while district authorities take care of more local matters like housing and amenity services. Island councils are all purpose authorities. Any community may establish a community council to express local views and take action on behalf of the community.

### **2. STAFFING**

Between January 1975 and June 1976 total local authority staff rose by about 27,000. Since reorganisation the increase in staff was about 17,500 to June 1976, adding about £35 million to the salary bill. Part of the increase, about 7,500, is accounted for by teachers and policemen.

### **3. FINANCE**

## (see also Chapter 20, p. 500)

In 1975–6 a Rate Support Grant of 75 per cent of relevant expenditure was made, compared with 66.5 per cent in England and Wales, together with a domestic subsidy of 21p in the £. The aim was to keep average rises in rates down to 25 per cent in a full year, but given that 1975–6 was only a 10½ month financial year in Scotland (to bring the end of the financial year into line with that in England) rises should not have exceeded 10 per cent. In fact it was estimated (*Hansard*, 15th December 1975, Col. 1102) that they rose by an equivalent of 50 per cent in a full year. The grant was an increase of 7 per cent on 1974–5 but included additional elements for new subsidies such as ferries and buses. Out of the total £555 million, £2½ million was allocated to oil related developments, for which Inverness alone had calculated the cost at 10p in the £. Mr William Ross, then Secretary of State, issued two circulars, in November 1974 and March 1975, limiting growth to 3.8 per cent and calling on local authorities to restrict expenditure severely.

Scottish Conservatives (a) called for more money within the agreed total for the oil areas; (b) criticised the change in the distribution of the formula as discriminating against the rural areas, ultimately costing Grampian 9p in the £; (c) called for a centrally financed transitional scheme, similar to the one in England and Wales in 1974–5 where relief of 60 per cent was given on increases of rates over 20 per cent; (d) called for positive guidance to local authorities on where to make cuts; (e) demanded a percentage limit to increases; and (f) called for help for small businesses.

The Government introduced a three-year transitional scheme starting in 1975–6 for rural areas within the regions, but this was self-financing; urban areas had to pay more so that rural areas could pay less.

In Circular 64/1975 of October 1975, Mr Ross called on councils to set upper limits on spending by each department, as in 1975–6 local authorities had levied rates which implied a 13½ per cent growth. He suggested only 3½ per cent manpower growth over two years and for services to be realistically priced. For 1976–7 the Secretary of State and the Convention of Scottish Local Authorities failed to agree, for the first time, the level of relevant expenditure. The Rate Support Grant was reduced to 74 per cent (in the event it was 72.5 per cent, as a result of overspending by local authorities), compared with 65.5 per cent in England, at £827 million plus £61.6 million specific grants. The domestic rebate was increased by 3p to 27p (compared with 18.5p in England). Per head of population, the Scottish grant was 50 per cent higher than that for England. A cash limit of £55 million was placed on any increase in rate support grant during the year. The level implied that the Government's estimate of 7½ per cent inflation, against the actual 23½ per cent in 1975–6, would be achieved and that the authorities would budget for nil growth. For each 1 per cent above, rates would increase 4 per cent.

In the debate on the Rate Support Grant (Scotland) Order for 1976–7 Mr Buchanan-Smith criticised the Government:

“The failure of the Government to control inflation perhaps more than any other single factor is responsible for the higher rates ... Given the rate of price and wage

inflation and increases in services, I question whether the assumptions underlying this grant are realistic and will turn out to be correct” (*Hansard*, 15th December 1975, Cols. 1106–7).

On 17th June 1976, in Circular 27/1976, the Government indicated its concern at the continued high level of budgeting, and called on local authorities to review their budgets. For the first time, proposed limits under each expenditure head had been indicated to each authority. Mr Millan, who succeeded Mr Ross as Secretary of State in 1976 later called for cuts of £47 million, the amount by which the councils had overspent, in the budget for 1976–7. He also reduced by £5 million the £55 million allowed for inflation, even though inflation in those areas relevant to local government at 9.75 per cent was 2 per cent higher than anticipated.

By October 1976 it was clear that the 1977–8 Rate Support Grant would be based on the same estimates for relevant expenditure as for 1976–7, equivalent to £45 million less than actual expenditure. Mr Millan now accepted that redundancies might be needed. Mr Malcolm Rifkind, then a Conservative spokesman on Scottish affairs, asked Mr Millan to discriminate between authorities:

“Does the Secretary of State accept that it would be quite unfair for local authorities which in the past have obeyed the Government's guidelines about expenditure to be treated in exactly the same way as those which have deliberately rejected the Government's requests” (*Hansard*, 13th October 1976, Col. 472).

Mr Millan said it was not possible to do this and showed no willingness to review the system to make it possible.

**The Rate Support Grant for 1977–8** was announced to the Convention of Scottish Local Authorities on 22nd November 1976. The Government's contribution was being reduced by 4 per cent from 72.5 per cent of relevant expenditure to 68.5 per cent. Councils will receive £56 million less than they would have done had the grants remained the same and they will have to cut back by a further £45 million due to overspending in the current year. Expenditure next year is being limited to £1,386 million, of which councils will receive £950 million in grants. The subsidy for domestic ratepayers goes up by 4p to 31p. Scotland comes off better than England and Wales, where there are no increases in the domestic element, and the grant is cut by 4½ per cent to 61 per cent.

It is estimated that the average increase in rates throughout Britain in 1977–8 will be 15 per cent, and the average increase in rate poundage in Scotland will be 23 per cent (Mr Bruce Millan, *Scotsman*, 23rd November 1976).

Mr Buchanan-Smith said:

“No further proof is needed now of the failure of national economic policies. This time the ratepayers are made the scapegoat. Why is Mr Millan press ganging local authorities as his hatchetmen, while the Government is doing nothing to cut expenditure at the centre? Why are all councils treated alike? Surely those who have already made savings deserve better” (*Statement*, 22nd November 1976).

He also called for a ceiling on rate increases to protect rate-payers (*Montrose*, 1st November 1976).

In spite of these cuts the Government indicated in the Queen's Speech that it would be introducing measures to extend local authorities' direct labour schemes, which are already so costly to ratepayers that Glasgow has threatened to disband its department (see Chapter 20, p. 511).

**Capital Expenditure.** The Secretary of State announced in a letter to local authorities in July 1976 (*Scotsman*, 7th July 1976) that he was imposing severe restrictions on expenditure for planning projects including the acquisition of land and the servicing of industrial sites, though this was not to affect the Community Land Act which started operation on 1st September 1976 at a cost of £2.5 million for 1976–7. New projects would not be approved in the current year save for exceptional circumstances. In November it was announced in Circular SDD 47/1976 that a new system of forward financial planning, in five-year periods, for capital expenditure would devolve to local authorities more responsibility for deciding local priorities, while giving the Government more control over total levels of expenditure. Local authorities should be able to distinguish the capital expenditure which is a commitment from contracts already let, and that which could arise from contracts to be let. In the longer term it is intended to extend the system to revenue expenditure.

Between 1970–71 and 1975–6 local authority expenditure in Scotland increased by 30 per cent whereas total public expenditure rose by 17 per cent and the Gross Domestic Product for Great Britain by 10 per cent (Circular 64/1975).

**Rates.** In 1975–6 the increases in rates over 1974–5 ranged up to 147 per cent in parts of Aberdeen and 163 per cent in Edinburgh (*Hansard*, 1st August 1976, Col. 673), with an average of 45 per cent. In 1975–6 the average monthly rate bill per household in Scotland was estimated at just over £10 compared with £6.90 in 1974–5, and £5.50 in 1972–3 (*Hansard*, 10th December 1976, Col. 435). The Labour Party have made their view clear:

“The average Scottish householder pays about £150 a year in rates. It's not very much is it?” (Labour Party Political Broadcast in Scotland, 29th April 1975).

## (E) HOUSING

### 1. HOUSING COMPLETIONS

Under the Conservative Government there was an increase in private sector completions but since Labour returned to office in 1974 public sector completions have risen at the expense of the private sector.

	1973	1974	1975
Public	17,818	17,097	23,961
Private	12,215	11,239	10,539
Total	30,033	28,336	34,500

**1973      1974      1975**

(Scottish Office, *Housing Return for Scotland* 1976)

The public sector already accounts for 54 per cent (*Hansard*, 5th April 1976, Col. 93) of householders, as against 29 per cent in England (*ibid*, Col. 36). Only 32 per cent of homes in Scotland are owner occupied (*Regional Abstract of Statistics*). In 1975 only 30 per cent of completions were in the private sector, a decrease from 40.7 per cent in 1973.

The emphasis on public provision has led to difficulties in attracting key workers to Scotland, higher house prices and lack of labour mobility due partly to residential requirements for tenants of local authority houses.

## 2. HOME OWNERSHIP

Under the Labour Government council house sales have been brought to a virtual standstill and local authority loans severely restricted. In Circular SDD 36/1974 of July 1974 the Scottish Office announced they were rescinding the previous Conservative circular (SDD 19/1972, March 1972) that gave local authorities a general consent to sell to sitting tenants. In future the permission of the Secretary of State would have to be sought for each individual sale and account would be taken of the authority's waiting list. As a result the numbers sold declined drastically.

### Sales of Houses in Public Sector

	<b>Local Authority</b>	<b>SSHA*</b>	<b>New Town</b>	<b>Total</b>
1971	99	1	159	259
1972	645	2	943	1,590
1973	708	204	1,336	2,248
1974	170	161	269	600
1975	24	6	247	277

\*Scottish Special Housing Association.

(Source: *Hansard*, 12th May 1976, Col. 193.)

In spite of action to the contrary, the Government claims to recognise the need for more home ownership. Circular 100/1975 of October 1975 stated:

“Subject to public expenditure constraints, local authorities should build for sale where there is evidence of demand for owner occupied housing which is not being met by private builders”.

In November 1975 the Government tried to make up for its cutbacks in local authority loans by persuading building societies to make available £7 million for lending to house purchasers nominated by local authorities for property that, though old, had a life expectancy of at least 30 years.

One further option is also threatened. In April 1976 Mr Hugh Brown, Parliamentary Under-Secretary, Scottish Office, told the Scottish Federation of Housing Associations (*Scotsman*, 10th April 1976) that they would have to cut the number of new houses over the next five years to 1,200 a year, 400 fewer than expected. During 1975–6 the Housing Corporation approved finance for 2,540 houses to be rehabilitated and 1,417 to be built. In 1976–7 £34.6 million has been allocated for 4,000 improvements and 1,000 new houses.

**House prices** in Scotland have risen fast. The Nationwide Building Society reported in its *Occasional Bulletin* No. 138, October 1976, that over the year ended 30th September 1976 prices of older secondhand property in Scotland rose by 23 per cent as against 9 per cent in the UK; of modern secondhand property, 15 per cent as against 9 per cent; and of new property, 16 per cent as against 12 per cent. In each case the increase was greater than in any other area of Great Britain. The Royal Institute of Chartered Surveyors suggested prices in Scotland rose by 15–25 per cent in 1975, basically because demand exceeded supply.

### 3. RENTS

The emphasis on public sector housing has been encouraged by the Labour Government's rent policy. On coming into office in March 1974 the Government imposed a standstill on all rents until 31st December 1974, later extended to May 1975 in the public sector. Most of the lost income would be paid for by the taxpayer but some would fall on the rates.

The Housing Rents and Subsidies (Scotland) Act 1975 repealed the provisions of the Conservative Housing (Financial Provisions) (Scotland) Act 1972 and restored to local authorities the power to fix their own rents from 16th May 1975, subject to a maximum rise of £39 per annum, while supposedly maintaining a “reasonable” balance between the interests of their tenants and their ratepayers as a whole. However, the Act provided for increased subsidy support for housing expenditure, in part through a rent income subsidy for 1975–6 to assist in dealing with the remaining effects of the rent freeze.

Under the Remuneration, Charges and Grants Act 1975 (see Chapter 2, p. 37), provision was made for a subsidy of £12 million for 1976–7 to limit rent increases in Scotland in the interests of counter inflation to an average of 70p in total over the years 1975–6 and 1976–7.

As a consequence the average standard rent of a council house in Scotland at 30th September 1975 was £150.67 per annum (£2.89 per week) an increase of £12.68 (24p) on the period since 16th May 1975. 166,744 tenants received rent rebates, 19.5 per cent of the total, averaging £106.47 (£2.05 per week); while 16,261 private tenants received on average allowances of £56.34 (£1.09) (Scottish Office figures).

In 1975–6 the percentage of local authority housing revenue accounts borne by the rate fund contribution was 10·2 in England and Wales while in Scotland it was 15. Rents accounted for only 45 per cent of the cost of public housing in Scotland as opposed to 56 per cent in 1973–4. In England and Wales the average weekly rent before rebate in 1975–6 was £4·33 (Scotland £2·89) 7 per cent of average household income of local authority tenants before rebate and 6 per cent after rebate, while in Scotland it was 5½ per cent before rebate, and 4½ per cent after (*Hansard*, 5th April 1976, Cols. 36–7 and 93–6).

Scottish Conservatives criticised blanket subsidies at the expense of the tax and ratepayer, preferring to give aid to those in need. They also condemned Mr Bruce Millan for failing to surcharge councillors in 11 former town councils who lost £1½ million in rents through failing to increase rents under the provisions of the Housing (Financial Provisions) (Scotland) Act 1972. This loss is to be borne by the ratepayers.

## **4. HOUSING ACTION AREAS AND IMPROVEMENT GRANTS**

The Housing (Scotland) Act 1974 largely followed the provisions of a Conservative Bill that lapsed at the February 1974 Dissolution and created Housing Action Areas where a local authority could bring all houses up to a specified standard by demolition or improvement. In these areas improvement grants were to be at a level of 75 per cent of approved costs as against 50 per cent elsewhere.

In 1973 97,000 houses were improved in Scotland but the number fell to 68,134 in 1974 and 33,251 in 1975.

## **5. DEPRIVATION**

A Department of the Environment report showed Clydeside had 90 per cent of the most concentrated areas of urban deprivation in the UK, not 90 per cent of the urban deprivation, as has been claimed in SNP propaganda.

## **6. CONSERVATIVE PROPOSALS FOR ACTION**

Mr George Younger, speaking on behalf of the Conservative Opposition, outlined areas requiring Government action.

“In most local authority areas, one must still have a residence qualification to get a council house. This means that if one had to move home for family, job, or other reasons, one would still find oneself on nobody's list, ... People wish, if possible, to buy their own homes ... I hope the Government will take major steps to get tenants more involved in the running of their estates ... The Government should also take a new initiative on mobility between Councils and different council houses ... Each local authority should be given a duty to pursue a balanced housing policy and not merely a policy of providing homes for rent in the public sector. The money should be concentrated on providing for those in special need” (*Scottish Grand Committee*, 20th July 1976, Cols. 176–8).



## 7. FEUS

The Land Tenure Reform Act 1974 forbade the creation of new feus and allowed householders to redeem feus for a lump sum payment. This continued the process initiated by the last Conservative Government but which lapsed at the Election in February 1974.

## 8. SCOTLAND AND GREAT BRITAIN: COMPARATIVE STATISTICS

Scotland has a high proportion of Britain's housing expenditure as the following statistics show.

No. of Home Improvement Grants as % of G.B.

**1973:** 20·4      **1974:** 22·8      **1975:** 20·3

Public Sector House Completions as % of G.B.

**1973:** 16·6      **1974:** 13·3      **1975:** 14·8

Expenditure as % of G.B.

**1973-4 1974-5 1975-6 1976-7**

Current	9·0	7·3	8·2	8·2
Capital	6·0	4·8	5·5	5·6
Total	15·0	12·1	13·7	13·8

In 1974 Scotland had 21·1 per cent of the slum clearance programme (for Great Britain), but this fell to 16·9 per cent in 1975.

(*Source for all statistics: Hansard, 5th April 1976, Cols. 93-7*).

## (F) EDUCATION

### 1. ORGANISATION OF SECONDARY EDUCATION

The Labour Government confirmed its intention, in Circular 898(1), 16th April 1974, of proceeding to a fully comprehensive system, though in fact all education authorities had in 1966 indicated their intention of eliminating selection, and by 1973 90·4 per cent of secondary pupils in the state sector were in comprehensive schools, an increase of 20 per cent on 1971. By 1976, 98 per cent were in comprehensive schools.

In May 1976 the Government introduced regulations gradually to phase out the grant to grant-aided schools, leading to its extinction in 1981-2. Scottish Conservatives pointed out that such grants enabled less well off children to go to good schools on the basis of academic ability; that this would overburden the State system in places like Edinburgh; that it was introduced on the basis of Socialist dogma rather than

educational merit; and that it diverted attention from the more important issue of standards for the vast majority who went to the State sector. The Government revealed the absurdity of their policy by refusing Socialist-controlled Lothian council loan sanction to buy the Mary Erskine grant-aided school.

## 2. CUTBACKS

There is to be a substantial cutback in the education programme—from £457 million in 1976–7 to £434 million in 1979–80 on current expenditure, and from £70 million to £37 million on capital spending (1975 prices). This may involve reductions in deprived areas and in essential schools for areas of expanding population.

Teacher training is to be cut back with a reduction from 2,500 to 1,450 for primary schools in 1976–7 and from 3,300 to 2,700 in secondary schools. This is in spite of an expected rise in the number of secondary school pupils from 398,000 to 412,000 in 1978–9 before falling by 9 per cent to 375,000 in 1984–5. The number of primary school pupils is expected to fall from 621,000 in 1976–7 to 470,000 in 1984–5, a drop of 24 per cent. In September 1975 the primary teacher surplus was 1,096 and the secondary 416. The Secretary of State, Mr Bruce Millan indicated that about 2,000 newly qualified teachers would be unable to find jobs in 1976 (*Hansard*, 21st June 1976, Col. 1234), though the Job Creation Programme approved projects for 823 jobs for recently qualified students including teachers. As Mr Buchanan-Smith said:

“A total of 1,500 additional teachers could be employed in Scotland within the existing education budget if only the present Government had got their priorities right” (*Hansard*, 21st June 1976, Col. 1225).

It may be noted that under the Education (Scotland) Act 1976, £1 million a year was set aside for school milk. This was at a time when, as Mr Edward Taylor, now chief Conservative spokesman on Scottish affairs, said:

“We are not happy about standards of attainment; we are far from happy about standards of literacy and numeracy; and we are certainly far from happy about examination results. We are also extremely unhappy about discipline in schools” (*Hansard*, 25th October 1976, Col. 64).

In January 1977 it was revealed that four of the ten teacher training colleges in Scotland may be closed down.

## 3. OTHER MEASURES

**School-leaving Dates.** Under the Education (Scotland) Act 1976 pupils will be eligible to leave school on two fixed dates, 31st May for those whose birthday falls between 1st March and 30th September, and Christmas for 1st October to 28th February. The aim is to avoid pupils remaining at school long after their 16th birthday. In the debates on the Bill Scottish Conservatives pressed for pupils to be able to leave on their 16th birthday, and for National Insurance coverage to be given to those who started employment before they were 16.

Under the **Retirement of Teachers (Scotland) Act 1976** the right of teachers to stay on until the age of 70 is replaced by a right for the employer to re-engage the teacher between the ages of 65 and 70 for one-year periods.

## **(G) THE HEALTH SERVICE**

The Scottish Health Service was reorganised as from 1st April 1974 by a Conservative Act. There are 15 Area Health Boards, appointed by and accountable to the Secretary of State, which are responsible for major policy decisions on matters such as the broad allocation of resources and long-term planning of services. Certain services are provided by the Common Services Agency. 48 Local Health Councils represent the consumer interest.

Under the Government's public expenditure cutbacks growth is to be reduced from an average of 4.5 per cent to 1.5 per cent a year, from 1977 to 1980, as the Secretary of State indicated in a memorandum, "The Health Service in Scotland: The Way Ahead", issued on 13th April 1976. In particular, the acute sector of the hospital service is to be cut back while improvements are to be concentrated on areas of deprivation and services for the elderly, mentally ill, and mentally and physically handicapped. The 30 per cent increase in capital expenditure between 1964 and 1974 will be severely reduced with the building programme cut back from £42 million in 1976-7 to about £35 million in 1979-80. The recent annual 4 per cent growth rate in numbers of nurses and doctors will not be sustained, though current expenditure will rise from £500 million to £574 million in 1979-80 (all prices are 1975 survey prices).

Conservatives questioned the Government's priorities in abolishing pay beds while cutting other services and emphasised the need for the voluntary sector to be given encouragement.

Referring to the Government's overall priorities in the health and welfare and educational fields Mr Taylor said:

"I would say that the immediate priorities must be for the elderly through the home help service, to sort out the acute problems and anxiety as far as the List D schools are concerned, and to ensure that our educational standards are protected by employing the teachers who are available at the present time and who are deliberately being put out of work by the Government as part of their expenditure policy" (*Scottish Grand Committee*, 13th July 1976, Col. 68).

## **(H) TRANSPORT**

**Roads.** Development is to be restricted except for oil related projects. A total of 110 miles of motorway is now in use with 10 miles under construction and 16 miles programmed.

**Ferries.** The car ferry operations of Caledonian Macbrayne were supposed to operate on strict commercial lines. But under threat of a 65 per cent fare increase, the Secretary of State introduced a £3.2 million subsidy in 1975. The supply estimates

indicated that there would be a subsidy of £1½ million in 1976–7. The Secretary of State refused to subsidise Western Ferries who offered to run the route to Islay more cheaply. As a consequence Western Ferries has sold one of its ships.

**Scottish Bus Group (SBG).** Under the Local Government (Scotland) Act 1973 responsibility for subsidising bus services was placed on regional councils and funds were made available through the Rate Support Grant. In 1975–6 the claim by the SBG was in the region of £6 million for 300 routes. Fares increased by 30 per cent in 1975, leading to a 10 per cent reduction in passengers and an operating deficit of £1·2 million. In 1976–7, of the £15 million allocated in the grant for bus subsidies, authorities were expected to hand over only £9 million. The Government has promised to maintain subsidies especially for rural areas, along with the grant for new buses and the rebate on fuel tax.

Scottish Conservatives have pressed for greater scope for experiments with unorthodox forms of transport and for a relaxation of licence restrictions.

## **(I) LAW AND ORDER**

**Crime.** During 1974 there was a 14·4 per cent increase in crime and a 4·7 per cent rise in violent crime to 3,765 cases, including 38 murders. 48 per cent of crimes were committed in the cities.

In 1975 212,540 crimes were committed, a rise of 10·6 per cent on 1974. 69 per cent of crimes and offences taken together were cleared up but only 35·5 per cent of crimes. 7,271 prison sentences were imposed and 2,695 probation orders made. The highest combined crime and offence rate for males was among 17 year olds with 11,703 cases.

**Police** numbers increased to 12,376 in 1975, though this was still 188 below establishment (Cmnd. 6495, 1975).

**Courts.** The District Courts (Scotland) Act 1975 replaced the old system of burgh courts by district courts following local authority reorganisation. Conservatives pressed for these to be staffed by full-time professional magistrates but the Government refused to make this mandatory, preferring to rely on a lay system.

## **(J) AGRICULTURE AND FISHING**

### **(See also Chapter 12)**

Scottish Conservatives have criticised the Government's handling of the fishing industry, in particular the failure of Ministers to represent adequately Scotland's case in Britain's team at EEC meetings, and the way the industry has been left in a state of uncertainty about its short- and long-term future, as epitomised by the decision to increase the haddock quota for 1976 at the expense of the quota for 1977.

As Mr Buchanan-Smith said:

“I do not believe that the original EEC agreement—for which I take my full share of responsibility, as I took part in those negotiations—ties or limits unnecessarily any British Government, either then or in the future. I kept notes of those negotiations, and there is room in the agreement for renegotiation of the Common Fisheries Policy for 1982. The two factors to be taken account of in that renegotiation, stated specifically in the Minutes of the negotiations at the time were, first, conservation of fishing stocks and, secondly, the needs of communities dependent on fishing in particular areas” (*Scottish Grand Committee*, 8th July 1976, Col. 10).

He went on to outline the action the Government should take:

“First, we believe that the Government should negotiate on the basis of a 50 mile exclusive zone for British fishermen.

Secondly, conservation is one of the most important factors. In the negotiations they are carrying out, the Government should change the basis of conservation in those waters that remain common to the EEC countries and also in those waters where there are historic rights outside exclusive zones. We must take a fresh look at conservation and base it in future not necessarily on quotas but perhaps on numbers of ships and so on to make sure that conservation measures are effective” (*Scottish Grand Committee*, 8th July 1976, Col. 12).

## **(K) LICENSING LAWS**

The Licensing (Scotland) Act 1976 reforms the Scottish liquor licensing laws to make licensing an administrative function, undertaken by local authorities, rather than a judicial one. New certificates include an entertainment certificate and a refreshment house certificate for places where non-alcoholic beverages are also served, and children may be admitted until 20:00 p.m. Hours are extended to 11 p.m. from December 1976. Although not proposed in the original Bill, public houses will be allowed to open on Sundays.

## **(L) THE SCOTTISH NATIONAL PARTY**

### **1. ELECTORAL POSITION**

There has been a steady increase in votes for the SNP over the last 20 years.

	Votes Cast in General Elections		
	%	MPs	% of poll in seats contested
1955	0.5	—	14.6
1959	0.8	—	10.7
1964	2.4	—	10.9
1966	5.0	—	15.2

### Votes Cast in General Elections

#### % MPs % of poll in seats contested

1970	11.4	1	12.1
1974	21.9	7	22.1
1974	30.4	11	30.4

## 2. POLICY

**Separation.** The aim of the SNP is an independent Scotland within the Commonwealth and NATO. Mr Donald Stewart, MP for Western Isles and Leader of the SNP, has said:

“The case for self government rests on political not economic grounds” (*Hansard*, 5th February 1976, Col. 1495).

It is clear that if they formed a majority of Scots MPs the SNP would treat this as a mandate for independence. Cloaked behind a moderate facade is a clear anti-British sentiment. Speaking of those who accept the economic benefit of the Union, Mr Douglas Crawford, MP for Perth & East Perthshire said:

“They do not deserve the name Scots” (*Hansard*, 5th February 1976, Col. 1538).

The SNP hope that in the event of separation there would be a consultative Convention linking all “British states” together, with frequent contact of Ministers to work out joint policies. They believe that if Scotland opted out of the EEC, access to English markets would be guaranteed by a Free Trade Agreement (*Scotsman*, 21st July 1976). There is no reason to believe this would be the case. At the same time, they claim the Scottish £ would be worth £1-20 sterling (*Scotsman*, 5th November 1976). This in itself would make nonsense of a free money area and would mean that English exports to Scotland would be cheaper than home produced goods (especially if wages remained higher in Scotland) with all the dangers to jobs that that implies.

**Defence.** In a foreign policy document, reported on 3rd August 1976 (*Press and Journal*), mention was made of the SNP's opposition to a Western political and defence union based on the EEC. They are opposed to political or monetary union in Europe. In general, when speaking about defence they compare Scotland's position to that of Norway and Denmark, although both have conscription like many other NATO countries. The SNP, however, claim this would be unnecessary in Scotland. Defence proposals were announced on 13th November (reported in *The Scotsman*) by the Chairman of the Party, Mr William Wolfe. Total defence strength would be 50,000 at a cost of about £450 million or 4 per cent of GNP. The main aim would be defence of Scotland against military attacks from an external army and the protection of fisheries and oil installations. Some forces would be assigned to NATO, though no nuclear bases would be permitted. They do admit that Scotland's strategic position makes her vulnerable in the event of an East-West military confrontation but believe that this would enable Scotland to bargain for economic, political, diplomatic and military assistance.

**Socialist Tendencies.** The SNP is a party of centralisation and State control. Its policies include establishment of a Scottish Oil Corporation, a Scottish Steel Corporation, a Scottish Vehicle Authority, a Scottish Electronics Authority, a Scottish Railway and a Scottish Coal Board. They want oversight of takeovers and partial takeovers and would have a team of development officers to distribute grants and loans and manage industrial estates and advance factories. There would also be State holding companies to invest in public and private firms. Foreign-owned firms are to be “encouraged” to give autonomy to Scottish operations.

The SNP accepted the general aim of the Community Land Act and failed to oppose consistently the Capital Transfer Tax and shipbuilding nationalisation. The Party has also called for vast extra expenditure, including £500 million for Scotland in the last budget; an increase in the SDA budget of £1,200 million over five years; loans for newspapers; electrification of the Edinburgh—Aberdeen railway; £10.5 billion for Scottish investment over seven years; an end to cuts in education; finance for low interest rates for housing; and a domestic rate ‘holiday’.

Oil would fund much of this, the SNP claim, but even they realise that is not the long-term answer. As Mr Hamish Watt, MP for Banff, said:

“Scotland's long term future lies not in oil but in the careful husbanding of its natural assets. Oil is a finite commodity” (*Hansard*, 19th February 1976, Col. 1555).

### **3. IRRESPONSIBLE STATEMENTS**

The SNP claimed oil would bring in £500 million of tax revenue in 1976. In fact, the Government's take is estimated at £80 million (Fraser of Allander Institute). Other inaccurate figures include their claim that 5,000 people die of hypothermia in Scotland every winter. In 1974–5 the true figure was 9 (hypothermia was a secondary cause in 81 cases). They claim too that Scottish wages are on average the lowest in the UK. In fact they are now ahead of the British average for male manual workers.

## **(M) SCOTTISH LABOUR PARTY**

Early in 1976 the Scottish Labour Party was formed by Mr James Sillars, MP for South Ayrshire, owing to disenchantment with the policies of the Labour Party in Scotland. It is campaigning for full employment and a Scottish Parliament with substantial economic powers. It is Left wing (though in October it expelled members of the International Marxists) and concerned with worker control and community control of the economy. The Party has one other MP, Mr John Robertson (Paisley).

## **23. WALES**

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## (A) THE WELSH ECONOMY

The Welsh economy is highly integrated within that of the United Kingdom. In industrial Wales the problems are severe: they are largely the problems of industrial transition, the decline of old industries and the attempt to provide new jobs by attracting new industries. Even if the economic crisis facing the country as a whole were solved, the Welsh economy would still have to face the problems of unemployment, a poor industrial infrastructure, difficult geographic conditions and the need to attract new industry.

Just over 40 per cent of the working population of Wales are employed in the public sector, and approximately a quarter of those are in the steel and mining industries. In the private sector, small businesses and the self-employed are of particular significance, providing together over 50 per cent of Welsh private sector employment. In 1974, the self-employed, who were just under 10 per cent of the working population, contributed 13 per cent of the Welsh Gross Domestic Product (*Digest of Welsh Statistics, 1976*, Table 7.01). This is a substantial contribution, and at a time when the traditional heavy industries of Wales, coal and steel, are in decline, Labour's attack on small businesses and the private sector as a whole can only be regarded as a sure recipe for economic suicide.

The index of industrial production in Wales, which averaged 112.9 under the Conservatives in 1973 (1970=100), fell under Labour to 107.0 in 1974, and in 1975 plunged to 98.9. At the end of the second quarter of 1976 it had recovered slightly to 102.2, but this was well below the figure even for the "Three Day Week" of early 1974: 105.4.

This disastrous record has contributed to the highest Welsh unemployment levels since the war. In the first half of 1976, unemployment stood at twice the level of February 1974. Labour's fierce verbal attacks on Welsh unemployment while in opposition have become curiously muted at the much higher levels obtaining while they are in office.

Summarising the state of the Welsh economy, Mr Nicholas Edwards, Conservative spokesman on Wales, described the "monuments of the catastrophe that a Labour Government has brought our people" and said:

"In the second quarter of 1975 Wales suffered the heaviest fall in industrial production since the 1930s, taking the level back to what it had been eight years earlier. It was a fall at more than twice the rate of the United Kingdom as a whole ... The Government blame it all on the World recession but production in Wales has



fallen more than in any other developed country and in the rest of the world recovery has begun much sooner” (Aberystwyth, 12th June 1976).

**Conservative strategy.** Unlike Labour, the Conservatives would be sympathetic to the small business sector and the self-employed, who contribute so much to the Welsh economy. Welsh agriculture, which is so important to the nation as a whole, and which has been so damaged by the policies of this Socialist Government, needs a climate of confidence which only Conservative policies will be able to create.

## 1. UNEMPLOYMENT

The Labour Party in Wales have traditionally used unemployment as a yardstick for measuring a Conservative Government's performance: they are less assiduous in applying it to their own performance.

One important test is regional unemployment relativities, the comparison of unemployment in Wales with the nation as a whole. In 1965 Wales had an unemployment relativity of 187, where Great Britain equalled 100. Under the 1966–70 Labour Government, this index rose to 201 in 1966, over twice the national unemployment rate. The index stood at 152 in 1970; under the Conservatives it fell to 129 in 1972, and rose only slightly to 133 in 1973. Under Labour it rose to 143 in 1974, and only fell again in 1975 to 138 in the face of massive unemployment throughout the United Kingdom (*Regional Statistics 1975*, Table 75). [*Note:* The 1965–1973 figures are annual averages, excluding students, etc.; the 1974 figure is an 11 months' average; the 1975 figure is based on seasonally adjusted January–June monthly averages].

When the Conservatives left office in February 1974, 38,424 were unemployed (unadjusted figure). Just two years later under Labour in February 1976 the figure had doubled to 76,130. In February 1977 it had reached 81,291.

The loud condemnations of unemployment made by Labour while in Opposition have not been made at the much higher levels now existing. Speaking of unemployment levels 20,000 lower than in the first half of 1976 Mr Neil Kinnock, MP (Lab. Bedwellty), said that the Government:

“have been guilty if not of a criminal act, certainly of criminal negligence” (*Hansard*, 24th January 1972, Col. 1089).

Describing the much worse situation under Labour, Mr Cledwyn Hughes (Lab. Anglesey) said:

“I believe that under a Labour Government we have suffered far less [from unemployment] than most” (*Hansard*, 23rd November 1975, Col. 855).

The staggering complacency of this last statement can be judged by the fact that in the month he spoke, Welsh unemployment had reached 70,000, and in his own constituency of Anglesey, 11.2 per cent of the insured population were unemployed.

## 2. THE STEEL INDUSTRY

In 1974, 8.4 per cent of the Welsh workforce were engaged in metal manufacture (compared to 2.2 per cent in the UK). In 1974, Wales produced 33.6 per cent of the UK's pig iron and 29.9 per cent of its steel ingots and metal for casting (*Regional Statistics 1975*, Table 88). Production in 1975 averaged 103,000 tonnes per week, 20 per cent down on 1974. In December 1975 and January 1976 production fell even further to 82,500 and 75,100 tonnes a week respectively. Weekly production improved to 130,200 tonnes in March 1976, partly due to the end of the disputes at Llanwern (*Welsh Economic Bulletin*, No 4, 1975 and No. 1, 1976). However it fell during the summer, and by September 1976 it barely topped 120,000 tonnes (*Welsh Economic Bulletin*, No. 3, 1976). This compares with an average weekly production of 160,000 tonnes in 1972 and 168,100 during the first half of 1973.

**Conservative Record.** During 1971 and 1972, £39 million and £52 million respectively were spent on modernisation in Wales. In December 1972 the Conservative Government accepted BSC's development strategy to the early 1980s, which involved a £900 million investment programme in Wales.

In December 1973 the European Investment Bank announced a £14.7 million loan towards expansion at Llanwern.

**Manpower Cuts.** Following the agreement in January 1976 between BSC and the TUC Steel Industry Advisory Committee on the need for manpower reductions, the BSC Welsh Division discussed with the unions reductions on a plant by plant basis. A reduction of about 8,000 jobs (of whom 2,300 would be staff) was planned by March 1978. In September 1976, there were 55,421 employees in Welsh works (*Welsh Economic Bulletin*, No. 3, 1976).

## 3. COAL

**The Labour Record.** Between 1964–70, the numbers working on coalmining in Wales fell by over 46,000. This was more than the total remaining in employment. 46 pits were closed during the same period.

**Conservative Record.** Conservatives were determined to create a secure future for the Coal Industry and saw coal as having an important role to play in meeting our energy requirements. Under the Conservative Government the loss of jobs in the industry was substantially reduced. Between 1970 and 1974 only 8,000 jobs were lost. (*Welsh Digest of Statistics 1975*, Table 5.09) and between June 1970 and December 1973 only two pits were closed.

The Coal Industry Act 1973 gave fresh incentive to the industry. Of particular interest to Wales were the provisions to encourage a greater use of coal by the electricity generating industry, subsidies for the production of coking coals for the steel industry and regional grants to help moderate the contraction of the coal industry.

**Recent developments.** The NCB announced an £8 million investment scheme for the Oakdale, Markham and North Celyn Collieries in Gwent.

The saleable output of deep-mined coal in South Wales in the first half of 1976 was 4071.2 thousand tons, 10.6 per cent below the same period in the previous year. Open-cast production was down 0.8 per cent in the same period. In North Wales, deep mine production declined by 13.9 per cent in the same period. In the year since June 1975, a further 1,200 men have left the Welsh mining industry.

## 4. AGRICULTURE

In June 1975 Welsh agriculture employed 51,949 people, of whom 27,713 were farmers, partners or directors, 277 salaried managers, 10,437 family workers and 7,363 regular or full or part time hired workers, with the balance being casual labour. (*Digest of Welsh Statistics 1976*, Table 5.31).

Welsh agriculture takes in over 5 million acres, of which 3.7 million were under cultivation in 1975. The predominant land uses are: rough grazing (1 million acres); grassland—permanent and other (2.3 million acres); cereals and potatoes (203 thousand acres). Woodlands (57 thousand acres); and fodder crops (46 thousand acres); (*Regional Statistics 1976*, Table 11.1).

There were 32,453 holdings, of which 23,637 (or over two-thirds) were under 100 acres and 14,936 under 50 (*ibid*, Table 68).

**Conservative Record.** The Conservative Government worked to overcome the neglect of agriculture by the Labour Government of 1964–70. Approved applications for Farm Capital Grants, introduced in January 1971, reached 30,713 at a cost of nearly £34 million by July 1973 (*Hansard*, 3rd July 1973, Col. 103).

Honouring their 1970 pledges, the Conservatives abolished Selective Employment Tax and the unpopular Mid-Wales Rural Development Board; and the farming land of the Dulas and Senni Valleys was saved from flooding by preventing the construction of the proposed reservoir.

**Labour's Neglect.** The recent large increases in all commodity prices, but particularly in fodder costs have adversely affected Welsh agriculture, especially livestock production in areas of marginal land. The 1976 *Price Review White Paper* confirmed that farmers' incomes had dropped by 16 per cent last year and that a further 10 per cent drop was expected this year. The March 1976 Sample Agricultural survey for Wales showed further declines in important sectors of Welsh agriculture, particularly Livestock.

In his New Year message, Mr T. Myrddin Evans, President of the Farmers' Union of Wales, said:

“As farm prices are determined by Government policies, our fundamental problems spring from the inability, or refusal, of this Administration to recognise the needs of the industry and give farmers a fair deal” (Press Release, 16th December 1975).

**Conservative Policy.** Mr Edwards has called for the Secretary of State for Wales to assume responsibility for agriculture in Wales.

“In view of the importance of agriculture to the economy of rural Wales I think it illogical that the Secretary of State who now has such wide responsibilities in the industrial field, should have a secondary role as far as Agriculture, one of our most important industries, is concerned ... and if the activities of the various Government Agencies in the rural areas are to be co-ordinated then it seems to me important that it should be clear where the responsibility lies” (Pembrokeshire, 8th May 1976).

Speaking to the National Farmers' Union, Mr Edwards stressed the importance of agriculture and the problems facing it:

“With no long term [Government] Strategy, with the handicap of a penal tax structure, faced with the distortion of the Green pound, and with a situation where, as we approach the end of the transitional period, fair competition does not exist, your industry cannot fulfil the vital role that it has to play in restoring the British economy (Tenby, 22nd October 1976).

## **5. SMALL BUSINESSES AND THE SELF-EMPLOYED**

The self-employed constitute 9.8 per cent of the working civilian population of Wales (*Hansard*, 2nd May 1975, Col. 290), compared with 7.8 per cent in England and 6.2 per cent in Scotland.

The self-employed in agriculture make this figure substantially higher in rural areas:

Cardiganshire	30.1 per cent
Montgomeryshire	27.3 per cent
Carmarthenshire	25.9 per cent
Carnarvonshire	20.7 per cent
Denbighshire	20.5 per cent
Pembrokeshire	20.4 per cent

(*Hansard*, 7th May 1975, Col. 466).

In May 1974 there were 4,637 factories in Wales. Of these 2,923 or 63 per cent employed 10 people or fewer. This compares with 54 per cent in Great Britain as a whole. In rural areas the percentage is even higher: Gwynedd 75.3 per cent; Dyfed 73.9 per cent (*Digest of Welsh Statistics 1974*, Table 5.05).

Small businesses and the self-employed provide approximately 31 per cent of all jobs in Wales, and 52.8 per cent of all jobs in the private sector.

*For a detailed discussion of the effects of Socialist actions on this sector, see Chapter 7.*

## **6. TOURISM**

It is estimated that Wales earned approximately £50 million from tourism in 1961: in 1975 the figure had risen to approximately £200 million at current prices (*Tourism in Wales: A Plan for the Future*, March 1976).

In November 1974 a detailed statement was issued by the Government concerning the direction of future policy in this field. It emphasised the development of tourist potential in new areas and outside the peak season, the cutting of expenditure on generalised promotions and putting more sponsored activities on a self-financing basis.

The Wales Tourist Board's discussion document, *Tourism in Wales: A Plan for the Future*, issued in March 1976, outlined the Board's proposals for the next five years. These include:

- a. Giving priority to those facilities which will increase tourist revenue.
- b. Providing permanent employment opportunities.
- c. Being sympathetic to the natural and human environment of Wales.
- d. Attracting visitors from overseas.
- e. A request for representation on the C.B.I.
- f. Encouragement for the provision and development of public transport services.
- g. Support for the development of international air services to Wales, particularly through Rhose Airport.
- h. Keeping in close touch with the Minister of Agriculture, the Farmers' Unions and local government to help develop farm tourism.

## 7. CELTIC SEA OIL

On 15th March 1972, 52 firms were licensed to prospect for oil and gas in the Celtic Sea. A total of 42 blocks was allocated, each covering about 100 square miles. The first borehole was sunk by Shell in 1973. B.P. drilled an exploratory well between March and June 1974, but sealed and abandoned the well in February 1975 since results were disappointing. In 1976 AMOCO (UK) Exploration drilled about 40 miles off St Anne's Head after a long period of no drilling activity.

## 8. DEVELOPMENT BOARDS

**The Welsh Development Agency** was set up under the Welsh Development Agency Act 1975. Its stated purposes are the furtherance of the economic development of Wales; the promotion of industrial efficiency and international competitiveness; the provision, maintenance and safeguarding of employment; and the improvement of the environment in Wales. The Agency has a spending limit of £100 million which may be increased to £150 million with the consent of the Treasury. Conservative objections to the Act centred mainly on the powers of the Agency to carry on businesses and to form corporate bodies, and on the extremely broad powers with regard to land. Conservatives were particularly concerned that the Agency could act in unfair competition with the private sector. Throughout the debates, Conservatives stressed the need for adequate Parliamentary supervision and control. Mr Edwards said: "The Opposition intend to subject the agency and the performance of the Secretary of State to the closest possible scrutiny" (Committee Stage Report, 30th July 1975, Col. 540).

**Development Board for Rural Wales.** The Development of Rural Wales Bill had a mixed parentage. Labour's White Paper, *The Development of Agriculture* (Cmnd. 2738) was published in 1965 and received statutory recognition in the Agriculture Act of May 1967. Welsh farmers opposed the proposals from the beginning, especially the Socialist provision for large-scale takeovers of agricultural land. There was a lengthy public enquiry in Aberystwyth in 1968 following which Welsh farmers petitioned both Houses of Parliament in 1969. The proposals were scrapped by the Conservative Government elected in 1970. In February 1976 the present Government issued a consultation paper, *Development Board for Rural Wales*, in which it was made clear that the Board's powers would not extend to the fields of agriculture, forestry and fisheries. This assurance, however, was not written into the Development of Rural Wales Bill and it was left to Conservatives in the Lords to amend it accordingly.

**Conservative Policy.** Conservatives believe that the Board and the Agency have a useful role to play, but it is important to have a realistic view of their potential. As Mr Edwards said:

“It is economic nonsense to imagine that a Development Agency can suddenly, in a hostile climate, create a thriving economic plant” (Aberystwyth, 12th June 1976).

As they made clear when the Bills were in Committee the Conservatives will retain the Board and the Agency but intend to ensure that these bodies do not act in competition with the private sector. *The Right Approach* states that the power of the Welsh Development Agency “to buy into profitable companies should be removed ...” A Conservative Secretary of State would also review the boundaries of the Rural Board which, in their current form cause anomalies by arbitrarily dividing up some areas.

## **(B) HOUSING**

The pattern of Welsh housing is significantly different from that in other parts of the mainland. At the end of 1975, 58.3 per cent of Welsh households were owner-occupied, compared with 52.8 per cent in Great Britain. Local Authority housing comprises 28.3 per cent of households, compared with 31.3 per cent in Great Britain, and 13.4 per cent of dwellings were rented in the private sector compared with 15.9 per cent in Britain as a whole (*Digest of Welsh Statistics 1976*, Table 2.32). Figures vary considerably within Wales. Home ownership is particularly high in many of the industrial valleys of South Wales: 67.8 per cent in the Rhondda for example (1971 census). Equally, the rented sector, which in 1975 was slightly below the British average, is considerably higher in many parts of rural Wales. In 1971, for example, it was 24.9 per cent in Montgomery, 24.1 per cent in Cardigan and 23.1 per cent in Anglesey; although the effects of Socialist legislation have now cut these figures.

The result of Labour's extension of tenants' rights has undoubtedly been a squeeze on private sector accommodation, which particularly affects rural areas, students, the young, and low paid workers, including farm workers.

Welsh housing stock is much older than elsewhere in Britain as the following table illustrates:

### Age of the Stock of Dwellings

	<b>Wales</b>	<b>Great Britain</b>
	<b>% of houses</b>	<b>% of houses</b>
Pre 1891	24.8	17.8
1891–1918	19.7	14.9
1918–1944	14.9	22.6
1944 to date	40.6	44.7

(*Welsh Digest of Statistics*, 1976 Table 2.32)

Age is reflected in the basic amenities. At the time of the 1971 census, 13 per cent of Welsh houses were without a fixed bath or shower (compared with 8.5 per cent in Great Britain) and 18.8 per cent lacked an internal W.C. (compared with 11.9 per cent in Great Britain).

An additional problem imposed by the age of the housing stock is the difficulty of obtaining mortgages, particularly for first-time buyers. Local authority mortgages and improvement grants, therefore, assume considerable importance.

In the 10 years from 1965–6 to 1975–6, there has been a 390 per cent increase in public expenditure on housing in Wales. The money spent on housing as a percentage of total public expenditure in Wales has risen from 10.4 per cent to 17.8 per cent in the same period.

**Labour's Strategy in Ruins.** The Labour Government started by putting all the emphasis on new council housing. But as Conservatives consistently pointed out would happen, this strategy has now collapsed because the cost to tax payers and rate payers became insupportable.

The 1976 Public Expenditure White Paper (Cmnd. 6393), estimated that local authority housing expenditure in Wales would fall by 15 per cent over the next three years. Local authority lending, mostly for home loans, was to be reduced by nearly 70 per cent over the same period—a much larger cut than the reduction envisaged for England.

There has also been a fall in the number of improvement grants. This reduction in local authority home loans and in improvement grants is particularly harmful in Wales where there is a much higher proportion of older houses than in England. Many of these older houses are in need of modernisation and improvement, and it is often difficult for people to obtain mortgages from building societies for the purchase of these older houses.

It is also clear that the council house building programme in Wales is now declining. By 1978–9 expenditure on local authority building is expected to be 67 per cent below that in 1975–6. Total investment in that year is expected to be 18 per cent down. Investment in new local authority dwellings is expected to be 13.5 per cent down.

**Conservative Approach.** The Conservatives' national approach to the problems of housing has been extensively dealt with in Chapter 13. There are, however, several

aspects of particular importance in the Welsh context. It is clear that we must make better use of our existing housing stock. It is particularly important, in the light of figures given above, especially for rural Wales, to restore the private sector of rented accommodation which has been virtually destroyed by the Rent Acts of 1965 and 1974.

As Mr Edwards said:

“We should encourage the private sector to contribute its share of resources to housing through improvement grants ... and through local authority mortgage lending, particularly directed to the revival of the older houses of Wales” (*Hansard*, Welsh Grand Committee, 10th March 1976, Col. 19).

Conservative strategy is to bring about a switch of resources from the public sector towards helping more families to buy homes of their own. This is what most people want and it is less costly to public funds than expensive new council housing.

## (C) TRANSPORT IN WALES

**Conservative Record 1970–74.** In explaining the last Conservative Government's emphasis on improving the industrial infrastructure, Mr Peter Thomas, then Secretary of State said:

“In South Wales priority is being given to the extension of the M4 motorway and to the completion of the new road from Cardiff to Merthyr. In North Wales the first priority is to improve the A55 road to provide a dual carriageway from the English border to Bangor. (*Welsh Grand Committee*, 15th December 1971).

Eastern Avenue, Cardiff, and the first section of the Cardiff-Merthyr A470 were both opened in 1971 and the last section of the new Midlands road (M50–Newport) in 1972. Other major improvements included the road bridge crossing the Menai Straits announced in December 1970. In April 1971 some 20 major improvements of roads in Montgomeryshire were announced, and in December 1971 the Newport Docks M4 access road was put in the ‘Firm Programme’.

Expenditure on roads in Wales rose sharply under the Conservatives, as the following figures show.

1968	£29.68m
1969	£31.48m
1970	£33.49m
1971	£42.27m
1973	£54.40m
1974	£62.97m

(*Welsh Digest of Statistics* 1975. Table 603)



The Welsh share of total UK expenditure on Roads and Transport rose to 5.4 per cent under the Conservatives in 1972–3, but fell to 4.3 per cent under Labour in 1974–5. It was 4.6 per cent in 1975–6.

**Welsh Council Research Project.** On 15th December 1971 the Government announced a research grant of £22,500 for a study of passenger transport needs being carried out on behalf of the Welsh Council under the direction of Professor Graham Rees of Aberystwyth University College. The Welsh Council produced a report, *Roads in Wales*, examining the roads programme in March 1974.

**Railways.** Between October 1964 and June 1970, 240 miles of passenger lines were closed in Wales (*Hansard*, 22nd June 1973, WA. Col. 216). This compares with the sole closure of the Bridgend-Treherbert line under the Conservatives between 1970 and 1974.

The removal of the headquarters of the reorganised Western Region of British Railways to Cardiff was announced by the Conservative Secretary of State in December 1971. This brought nearly 2,000 new jobs to Wales.

In November 1973 Mr John Peyton, Minister for Transport Industries, announced the proposed introduction of high speed trains on the London-South Wales route (*Hansard*, 28th November 1973, Col. 398). This service started in 1976.

**Rhose Airport.** In 1965 the Glamorgan County Council assumed control of Rhose Airport and undertook major developments and improvements at a cost of about £5 million. In October 1974 the Conservative Manifesto for Wales stated: “A Conservative Government will include Rhose Airport among those out of London airports eligible for central Government assistance, in the belief that a modern air service is essential to the South Wales economy”. The Civil Aviation Authority produced a report in January 1976 (CAP 380) on the future of airport development in South Wales and the South West of England which said, “Glamorgan Airport is likely to remain in substantial financial deficit”.

In the face of much local pressure for state support for Rhose the Labour Government has done nothing.

## (D) WATER

On 2nd December 1971 the Conservative Government announced the creation of the Welsh National Water Development Authority (WNWDA). Set up by the Commons in July 1973, it became functional on 1st April 1974. It is responsible for water services as a whole and for all river basins lying fully within Wales and for the Wye and Dee basins. The Severn/Trent Authority covers the Severn area in Montgomeryshire (see also Chapter 14, p. 342).

In September 1974 a Committee was set up under the Chairmanship of Sir Goronwy Daniel to review the effects of the Water Act 1973 and other matters relevant to the charges for water in the area of the WNWDA. The Committee's report, presented in March 1975, said: “The 1973 Act created a decentralised system in order to avoid the

disadvantages inherent in a large centralised one. It is the direct consequence of such a system and the geographic conditions under which the WNWDA operates, that water charges vary". The report concluded that the levels of cost differentials justified action and suggested the possibility of an equalisation scheme.

The last Conservative Government proposed a system of differential rate relief which would compensate for increased water charges among other things (see also p. 344).

## **(E) EDUCATION IN WALES**

Mr Nicholas Edwards has emphasised that the Conservative policy of allowing choice in education also extends to bilingual education:

"We will continue to do all that Governments can do to maintain conditions in which by the choice of the people the Welsh Language can thrive and prosper. I emphasise that word 'choice'. It is our firm belief that people should be free to choose in which language they speak and it follows that wherever possible they should be free to choose in which language their children should be taught. The implementation of educational policy is the responsibility of local authorities, but they will have our encouragement in making that choice a reality" (Aberystwyth, 12th June 1976).

In a speech at Hereford on 27th September 1976, Mr Edwards said that the opportunity to learn Welsh or be taught in Welsh must not end at the secondary stage. As far as possible, he said, bilingual policies should be developed in a way that avoids the separation of Welsh and English speaking children. Where the majority speak Welsh and there is a substantial demand for secondary education to be conducted in Welsh, this can be done successfully. The language thrives, the communities live harmoniously together and bussing is avoided. Elsewhere it may be less easy, because sufficient Welsh-speaking children cannot be concentrated in a school to ensure that the language will not recede before a strong English language atmosphere. In the English-speaking areas of Wales it might therefore be necessary to concentrate in monoglot schools those who want to learn Welsh. But the communities would continue to mix in their daily work and play.

**Schools.** There are at present 2,424 schools in Wales, of which 1,959 are primary, 254 maintained secondary, 3 direct grant grammar schools, 67 maintained nursery schools, 73 maintained special schools, and 58 independent schools.

The number of independent schools has declined steadily, from 98 in 1965–6 to 70 in 1970–1, and to 68 in 1975–6. Between 1965–6 and 1970–1 the number of maintained secondary schools declined from 386 to 311.

Expenditure of Local Education Authorities rose from £113.4 million in 1970–1 to £245.4 million in 1974–5. (*Welsh Digest of Statistics*, 1976).

**Further Education.** In 1974–5, there were 974 establishments of further education in Wales, with 187,998 students, of whom 14,424 were full-time. In the same year there were 16,192 full-time students at the University of Wales compared with 11,026 in 1965–6.

In 1974 there were 9,745 Welsh students on full-time first degree courses in universities, 4·8 per cent of all U.K. students.

## (F) THE WELSH LANGUAGE

The Conservative Party has long sought to maintain the Welsh language as a living tongue. The Welsh Language Act 1967 has full Conservative support. It resulted from the Committee appointed in 1963 under the Chairmanship of Sir David Hughes-Parry, to consider the official status of Welsh, by Sir Keith Joseph, then Minister for Welsh Affairs.

By the end of 1969, 101 Welsh or bilingual Government forms were available; by July 1973 this had risen to 355.

The 1970–4 Conservative Government gave, for the first time, Government assistance to Welsh Language Nursery Schools, *Mudiad Ysgolion Meithrin*.

**Use of the Welsh Language.** Since 1901 the position of the Welsh language has declined. In 1901, 15·1 per cent of the population of Wales spoke only Welsh and 49·9 per cent spoke English and Welsh. The figures in the 1971 census were 1·3 per cent and 20·8 per cent respectively.

Welsh speakers tend to be concentrated in the old counties of North and West Wales, although there appears to be a considerable resurgence of interest in the language, especially among the young, throughout Wales. In Merioneth some 73·5 per cent of the population speak Welsh; in Cardiganshire, Carmarthenshire, Anglesey and Caernarvonshire, over 60 per cent; in Glamorgan 11·8 per cent; and in Monmouthshire 2·1 per cent (*Welsh Digest of Statistics 1976*. Table 2.55). Mr Edwards said:

“The life of rural Wales and of the communities that exist there shall be our concern; and because we in the Conservative Party respect people as individuals we shall seek to uphold the language and the Welsh way of life”.

Commenting on the tactics of the militants, he said:

“Our objective must be to ensure that Welsh and English speakers live side by side in harmony as members of one community. Respect, therefore, must be two-sided; and we reject those who disrupt and destroy in the mistaken belief that they can further their cause, just as we reject the suggestion increasingly and quite unwarrantably made that participation in Welsh public life or employment should be the exclusive preserve of those who speak the Welsh language” (Aberystwyth, 12th June 1976).

## (G) ARTS AND BROADCASTING

### 1. WELSH ARTS COUNCIL

The Conservatives increased the grant to the Welsh Arts Council to £1,100,000 for 1973–4, 88 per cent above the Labour allocation of £585,000 for the year 1970–71.

Total Welsh Arts Council expenditure in the period 1968–74 was as follows:

1968–9	£474,400	1971–2	£863,000
1969–70	£520,100	1972–3	£845,700
1970–1	£536,000	1973–4	£1,442,700
		1974–5	£1,814,500

(*Welsh Digest of Statistics 1975*. Table 2.56)

## 2. BROADCASTING

**Commercial Radio.** The Independent Broadcasting Authority awarded the first licence for a commercial radio station in Wales in July 1975 to Swansea Sound Limited.

**Coverage.** In 1974–5, 53 per cent of BBC Wales television output of own programmes and 60 per cent of output on Radio 4 Wales was in Welsh. About 75 per cent of the population of Wales is served by BBC Wales VHF 405-line TV transmitters. 81.5 per cent of the population is able to get BBC Wales from UHF 625-line TV transmitters and 83 per cent can get BBC 2. (*Welsh Digest of Statistics, 1976*, Table 6.20). HTV Wales is estimated to cover 96 per cent of the population of Wales (*Source*: British Market Research Bureau).

Mr Edwards has said:

“Broadcasting is of vital importance to the Welsh language. The first priority remains the extension of UHF coverage to the rest of Wales. We shall proceed with the Crawford scheme for a fourth TV channel as soon as economic conditions permit, and we shall urgently examine the possibility of a modified scheme so that a start can be made in a period of economic stringency. I hope it will also be possible to have commercial radio in Cardiff” (Hereford, 29th September 1976).

**Fourth TV Channel in Wales.** A Working Party chaired by Mr J. W. M. Siberry reported on the second of the Crawford Committee's proposals regarding the 4th Television Channel in Wales. (For Crawford Report, see Chapter 18). The Siberry Report, Cmnd. 6290, found that a transmission network to serve nine-tenths of Wales could be erected within 32 months at a capital cost of about £2.65 million and a running cost of about £280,000 a year. The capital and running costs of programme production would be additional to this. The Committee rejected the idea of starting the programme area by area, largely because some viewers would lose all Welsh programmes during a transition period. Both BBC and ITV wanted Welsh phased out of the existing channels in Wales and concentrated in the new fourth channel and would be prepared to co-operate. It would take three years to set up the production facilities.

In February 1976 Mr Jenkins, then Home Secretary, announced that the Government could not give a subvention to the proposal in 1976–7, a major consideration being the prior need “to finance the programme coverage in colour on UHF and to replace the existing VHF 405-line transmission”. He added, “The Government intend to review the situation afresh at the end of the financial year 1976–7” (*Hansard*, 19th February 1976, Col. 788). Mr John Morris, Secretary of State for Wales, commented:

“The Government would like the Fourth Service to be introduced as soon as possible ... In the present economic climate the Government could not find the money to make a start in 1976–7; and in considering available resources we have accepted that priority must be given to the extension of UHF coverage in Wales and elsewhere, in line with the recommendations of the Crawford Committee” (Welsh Office Press Statement, 19th February 1976).

## **(H) EUROPEAN COMMUNITY**

**The Referendum in Wales.** In a 66·7 per cent turnout, 64·8 per cent of the Welsh electorate voted to remain in the E.E.C. The highest “Yes” vote was in Powys (74·3 per cent), and the lowest in Mid-Glamorgan (56·9 per cent).

**European Grants and Loans to Wales.** Grants made to Wales from Community sources since 1973 now total over £13 million. Some 17 per cent of the European Regional Development Fund (ERDF) allocation to the UK has gone to Wales, although on any population or similar basis she could expect to receive only about 9 per cent. In loans Wales has received about £250 million, mainly from the European Investment Bank and the European Coal and Steel Community (*Source*: European Community Office, Cardiff).

Grants of more than £550,000 have been made to help provide new jobs in Ebbw Vale. Cheap loans have been given to assist in mining development in Bettws, Blaenant, Taff Merthyr and Merthyr Vale.

The Steel Industry in Wales has received loans of £60 million for modernisation programmes at Port Talbot, Llanwern, Ebbw Vale and G.K.N. in Cardiff.

Welsh Agriculture has received grants of £1·2 million for modernisation.

Wales supplies some 5 per cent of the EEC's coal requirement, 6 per cent of steel, 7 per cent of aluminium and 8 per cent of oil products (*European Community magazine*, February 1976).

## **(I) OTHER PARTIES IN WALES**

### **1. STATE OF THE PARTIES IN WALES**

In the October 1974 election, in Wales there were 8 Conservatives elected, 23 Labour, 3 Plaid and 2 Liberals. Conservatives gained 23.9 per cent of the vote, Labour 49.5 per cent, Liberals 15.5 per cent, and Plaid Cymru 10.8 per cent.

## 2. THE NATIONALISTS (PLAID CYMRU)

Although the Nationalist share of the Welsh poll increased from 1.1 per cent to 10.8 per cent between 1945 and 1974, their actual share of the vote per opposed candidate between 1955 and 1974 has varied from a low of 8.4 per cent in 1964 to a high of 11.5 per cent in 1970. It was 8.1 per cent in 1945.

Their strength is largely concentrated in the old county seats of West and North Wales, although there has been an increase of support in traditional Labour seats in the Valleys of South Wales.

**Plaid Cymru's Record.** Mr Gwynfor Evans said of the Welsh Conservatives in his presidential address to Plaid's Annual Conference:

“Their brazen disloyalty to Wales disgusts me ... They pour out words in their thousands about conservation, but do not lift a finger to create the conditions which will help conserve Welsh values, Welsh civilisation, the Welsh community” (*Western Mail*, 27th October 1975).

This position contrasts oddly with the links his party set up in 1976 with Col. Gaddafi's military dictatorship in Libya, links widely condemned in Wales as the “Libyan Connection”. Mr Evans has condemned the nation's armaments industry, compared the nation to a drug pedlar, and accused the state of being a “merchant of death” and of fomenting war (*South Wales Argus*, 4th September 1976).

As to Plaid Cymru's voting record in Parliament, the Division Lists for 2nd and 3rd Reading of the following key Bills during the 1975–76 Session: Aircraft and Shipbuilding Industries Bill; British Transport Docks (Felixstowe) Bill; Dock Work Regulation Bill; Education Bill; Health Services Bill; and Trade Union and Labour Relations (Amendment) Bill are revealing. In these twelve Divisions the three Plaid Cymru Members supported the Government 15 times and voted with the Opposition only 9 times. Equally significant, perhaps, they did not vote 19 times during these Divisions.

The behaviour of Plaid Members in local government since the district elections in May 1976 has been seen in the Welsh press as a series of blazing rows, both within their own Party and with others, and was condemned by Labour MPs Mr Fred Evans (Caerphilly) and Mr Neil Kinnock (Bedwellty) in a statement:

“What disgusting hypocrites the Welsh Nationalists have shown themselves to be. The Nationalists clamoured for power last May, and now they stand naked of ability, of experience and political commonsense.....more of [the public] should go and see the Nationalists perform at Council and other meetings and see their silence and lack of knowledge” (*South Wales Argus*, 4th September 1976).

### **3. LOCAL GOVERNMENT**

The May 1976 district elections marked a major shift of political opinion in Wales, with the largest gains made by the Conservatives.

Conservatives took control of three new districts, Cardiff, Newport and Vale of Glamorgan, thereby bringing the number under Conservative control up to four. Labour lost control of eleven, the Ratepayers gained one (Swansea), as did Plaid (Merthyr).

# 24. NORTHERN IRELAND

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## Speaking Note

### **Bipartisanship exists between Labour and Conservatives on**

- Northern Ireland's position as part of the UK.
- Rejection of 'withdrawal', as a policy likely to lead to all-out civil war in Ireland.
- The need to continue the search for a widely acceptable form of devolved government in Northern Ireland.
- The need to establish the rule of law throughout the Province.

### **Conservatives criticise the Government for**

- Talking to representatives of the Provisional IRA and thereby giving them credibility.
- Acquiescing in an illusory 'ceasefire'.
- Ending detention without providing an alternative means of protecting witnesses.
- Failing to put the 'Godfathers' of terrorism out of circulation.
- Allowing Direct Rule to become bureaucratic and insensitive.

### **Conservatives support**

- Legislation for a general offence of terrorism including incitement to terrorism.
- A determined and consistent campaign against terrorism.
- The establishment of a representative Council of State of Northern Ireland politicians to advise the Secretary of State and make Direct Rule more responsive.
- Changes in compensation laws to ensure that the security forces receive better treatment and that public funds do not go to terrorists.

## (A) HISTORICAL BACKGROUND

### 1. THE PARTITION OF IRELAND



The partition of Ireland in 1922 resulted from divisions between Catholic nationalist Irishmen, who were determined to loosen constitutional ties with Britain, and the Protestant unionists (concentrated in the North), who were determined to remain within the United Kingdom. When the British Government moved to meet the demands of the nationalists by proposing the establishment of a Home Rule Parliament for all of Ireland, the Ulster Unionist Party and the Ulster Volunteer Force were formed to resist the imposition of rule from Dublin. Faced with total resistance from the Unionist community the Government conceded the right of the six north-eastern counties to opt out of the proposed Home Rule Parliament, a right which was promptly exercised. This was underwritten by a Tripartite Agreement in 1925 between the London, Belfast and Dublin Governments.

Unionists resisted Home Rule for many reasons—political, religious, cultural and economic. Religious and cultural divisions had existed since the ‘plantation’ of much of Ulster in the 17th century by the Scottish and English ancestors of the unionists. Irish nationalism had developed a Gaelic and Catholic flavour which was alien to the unionist sense of identity. The industrialisation of Ulster in the 19th century led to much more social and commercial interchange with Britain than with the predominantly rural nationalist Ireland, and continued industrial development was seen as dependent on the British connection.

## **2. THE NORTHERN IRELAND PARLIAMENT**

The Government of Ireland Act 1920 provided for separate Home Rule parliaments in Belfast and Dublin, and a joint Council of Ireland exercising certain executive powers and designed eventually to provide a unitary government and parliament for the whole island. But only the parts of the Act providing for a Northern Ireland Parliament came into effect because the nationalists wished to have more independence than devolution could provide. The Northern Ireland Parliament was bi-cameral (Senate and Commons), Royal functions were performed by a Governor, and elections to the Commons were (after 1929) under the first-past-the-post system in 52 single-member constituencies. The Government was formed by the leader of the majority party in the Commons—which was always the Unionist Party. Defence, foreign relations, external trade and taxation were among matters ‘reserved’ to Westminster. The Northern Ireland Parliament was given responsibility for all matters other than those specifically reserved to Westminster—including criminal law, policing, judicial appointments, industrial policy and local government.

## **3. CIVIL RIGHTS AND REFORM**

The Northern Ireland Government ruled 1½ million people, of whom a third were Catholics—many of them nationalists opposed to partition. The two sections of the population remained unreconciled and suspicious of each other during the revival of nationalism and religious antagonism in the 1930s and 1940s, and successive IRA campaigns against the State. Only under the Premiership of Mr Terence (now Lord) O’Neill in the 1960s did the old bitternesses begin to disappear. But by then Protestant discrimination against the ‘disloyal’ Catholics had become entrenched and the new generation of Catholic leaders seeking to move away from the obstruction and boycott

policy of their fathers found that the opportunities to achieve political power were very limited.

A 'civil rights' movement, originally a moderate campaign for more Catholic power and participation at all levels of the system, began to organise marches and protests. The Government sought to meet these demands with a programme of reforms, but clashes occurred between civil rights marchers and unionist extremists, tension escalated, and terrorist organisations moved in to exploit the situation. The British Government became directly involved and moved the army in as a result of large-scale communal rioting in 1969.

The reform programme was continued and enlarged under the new Unionist Prime Minister, Major Chichester-Clark. But neither he nor his successor, Mr Brian Faulkner, seemed to be bringing violence under control and it was decided by Westminster in March 1972 that the Northern Ireland Parliament should be suspended in the hope of clearing the way for a new wide-ranging political settlement.

## **4. RELATIONS WITH THE IRISH REPUBLIC**

After 1921 the Southern twenty-six counties of Ireland operated as a Dominion within the Commonwealth under its own Constitution. The accession of De Valera to power in 1932 led to the adoption of more politically extreme nationalist doctrines and a deterioration in relations with Northern Ireland and Great Britain. In 1937 the Free State adopted a new Constitution embodying a claim to the territory of Northern Ireland and unilaterally repudiated the Treaty of 1925. In 1948 the Irish Parliament declared a Republic and left the Commonwealth. The theocratic nature of De Valera's new Constitution underlined the increasing division of Ireland into two religious-political entities, the Catholic State in the South and the Protestant State in the North.

**Irish Immigrants.** Many of the current legal anomalies of Anglo-Irish relations derive from this historical background. Irish passports are made available to citizens of Northern Ireland, because that territory is claimed by the Republic, and a large proportion of Catholics in Northern Ireland use them. Irish citizens living in Britain have the same rights as British citizens in all respects, including voting, because the British Government decided not to regard the new Republican Constitution as changing the "specially close relationship" between the two countries. The British Nationality Act 1948 and the Ireland Act 1949 expressly extended all rights to Irish citizens and placed external relations with the Irish Republic in a unique category. The various Representation of the People Acts underlined this position, and the Immigration Act 1971 provided that the citizens of the common travel area of the UK, Channel Isles, Isle of Man and Irish Republic should not be subject to immigration control within that area.

Joint accession by the UK and the Irish Republic to the European Community has introduced a new factor into this relationship. Provisions for the free movement of workers within the Community provide rights for community nationals within Britain similar to those already available to Irish citizens. But the advantageous position of Irish citizens regarding voting rights remains. The EEC context has both limited the scope for restriction of movement between the UK and the Republic, and highlighted

the anomalies of the existing legal basis of the relationship. Recent figures show that the factors which brought about a net immigration to Britain of ½ million Irishmen since 1945—disparity in benefits and employment opportunities—have been declining in importance. Between 1968 and 1973 there was a net outflow of Irish citizens from Britain.

The Prevention of Terrorism Act 1974 qualifies the rights of Irish citizens by giving the Home Secretary power to exclude from Britain persons who are or may be involved in terrorism, and providing for the examination of persons travelling between all parts of Ireland and Britain (see p. 581).

## **(B) POLITICAL CHANGE**

### **1. CONSTITUTION ACT 1973**

When the Northern Ireland Parliament was prorogued and direct rule introduced a process of talks and negotiations was started by the new Secretary of State for Northern Ireland, Mr William Whitelaw. Most political parties in Northern Ireland published constitutional schemes which were discussed at the Darlington Conference in September 1972 and a Green Paper was issued the following month. After further consultations a White Paper was published outlining the Government's proposals. On 8th March 1973 a Border Poll was held to allow the people of Northern Ireland to express clearly their preferences on remaining within the UK or joining in a united Ireland. Over 58 per cent of the electorate including an estimated 25 per cent of Catholic electors voted to remain in the UK.

**New System of Devolution.** Over the following months the Constitution Act, implementing the proposals of the White Paper, passed through Parliament. It provided a new form of devolved government which it was hoped would be more widely accepted than the old Stormont system.

The main features of the system were: a 78 member unicameral Assembly elected by single transferable vote in multi-member constituencies; 'Measures' of the Assembly to have the force of law when approved by the Queen in Council after submission by the Secretary of State; devolution of a wide range of social and economic matters, but reservation to Westminster of the controversial powers of the previous Stormont Government in criminal law, policing, courts, judiciary and electoral arrangements—in addition to foreign affairs, armed forces etc. which had always been excepted from devolved powers. The central point of the new scheme was that the Executive was to be appointed by the Secretary of State from the Assembly on the basis that it was likely to be widely accepted throughout the community.

Elections to the new Assembly were held in June 1973 and although pro-Constitution Unionists under Mr Brian Faulkner won 22 seats and became the largest single party in the Assembly the three right-wing anti-Constitution groups led by Mr Paisley, Mr Craig and Mr West (The Loyalist Coalition) secured between them 27 seats and around half of the Protestant votes. The SDLP consolidated their position as representatives of the minority, winning 19 seats (see p. 575).

## 2. SUNNINGDALE

After the election the SDLP, the Unionist Party, and the Alliance Party (see p. 000), representing between them a majority in the Assembly, agreed to meet under the Chairmanship of Mr Whitelaw to discuss the formation of a coalition Executive Designate consisting of 6 Unionists, 4 SDLP, and one Alliance member, with Mr Faulkner (Unionist) as Chief Executive and Mr Fitt (SDLP) as Deputy Chief Executive.

A Tripartite Conference between the British Government, the Irish Government, and the Northern Ireland Executive Designate, was held at Sunningdale in December 1973 to seek to finalise the settlement and reach an accommodation on the 'Irish Dimension'. Agreement was reached on three main issues:

- (a) **Recognition** by the Dublin Government of Northern Ireland's constitutional position, and recognition by the British Government that Northern Ireland had the right to remain in or leave the UK according to the wishes of its population. Joint Declarations to this effect were to be registered with the UNO.
- (b) **Anti-terrorist Co-operation.** It was agreed that no part of Ireland should provide a haven for terrorism; that there should be co-operation between police forces north and south of the border; and that a Joint Legal Commission should be set up to examine urgently the best means of bringing terrorists to justice when they crossed the border.
- (c) **Council of Ireland.** It was agreed to set up a two-tier Council of Ireland, consisting of an inter-governmental Council of Ministers with certain executive functions and operating by unanimity, and a Consultative Assembly drawn from the Dail and the Northern Ireland Assembly, with a permanent Secretariat.

## 3. POWER-SHARING EXECUTIVE

The Executive took office on 1st January 1974 and powers were devolved to the Northern Ireland Assembly. Progress was made on social and economic matters and in bringing the civil disobedience campaign to an end, but almost immediately the Executive faced serious political problems. The Ulster Unionist Council rejected the Sunningdale Agreement on 4th January 1974 and Mr Faulkner felt obliged to resign as Unionist Leader, and was succeeded by Mr Harry West. At the same time hard-line nationalists challenged the constitutionality of the Sunningdale Agreement in the courts of the Republic, and Mr Cosgrave's Government was forced to mount a technical defence claiming that it had not deviated from its Constitution (which denies recognition to Northern Ireland). This undermined in Unionist eyes the credibility of Dublin's recognition of Northern Ireland. The IRA stepped up violence to raise community tension and make the work of the Executive more difficult.

The announcement of a General Election to be held on 28th February 1974 caught Mr Faulkner's supporters unprepared and disorganised in the wake of his resignation as Unionist Party leader. The anti-Constitution parties formed the United Ulster Unionist Coalition (UUUC) to fight the election on an anti-Sunningdale ticket, describing the

Council of Ireland as an embryo all-Ireland Parliament and a ‘sell-out’ of Unionist aspirations. The result of the election, in which the UUUC won 11 out of 12 Northern Ireland seats (see p. 575), undermined the credibility of the Executive and led to a decision by the Unionists to attempt to modify the Sunningdale agreement, removing the executive functions and the second tier.

**The UWC Strike.** Before any progress on this was announced a new organisation, the Ulster Workers' Council (UWC), called a province-wide industrial stoppage against the Executive and the Sunningdale Agreement. The strike, which began on 14th May 1974, lasted for 15 days and gradually accumulated support due to government mishandling, intimidation of workers, and widespread fears about the Council of Ireland. On 29th May, faced with a complete shutdown of all services, the Unionist members of the Executive resigned and Northern Ireland's five-month old power-sharing Executive collapsed.

## 4. ELECTION RESULTS

The following table shows the important shifts of electoral opinion in Northern Ireland between 1973 and 1975, and in particular the drop in support for moderate unionism:

Northern Ireland Elections: % Votes 1973–1975

<i>Parties</i>	1973 <i>(Assembly)</i>	<i>Feb.</i> 1974	<i>Oct.</i> 1974	1975 <i>(Convention)</i>
VUPP (Vanguard)	10·6			12·7
DUP	10·8			14·7
Official Unionists (Anti-Powersharing)	11·6			26·3
Others	2·4			1·1
UUUC	35·4	51·1	58·1	54·8
SDLP	22·2	22·4	21·9	23·7
Republican	2·0	2·1	3·1	2·2
Other	1·7	5·5	4·7	0·3
<b>ANTI-PARTITION</b>	25·9	30·0	29·7	26·2
Unionist&/UPNI	26·3	13·1	3·6	7·7
Alliance	9·3	3·2	6·4	9·8
NILP	2·7	2·5	1·8	1·4
<b>CENTRIST</b>	38·3	18·8	11·8	18·8
<b>OTHER</b>	0·4	0·1	0·4	0·2

## (C) CONSTITUTIONAL CONVENTION

# 1. SHIFTING PARTY ALLEGIANCES

Since the present crisis in Northern Ireland began, the pressures of violence and rapid political change have caused realignments and splits in Northern Ireland parties with confusing frequency. The following is a summary of the main groupings:

**Ulster Unionist Party.** Since before the foundation of Northern Ireland this party has been affiliated to the Conservative Party in Britain. It provided all Northern Ireland governments and traditionally monopolised the Protestant vote, but now has split into several parties:

1970—Some liberal Unionists formed the non-sectarian *Alliance Party*.

1973—Mr Craig formed the *Vanguard Party* to fight constitutional proposals.

1974—Mr Faulkner formally set up the separate *Unionist Party of Northern Ireland*.

The Ulster Unionist Party, although no longer supported by a majority of the electorate, remains the largest party in Northern Ireland and technically affiliated to the Conservative Party. Since February 1974 Unionist MPs at Westminster have not taken the Conservative Whip.

**Unionist Party of Northern Ireland (UPNI).** This party was formed by Mr Faulkner to support power-sharing in Northern Ireland, but has lost much of its support. It has a close fraternal relationship with the Conservative Party but no formal links.

**Vanguard Party.** Formed by Mr Craig as a Right-wing breakaway from the Unionist Party, this party has itself recently split over talks in the Convention with the SDLP. *The United Ulster Unionist Movement (UUUM)* led by Mr Ernest Baird has broken away with a large minority of Vanguard activists and a majority of Convention representatives.

**Democratic Unionist Party (DUP).** Originally the Protestant Unionist Party, this party, led by Mr Ian Paisley, has always been on the extreme Right of Ulster politics, combining religious and political feelings.

**Social Democratic and Labour Party (SDLP).** This was formed by a combination of younger Catholic leaders from different republican, nationalist and labour parties who were brought together by the civil rights movement. It has largely displaced the old *Nationalist Party*.

**Sinn Fein and Republican Clubs.** Sinn Fein is the political arm of the Provisional IRA but has refused to fight elections in Northern Ireland. The Republican Clubs represent the political wing of the official (Marxist) IRA and regularly fight elections in Northern Ireland, though receiving only marginal support.

**Alliance Party.** Formed in 1970 as a non-sectarian pro-Union party and now led by Mr Oliver Napier. It has not enjoyed great electoral success.

## 2. CONVENTION ELECTIONS

After the downfall of the Executive the Labour Government announced in a White Paper (Cmnd. 5676, July 1974) the setting up of a Constitutional Convention to give Northern Ireland representatives the opportunity to devise an agreed constitution for the Province which could be recommended to Westminster. The White Paper laid down two conditions for a solution: (1) "There must be some form of power-sharing or partnership"; and (2) there must be recognition that "there is an Irish Dimension". The Northern Ireland Act 1974 set up a 78-member Convention with an initial life span of six months or until it produced a Report, and which could be reconvened by the Secretary of State at any time within six months after presentation of its Report. The Act stipulated only that the scheme recommended should be "likely to command the most widespread acceptance throughout the community there".

Elections were held in May 1975, and the UUUC gained 46 seats and a majority of the votes cast (see p. 575).

## 3. CONVENTION PROCEEDINGS

Most parties came to the Northern Ireland Convention bound by rigidly drawn manifesto commitments which inhibited discussion and compromise. The three UUUC parties committed themselves against power-sharing, while the SDLP committed itself to accepting nothing less. Talks between the parties had to find a new means of co-operation outside "power-sharing" as operated in the 1973 Act. Some success in this seemed possible when Mr Craig put forward the idea of "temporary emergency coalition" on the model of war-time British coalitions, and the SDLP responded with interest. But at the same time violence was deliberately stepped up by the IRA and the political atmosphere deteriorated, giving hard-line members of the UUUC, led by Mr Paisley, the opportunity to undermine Mr Craig's proposal. In August 1975 the UUUC decided that under no circumstances would they agree to SDLP participation in a Northern Ireland Government because of the party's all-Ireland aspirations. Mr Craig refused to accept this decision and advocated further talks to explore the possibilities. He was eventually expelled from the UUUC.

A majority Report was voted through the Convention in November 1975 by UUUC members by 42 votes to 31. But four members of the UUUC did not vote and all other parties submitted dissenting reports. The majority Report recommended:

- a. A devolved Parliament and Government.
- b. Restoration of the Office of Governor.
- c. Increased Northern Ireland representation at Westminster (20–24 MPs) and a "Secretary of State for the Devolved Regions".
- d. Devolved powers as in the 1920 Act.
- e. A Bill of Constitutional Rights to entrench the powers of the devolved Parliament against Westminster.
- f. A Bill of Rights and Duties.
- g. Freedom for the Northern Ireland Parliament to determine social and economic priorities, with finance from attributed revenue, certain regional taxes and a grant-in-aid.

- h. Appointment of the executive by the majority leader as under the 1920 Act, with no place in government for any “opposed to the very existence of the State”.
- i. A powerful committee system to provide participation by opposition parties.

All Convention parties were agreed on several of these points, and in particular on the value of some form of devolved government. Disagreement centred on how the Executive should be formed and who should participate in it. All parties thought that policing matters should be devolved.

## 4. WESTMINSTER REACTION

The Convention Report was debated in the Commons on 12th January 1976. Mr Merlyn Rees, Secretary of State for Northern Ireland, indicated that the Government accepted much of the Report. There could be devolved institutions in Northern Ireland dealing with a large number of social and economic matters and, though for the duration of the emergency all security matters must remain under Westminster, normal policing could eventually become a devolved matter. Judicial appointments and emergency legislation would not, however, be devolved by the Government, and the independence of the Chief Constable and the police authority would have to be guaranteed. But there were points in the Report which needed further discussion because, in the view of the Government, the majority Report did not represent

“sufficiently widespread acceptance throughout the community to provide stable and effective government” (*Hansard*, 12th January 1976, Col. 54).

Mr Airey Neave gave Conservative backing to this approach, pointing out that:

“the greater the measure of support that can be achieved the more likely it will be that this House can pass the necessary legislation ... We note that no party in the Convention insisted that power-sharing be written into a new constitution” (*Hansard*, 12th January 1976, Cols. 69–70).

Mr Neave added that Conservatives would support the re-establishment of a Queen's Representative and Privy Council for Northern Ireland. Both Government and Opposition agreed that an institutional Council of Ireland was not necessary to maintain good relations with the Republic.

The Secretary of State therefore announced that the Convention would be reconvened to discuss these points, which were published as a White Paper embodying a letter from the Government to the Chairman of the Convention (Cmnd. 6387). The Convention was reconvened in February 1976 for four weeks, but made no further progress towards agreement on the central issue of formation of the executive in a divided community. It was formally dissolved on 5th March 1976 when the Secretary of State said that though devolution in Northern Ireland remained the Government's aim, no progress in that direction could be made at present and the Government

“does not contemplate any major new initiative for some time to come” (*Hansard*, 5th March 1976, Col. 1716).



The immediate need was, he said, for a period of constitutional stability to allow the problems of criminality and unemployment to be tackled.

## 5. CONTINUATION OF DIRECT RULE

Direct Rule continues under the Northern Ireland Act 1974, which is renewable annually and provides for Ministers in the Northern Ireland Office to exercise the executive functions of the 1973 Constitution. After the fall of the Executive, and again after the failure of the Convention, there was in all parties a complete re-examination of the options relating to Northern Ireland, and some radical policies were canvassed:

**Integration.** It has been argued that total integration would provide constitutional certainty for Northern Ireland and discourage the IRA, but it would go against the devolutionary trend in the UK, adding to an already heavy legislative burden at Westminster, and could result in renewed nationalist boycott of the system.

**Repartition.** This proposal is argued on the basis that Catholics and Protestants cannot live together in peace and one should therefore separate them by redrawing the border. Apart from the objections in principle, the proposal offers no practical solution as a large proportion of nationalists in Northern Ireland live in Belfast and would not move voluntarily.

**Independence and Withdrawal.** It is sometimes argued that Britain, having had no success in dealing with the Northern Ireland problem, should withdraw and leave people there to deal with it themselves. But, as Mr Neave pointed out:

“All available evidence suggests that a civil war of massive proportions would occur, and we would suffer the international opprobrium of having performed a ‘Congo-type’ scuttle... Our obligations in Ulster are not only those of duty—though they are certainly that—they are also those of self-interest ... Is it really credible that a Lebanon-type situation a few miles across the Irish Sea would not have immense repercussions on our society? ... The preservation of democratic structures in Ireland is essential to the security of Britain and Western Europe” (Cardiff, 20th November 1976).

Direct Rule therefore continues as a medium-term form of government while the search goes on for an acceptable scheme of devolution. Conservatives have urged that the dangers of a bureaucratic form of government developing—because of the centralisation of local government functions and the absence of a regional government—should be avoided by the appointment of a representative Council of State of local politicians to advise the Secretary of State, but this proposal has not been accepted.

Mr Neave also urged improved legislative procedures to provide for more parliamentary scrutiny of Northern Ireland legislation under Direct Rule, as the Order-in-Council procedure has prevented proper debate and amendment of many important matters. The Government has agreed to consider this proposal, and the new Secretary of State, Mr Roy Mason, has promised to implement ‘positive’ direct rule. Conservative spokesmen have held talks with all political parties in Northern Ireland

to explore areas of common ground and encourage a continuing search for agreement. *The Right Approach* states:

“We shall continue to encourage talks among Northern Ireland political parties to pave the way for a devolved form of government. We also recognise that Northern Ireland is under-represented in Parliament ...”

## **(D) SECURITY**

### **1. EMERGENCY PROVISIONS ACT 1973**

In November 1972 the Government replaced internment without trial—administrative detention—by a new quasi-judicial procedure involving many checks and safeguards. A Commission under Lord Diplock was appointed to examine the longer-term problems of urban terrorism and the legal procedures required. It reported in December 1972 and its main recommendations were:

- a. The use of some extra-judicial process for the detention of terrorist suspects was necessary because the widespread intimidation of witnesses could not be overcome simply by procedural changes in a court of law.
- b. Where possible, all terrorists should be tried in a court of law, in some instances without a jury.
- c. The burden of proof should be shifted in cases of possession of firearms and explosives.
- d. There should be more restrictions on bail, and confessions should be admissible as evidence unless obtained by improper pressures.

The Northern Ireland (Emergency Provisions) Act 1973 gave effect to most of these recommendations. Special non-jury courts were set up for certain offences, the detention system was retained, powers of search and arrest were provided for the security forces, and provision made for prosecuting illegal organisations. This Act replaced the Special Powers Act.

### **2. THE GARDINER REPORT**

Shortly after the Labour Government took office in 1974 Mr Merlyn Rees, who in opposition had been critical of some aspects of the Emergency Provisions Act, set up a Committee under Lord Gardiner,

“to consider what provisions, consistent to the maximum extent practicable in the circumstances with the preservation of civil liberties and human rights, are required to deal with terrorism in Northern Ireland, including provisions for the administration of justice, and to examine the working of the Northern Ireland (Emergency Powers) Act 1973”.

This Committee took evidence from a wide range of opinion, considering 157 memoranda and hearing 97 witnesses. Like all previous investigations it found the dilemma between defending the liberties of the individual in a democratic society and

defeating a dangerous terrorist conspiracy which threatened the basic right to life a difficult one to resolve. The Committee, in its Report published in January 1975, pointed out that,

“The law in Northern Ireland gives greater protection to the accused than in most disturbed communities”.

and that,

“where freedoms conflict the State has a duty to protect those in need of protection”.

They felt unable to recommend an end to detention, referring to 482 known instances of intimidation of witnesses between 1st January 1972 and 31st August 1974, but they urged that the existence of emergency powers should be limited in both scope and duration, and that a Bill of Rights should be considered.

The main recommendations of the Gardiner Report were:

- a. Creation of a new general offence of being concerned in terrorism covering recruitment and organisation.
- b. Creation of a new summary offence of wearing a uniform or disguise in public (a common method of intimidation).
- c. A new summary offence for editors, printers and publishers of newspapers publishing advertisements on behalf of illegal organisations.
- d. Consideration of an independent means of investigating complaints against both army and police.
- e. Reform of the prison system (see below).
- f. Abolition of quasi-judicial detention, and a return to the system whereby detention of suspects was the sole responsibility of the Secretary of State advised by a special Board.
- g. A more comprehensive rehabilitation policy for those released from prison.

The Government adopted the recommendations of the Report in relation to points (b), (e) and (f) and various other minor procedural changes in the law. These were passed through Parliament in the Emergency Provisions (Amendment) Act 1975. But many of the proposals were not implemented, partly because of the arrival of a ‘ceasefire’ which brought new considerations.

### **3. PRISONS**

Some of the strongest recommendations of the Gardiner Committee concerned the prison system in Northern Ireland, which was described as ‘appalling’. The rapid increase of the prison population over the past six years has put great pressure on already inadequate prison accommodation and led to the construction of temporary compound-style prisons at Long Kesh (now the Maze) Prison and Magilligan to hold both detainees and ‘special category’ convicted prisoners. The Committee found that the compound system had led to “a total loss of disciplinary control by the prison authority inside the compounds”, making rehabilitation work impossible; and urged

the speedy construction of temporary cellular accommodation, the building of a new top security prison, and the phasing out of 'special category' status.

Various decisions have been taken by the Government affecting prison accommodation.

1. No Special Category Status has been granted to prisoners convicted after April 1976.
2. New temporary cellular accommodation has been built at the Maze for 300 prisoners.
3. A new permanent prison is being built at Maghaberry to house 1,000 male and 50 female prisoners at an estimated cost of £30 million.
4. A new Young Offenders Centre is being built to hold 300 young adult offenders.

**The Treatment of Offenders Order**, passed in February 1976, introduced a scheme providing for *conditional release* after half of a sentence had been served for all except those serving less than one year or serving life sentences. Any reconvicted after release are liable to serve the balance of the remitted sentence in addition to any new sentence. The Order also provided for community service orders.

The release of all 500 detainees in 1975 eased to some extent pressure on accommodation, but convictions of terrorists continue at a rate of around 1,000 a year. On 30th May 1976 there were 2,400 persons in custody, 1,289 of them claiming 'special category', and there were over 160 prisoners serving life sentences. Prison organisation in Northern Ireland will therefore remain a major concern of governments for some years.

## 4. SPREAD OF TERRORISM TO BRITAIN

IRA terrorism spread to the British mainland in 1972 with the clear objective of intimidating the British public and forcing a British withdrawal from Northern Ireland. Since 1st January 1972, 65 people have been killed in Great Britain as a result of terrorism, and 1,143 people have been injured. But the police have had a high detection rate, securing the conviction of over 100 IRA activists. At the end of January 1977, after an eight month lull, the IRA attempted to renew their campaign in Britain by exploding 14 small incendiary bombs in London.

Year	1972	1973	1974	1975	1976
Deaths	7	1	45	10	2
Injuries	0	383	440	210	110

(Source: Home Office).

After the carnage of the Birmingham bombings in November 1974 Parliament rapidly passed the Prevention of Terrorism (Temporary Provisions) Act, which made the IRA illegal; gave the Home Secretary powers to 'exclude' from Britain persons suspected of involvement in terrorism; and gave the police powers to hold a suspect for up to seven days with the permission of the Home Secretary. Both Government and

Opposition regard the powers provided in this Act as essential in ending terrorism in Britain, and in March 1976 a new Prevention of Terrorism (Temporary Provisions) Act, incorporating minor amendments to the previous Act, was passed, and is subject to annual review.

## 5. CROSS-BORDER CO-OPERATION

The joint Anglo/Irish Law Enforcement Commission set up after Sunningdale (see p. 000) reported after four months that its members had failed to agree on the best means of dealing with the problem of fugitive offenders (at that time more than 40 warrants were outstanding in Northern Ireland for terrorists believed to be hiding in the Irish Republic). The British lawyers argued that extradition was the most satisfactory system, while the Irish lawyers argued that exclusion of 'political offenders' from extradition arrangements was commonly accepted international practice.

**Extra-Territorial Courts.** A compromise was reached on the recommendation of a system of extra-territorial courts, though British lawyers stressed that this was a second-best solution. The British and Irish Governments accepted the compromise, and the reciprocal Criminal Law Jurisdiction Acts 1975 eventually became effective on 1st June 1976. They provide for trial in the Republic of persons wanted in Northern Ireland, but apprehended in the Republic, and for the courts concerned to travel to Northern Ireland and take evidence on commission there.

During the passage of the British Bill, Conservative spokesmen were critical of the failure to extend the provisions to the whole of the UK, which left a loophole for terrorists operating in Britain, and of the absence of any provisions to deal with those already on the run. Only those committing crimes after the Acts became effective can be tried under their provisions, and to date no such case has arisen. But the legislation has a symbolic importance, as Mr Neave pointed out:

“By agreeing to this reciprocal legislation the London and Dublin Governments have recognised their common interest in eliminating terrorism and violence throughout these islands” (*Hansard*, 19th June 1975, Col. 1703).

Since Sunningdale, general co-operation on security with the Republic has increased dramatically. The RUC and Gardai have direct radio links in border areas and there is high-level exchange of information. The murder of the British Ambassador in Dublin, Mr Christopher Ewart-Biggs, on 21st July 1976 by the IRA led to the enactment of extremely tough anti-terrorist legislation in the Dail which increased the penalties for terrorist offences, extended police powers of holding and questioning, and declared a State of Emergency. IRA spokesmen have been banned from Irish radio and television by the Minister for Posts and Telegraphs, Dr Conor Cruise O'Brien. In many respects the legislation against terrorism is now much tougher in the Irish Republic than in any part of the UK.

## 6. THE CEASEFIRE

Throughout 1974 terrorist outrages continued, but at a declining level. The new Labour Government continued to implement security policies similar to those of the

Conservative Government, and Mr Rees defended the use of emergency powers as essential to the defeat of terrorism.

By December 1974 IRA activity had been almost eliminated in Londonderry and in parts of Belfast, and was becoming more concentrated in border areas. But in that month there was a dramatic switch in Government security policy after a group of church leaders held talks with Provisional IRA leaders at Feakle in the Irish Republic.

On 10th February 1975 a 'ceasefire' was announced after talks between Government officials and representatives of Provisional Sinn Fein. Mr Rees stated that if there was a "permanent and sustained cessation of violence" the Government would respond by a reduction in army searches and screening operations, a generally 'low profile', and a speeding up of releases of detainees. 'Incident centres' manned by officials were set up to monitor the ceasefire and provide Sinn Fein with a means of contacting the Government. The result in the first six months of 1975 was a reduction in IRA bombings and attacks on the security forces, but inter-factional and sectarian killings increased.

**Resumption of IRA Campaign.** By the summer of 1975 it was clear that the IRA regarded the ceasefire as purely tactical and not permanent. In July and August the bombing campaign restarted in Britain and bombing and shooting began to build up again in Northern Ireland. The Secretary of State closed down the incident centres and raised the army profile in a limited area of South Armagh after an IRA massacre of civilians there, but refused to abandon the general arrangements of the 'ceasefire'. The talks with Sinn Fein continued, detainees continued to be released until all were free by Christmas 1975, and the army generally continued to operate under restrictions in regard to searching and screening. The Government appeared to have no clear strategy for dealing with the mounting violence, reacting only on a temporary basis to particular terrorist outrages. A series of massacres in January 1976 led to the intervention of the Prime Minister, then Mr Wilson, who announced on 12th January that members of the SAS were being sent into South Armagh, a step previously regarded as unacceptable because of political opposition. Subsequently the position in South Armagh improved noticeably but elsewhere continued to deteriorate.

## **7. CONSERVATIVE CRITICISMS**

Since late 1975 there has been increasing Conservative concern about Government security policy. In Commons Debates on 25th March 1976, 14th June 1976 and 2nd July 1976 a wide range of matters was raised:

(a) Mr John Biggs-Davison, second Opposition spokesman on Northern Ireland, referred to:

"The flabby political direction of the best trained and most chivalrous counter-insurgency troops in the world ... It is for Ministers ... to get a grip on security, to knock heads together if necessary, and always to give leadership and inspiration" (*Hansard*, 14th June 1976, Cols. 92, 94).

- (b) The abandonment of detention in a situation of increasing violence without providing any alternative means of protecting witnesses.
- (c) The need for improved legal backing for the security forces, for example a new offence of terrorism as recommended by the Gardiner Committee to ensure that terrorist organisers do not continue to go free.
- (d) The need for improved organisation of the security forces including a specialised anti-terrorist border force and full-time units in the UDR.
- (e) The need for stricter control of movement in a border zone, possibly involving movement passes or identity cards, and more cross-border co-operation.
- (f) The need to end the talks with Sinn Fein. As Mr Neave pointed out:

“So long as the so-called talks continue the public here and in Northern Ireland will understandably doubt the determination to win ... the IRA has no negotiable objectives. Even if it had, it should not be allowed to gain them by murder and destruction” (*Hansard*, 25th March 1976, Col. 655).

These points were underlined in *The Right Approach* which pointed out:

“There is no greater challenge to the rule of law in the UK than the dreadful outbreak of violence in Northern Ireland ... There is no real prospect of constitutional advance until the rule of law is restored throughout the Province. This will only be achieved by a determination to destroy terrorism in place of the present unsatisfactory attempts to contain it”.

## **8. THE PEACE MOVEMENT**

The killing of three tiny children by an out of control terrorist car on 10th August 1976 led to spontaneous demonstrations for peace by Northern Ireland citizens sickened by the years of violence. In several months of campaigning hundreds of thousands attended demonstrations all over Ireland and Britain against the men of violence, thus emphasising yet again the existence of a vast moderate majority in Ireland who simply want to live at peace with their neighbours. This Peace Movement has shown considerable resilience and determination in the face of intimidation and violence from IRA supporters, and its leaders—Mrs Betty Williams, Miss Mairead Corrigan and Mr Ciaran McKeown—have become internationally known.

It remains to be seen how the demand for peace which the movement represents can be given effect in stopping the activities of the terrorists. As Mr Neave said at the 1976 Conservative Conference:

“The Women's Peace Movement, courageous and sincere, certainly brings hope to a tragic community ... but the Government cannot shuffle off responsibility for security on to the brave housewives of Northern Ireland. They still have to defeat terrorism” (*Brighton*, 5th October 1976).

## 9. COMPENSATION

Since 1969 some £80 million has been paid out in compensation for terrorism in Northern Ireland. The bulk of this has been for damage to property caused by bombs, but it includes payments to persons making claims against the Government and the security forces. The complicated basis of calculation for different categories of claim, and the apparent disparity between some awards to members of the security forces injured by terrorism and those to suspected terrorists, have caused considerable adverse comment. After pressure from Conservatives the Government agreed to appoint working parties to look into property compensation, injury compensation, and compensation in Britain. After delays of over eighteen months the two Northern Ireland committees reported in August 1976, but their recommendations have not yet been made public.

Conservatives are pressing for new legislation which will simplify the basis of awards; which will provide better treatment for the security forces; and which will prevent public funds going to those connected with terrorist organisations.

## 10. STATISTICS OF VIOLENCE

The following table gives an indication of the type and level of violence which Northern Ireland has been suffering. The situation deteriorated seriously in the last half of 1975 and the first half of 1976.

Violence in Northern Ireland 1972–1976					
	1972	1973	1974	1975	1976
<b>Deaths</b>					
UDR	25	9	7	5	15
Army	103	58	28	14	14
Police	14	13	15	11	23
Civilians	322	170	166	216	244
Total	467	250	216	246	296
<b>Injuries</b>					
Army & UDR	578	548	482	173	264
Police	466	291	463	152	303
Civilians	3,813	1,812	1,680	1,323	2,162
Total	4,857	2,651	2,625	1,648	2,729
<b>Explosions</b>					
No...	1,382	978	685	366	766
lbs. explosive	47,462	47,472	46,435	1,648	17,596
<b>Armed Robberies</b>					
No...	1,931	1,215	1,353	1,324	889
Money Stolen	£790,687	£612,015	£575,951	£572,085	£445,497
<b>Shootings</b>	10,628	5,018	3,206	1,808	1,908



### Violence in Northern Ireland 1972–1976

	1972	1973	1974	1975	1976
<b>Houses Searched</b>	36,617	74,556	71,914	30,092	34,919
<b>Arms Finds</b>					
Firearms	1,264	1,595	1,260	825	837
lbs. explosive	41,488	38,418	26,120	11,565	21,714
Rounds of Ammu.	183,410	187,399	147,202	73,604	70,306
<b>Assassinations</b>	122	87	95	142	121

(Source: Northern Ireland Office)

## **(E) THE ECONOMY**

### **1. RESOURCES AND INDUSTRIAL BASE**

Northern Ireland suffers from remoteness from major markets—and therefore high transport costs, a lack of natural resources, a continued drift of labour from agricultural employment, and the run-down of its two major traditional industries, linen and shipbuilding, in terms of employment. Unemployment has been the highest in the UK throughout this century, and in the inter-war years seldom fell below 25 per cent.

In order to deal with these problems, post-war Unionist Governments adopted a policy of diversification of the industrial base, laying emphasis on the attraction of new outside investment. To achieve this they relied on a wide range of government incentives, extensive training schemes, the good industrial relations record of the Province, and the ready availability of labour. In the 1950s and 1960s considerable progress was achieved in diversification into synthetic fibres and light engineering, with investment from the USA and Europe (especially West Germany) making Northern Ireland one of the major textile manufacturing areas in Western Europe and bringing unemployment down to between 5 per cent and 7 per cent. Nonetheless, major areas of unemployment remained, especially in the west of the Province. To maintain progress a Development Plan for 1965–70 was drawn up and implemented with assistance from the Treasury.

### **2. EFFECTS OF VIOLENCE**

A second Development Plan for the period 1970–5 was announced by the Northern Ireland Government in 1969 involving new targets for jobs, housing and infrastructure. But by 1971 it was clear that civil disturbances were adversely affecting its successful implementation, and the Cairncross Committee was set up by the Northern Ireland Government to study what new measures were necessary. The Committee found a decline in new investment and advocated the setting up of a government-funded investment bank to rescue firms temporarily affected by the Northern Ireland troubles but with a long-term prospect of viability.

The Conservative Government accepted these proposals and agreed to the setting up of the Northern Ireland Finance Corporation with capital of £50 million. Other special measures included an improvement in industrial incentives, an expansion of direct labour schemes, and the voting of a grant-in-aid at Westminster to make up the deficit in Northern Ireland revenue. These efforts were remarkably successful in keeping up the momentum of the Northern Ireland economy in spite of the difficulties, and by 1974 unemployment was lower than for many years.

### **3. LABOUR POLICIES**

In 1975 and 1976 the economy in Northern Ireland has been hit particularly hard by the general recession, and by a collapse of international confidence in the constitutional future of the Province since the fall of the Executive. Unemployment at 11 per cent is higher than at any time since World War II and recent closures have included important engineering and textile factories. The Labour Government has followed a policy of increasing intervention in the Northern Ireland economy, and the Northern Ireland Development Agency has been given an extended role in the funding and establishment of new industry in the context of the National Enterprise Board (see Chapter 6, p. 149).

**Quigley Report.** A Review of Economic and Social Strategy for Northern Ireland chaired by Dr Quigley, Permanent Secretary at the Department of Commerce, was published in September 1976 by Mr Mason as “a valuable basis for discussion”. It paints a very grim picture of the economic future for Northern Ireland, claiming that unemployment is, on present policies, unlikely to fall below 10 per cent “whatever upturn there may be in the national economy”. It points out that the security situation, the effects of recession on a peripheral region, the exceptionally high energy costs in Northern Ireland, and the increased competition from other areas such as the Irish Republic and the Third World, have all made Northern Ireland a much less attractive place for new investment, which has now declined to negligible proportions. The Report argues for wide-ranging measures of job stabilisation involving injection of public funds, a restructuring of industrial incentives, and subsidisation of energy costs. Government and Opposition are both preparing a considered response to the Report.

### **4. HARLAND AND WOLFF**

Harland and Wolff's shipyard has long been the major industry in Northern Ireland and, although its relative importance to the local economy in terms of direct employment has declined, it remains the largest single employer and a source of work for many Belfast firms. During the 1960s it was decided to re-equip and modernise the shipyard with particular emphasis on the bulk-carrier market. This modernisation was underwritten by the Northern Ireland Government which took a 47 per cent share in the firm and provided loans. Harland and Wolff was provided with facilities making it capable of building some of the largest ships in the world, but by the time the re-equipping was complete the world market for tankers was collapsing and the financial problems of the firm became more acute. The result was complete nationalisation by the Labour Government and writing off of predicted losses on fixed price contracts until 1978 at a cost of £60 million. But the shipyard remains responsible to the Department of Commerce in Northern Ireland, and any additional

finance required comes out of the Northern Ireland budget, thus reducing the amount available for other purposes such as roads and development. At present, the whole future of Harland and Wolff hangs in the balance, and only the dangers of exacerbating the security situation and undermining political confidence in Northern Ireland appear to have prevented its closure. The Quigley Report appeared to accept that a run-down in the labour force at the shipyard was inevitable by 1978 unless major diversification could be achieved.

## **(F) SOCIAL POLICY**

### **1. EDUCATION**

The history of religiously segregated education in Northern Ireland makes the Labour policy of turning all schools into comprehensives more difficult to implement, and the Government has indicated that it will move more slowly there than elsewhere in the UK. In July 1976 the Government issued a Consultative Document on the Reorganisation of Secondary Education in Northern Ireland, which outlined the arguments for different types of reorganisation, but left some of the options open for further discussion. The new Minister of State, Lord Melchett, has extended the closing date for comments on the Document to Easter 1977 and has made it clear that no immediate changes are in prospect. Mr R. Carter, Under-Secretary of State, conceded:

“The Government have no intention of foisting a new educational system on Northern Ireland” (*Hansard*, 28th October 1976, Col. 692).

### **2. HEALTH AND SOCIAL SERVICES**

Since the reorganisation of local government in 1973, Health and Social Services in Northern Ireland have been centralised under Area Boards. A new strategy for the development of the Health and Social Services was announced in 1975, involving the channelling of more resources into an expansion of community health and social care services; concentration of acute treatment in area hospitals; and continued development of the teaching hospitals. It was emphasised, however, that little additional finance would be available for these purposes.

### **3. HOUSING**

Although the house-building rate in Northern Ireland has consistently been the highest in the UK since World War II and some 50 per cent of the population now live in post-war housing, the Province still has more unfit houses than any other area. This is due mainly to the neglect of earlier years, but also due to the destruction and disruption of house building programmes during the past seven years. The centralisation of housing in the Northern Ireland Housing Executive in 1971–2 involved the amalgamation of over 60 different programmes, and there were serious administrative problems leading to a considerable drop in housing starts and completions. Emphasis is now being shifted from new greenfield site building to improvement, renovation and redevelopment of existing properties; and legislation

has been passed to provide for the compulsory acquisition of the many derelict houses which have become a feature of recent years. Housing Associations are being encouraged and provided with limited government assistance and the Government has committed itself to supporting an expansion of owner-occupation. But the major problems of the privately rented sector as outlined in the Porter Report on Rent Restriction (1975) have not been tackled and this sector is rapidly collapsing.

## **4. COMMUNITY RELATIONS AND HUMAN RIGHTS**

Under the Northern Ireland Executive, the Community Relations Commission was abolished because it was felt to be no longer fulfilling a useful role. Since then the Labour Government has abolished the Department of Community Relations and divided its functions in youth work and recreational facilities between the Department of Education and District Councils. The offices of Parliamentary Ombudsman and Commissioner for Complaints (Local Government) are jointly held by a leading Catholic trade unionist who continues to investigate complaints made to him and to issue annual reports. The Constitution Act 1973 provided for a Charter of Human Rights outlawing discriminatory legislation and setting up a Standing Advisory Commission on Human Rights, which met under the Chairmanship of Lord Feather until his death. The Commission is considering the many proposals for a Bill of Rights and has published a discussion document outlining the arguments for and against such a Bill. The most recent legislation in this field has been the Fair Employment Act 1975, which outlaws religious discrimination in both the public and private sectors and sets up a Fair Employment Agency to promote equality of opportunity. Conservatives supported this legislation in principle but played an important part in amending the Bill to ensure that its provisions would prove practicable.

## **(G) PUBLIC EXPENDITURE**

The following table shows the relative levels of public expenditure per head in the four parts of the UK. The high level of expenditure in Northern Ireland is a relatively recent phenomenon.

	Public Expenditure per Head					
	1969-70	1970-71	1971-2	1972-3	1973-4	1974-5
England	£246	£276	£308	£349	£431	£582
Wales	£295	£316	£359	£401	£452	£601
Scotland	£335	£364	£403	£460	£517	£691
Northern Ireland	£282	£339	£387	£457	£517	£756

(Source: *Hansard*, Written Answer, 1st December 1975, Col. 477).

## **25. DEFENCE**

<b>Speaking Note</b>	<b>589</b>
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## Speaking Note

### The Government's Duty

- “The first duty of any Government is to safeguard its people against external aggression. To guarantee the survival of our way of life”.

(Mrs Thatcher, Kensington Town Hall, 19th January 1976).

### Labour's Failure

- Labour's priorities lie elsewhere, and they have sacrificed defence in order to satisfy Left-wing demands for profligate public expenditure in other areas—notably the extension of nationalisation.
- The Labour Government's 1975 and 1976 White Papers on Defence both spell out in graphic terms the threat we face from Russia and her Warsaw Pact allies, and both make the fatuous deduction that our defence expenditure can be further reduced.
- Undeterred by severe warnings from its own professional advisers, from our NATO allies and from a Parliamentary Select Committee, the Government has cut defence spending five times in the space of two years—by the staggering total of £8,402 million.
- But the Labour Party's appetite for defence cuts is not yet satisfied.
- Its 1976 Conference endorsed by an overwhelming majority the National Executive Committee's call for further cuts of over £1,200 million a year (at 1976 prices) which, if implemented, could render us virtually defenceless.
- Its proposals are based on options which would, to all intents and purposes, completely gut two of our three armed services, besides removing from the defence programme provision for Polaris and for army combat forces and facilities outside Europe.

### Conservative Criticisms

While agreeing that Britain's defence policy must be based almost exclusively on our contribution to NATO, Conservatives, besides condemning the reductions in the overall level of defence expenditure, disagree over two main points:

- *First*, the Labour Government's formula for reducing our defence spending as a proportion of Gross National Product in relation to that of our allies whereas, on the more realistic basis of per capita expenditure, these allies spend more than we do.
- *Second*, Conservatives disagree with the Government in its assessment of the threat. We believe that *it is at sea* that the most dangerous change has taken place in the shape of an alarming world-wide build-up of the Soviet maritime forces which gives them the capability to threaten our vital supply routes.

### **Conservative Policy**

**Mrs Thatcher** laid down Conservative defence policy when she said:

- “We should not have any further defence cuts if the Realm is to be properly and effectively defended, and if we are to play our full part in the Atlantic Alliance” (*The Times*, 26th January 1976).
- “It is a time when we urgently need to strengthen our defences. Of course, this places a burden on us. But it is one that we must be willing to bear if we want our freedom to survive” (London, 19th January 1976).
- *The Right Approach* affirms the Conservative Party's consistent determination to restore defence to its rightful position—as the Government's primary responsibility with pre-emptive claims on the nation's resources which must be met, notwithstanding the Party's commitment to reducing public expenditure in other areas.
- The defence of Britain is one of only three areas of public expenditure which, under a Conservative Government, would be exempt from further cuts (Sir Geoffrey Howe, Brighton, 5th October 1976—see p. 602).

## **(A) THE CONSERVATIVE LEGACY**

The last Conservative Government kept steadfastly to its course, steering towards the broad objectives set down in its first Defence White Paper (Cmnd. 4521, October 1970), which were (a) to enable Britain to resume, within her resources, a proper share of responsibility for the preservation of peace and stability in the world; (b) to improve the capabilities of the Armed Forces, to overcome their manpower difficulties, and to enhance their role in the community; and (c) to establish and maintain a sound financial basis on which to develop and carry out defence policy and plans in the years ahead. Perhaps the Conservatives' most important achievement lay in improving our forces committed to NATO, where their record was second to none. Among the main improvements were:

**Royal Navy:** Extension until the late 1970s of the life of the aircraft carrier *Ark Royal* which Labour had planned to phase out in 1972; the ordering of a ship-to-ship guided missile *Exocet* to fill the gap in the capability of the fleet left by Labour; the ordering of new ships including four Type 21 frigates, two Type 42 Destroyers and the first through-deck Command Cruiser *HMS Invincible*.

**The Army:** Halting the run-down of major units planned by Labour, and the temporary retention of nine of them at company/squadron/battery level

to provide a nucleus for expansion—of which four were subsequently expanded to battalion strength; retention of the Brigade of Gurkhas, whose future was uncertain, at the strength of five battalions; and expansion of the T & AVR by some 10,000 men.

**Royal Air Force:** Ordering additional aircraft which included development of the Multi-Role Combat Aircraft (MRCA, now named Tornado), in conjunction with Germany and Italy; an increase in the front-line strength of the RAF by 10 per cent above the level planned by the Labour Government in 1970, with 6,000 fewer men required to man the RAF.

## **(B) LABOUR'S CUTS**

### **1. MANIFESTO PLEDGES**

In their October 1974 Manifesto, which closely resembled the February version, Labour claimed that they were “conducting the widest-ranging defence review to be carried out in peacetime”, but pre-empted the result by also committing themselves to “achieving annual savings .. of several hundred million pounds”, so as to reduce the proportion of GNP spent on defence—not in relation to the increasing threat to our security, but for the sole purpose of bringing it into line with the proportion spent by some of our allies.

### **2. THE DEFENCE REVIEW**

In a White Paper *Statement on the Defence Estimates 1975* (Cmnd. 5976), published on 19th March 1975, the Labour Government confirmed earlier announcements on 3rd December 1974 (*Hansard*, Col. 1352) and 16th December 1974 (*Hansard*, Col. 1148) of defence expenditure reductions from 5½ per cent of GNP to 4½ per cent over the next ten years. This involved cuts (at 1976 Survey Prices) of £7,208 million by 1983–4 (see Table 1 on p. 584).

Specific cuts (updated where necessary) included:

*Royal Navy:* Reductions of about 5,000 men (from 79,000 to 74,000); 15 per cent in the planned number of frigates, destroyers and mine-counter-measures vessels; 25 per cent in conventionally powered submarines; and 30 per cent in other vessels (afloat support).

*Army:* A reduction of about 15,000 men (from 180,000 to 165,000) and substantial cuts in purchases of major new equipment. But no change, in advance of a satisfactory East&slash;West agreement on Mutual and Balanced Force Reductions, in the level of forces (55,000) that Britain maintains in Europe in accordance with the Brussels Treaty.

As a result of these cuts we shall have, according to the Vice-Chief of the General Staff, “the smallest number of units stationed in the UK in this century ... there will be no uncommitted reserves ... it will be more difficult to react to unforeseen national

requirements; all of the 47–50 shooting operations undertaken by the UK since the 1945 war have come under just that category” (3rd December 1975).

*Royal Air Force:* A reduction of some 18,000 men (from 100,000 to 82,000); reductions in planned numbers of aircraft which include a 50 per cent reduction in fixed-wing transport and 25 per cent in helicopters and in the Nimrod force. Reductions in helicopters must affect battlefield mobility in BAOR, and the Nimrod reductions will seriously erode our maritime surveillance capability.

*Research and Development:* Planned expenditure cut by 10 per cent.

*Geographical withdrawals and reductions* (updated where necessary) included:

*NATO Flanks:* From April 1976, no British maritime forces to be assigned to the Mediterranean in support of NATO. The land element of the UK Mobile Force (UKMF) to be reduced by two-thirds, and the Amphibious Force by over a quarter, thereby weakening our effort on the flanks and, as Mr (now Sir) Ian Gilmour, chief Conservative spokesman on Defence, warned, virtually ignoring the Russian maritime threat and neglecting “sea and air lanes ... which remain of crucial importance” (*Hansard*, 12th May 1976, Col. 468).

*Hong Kong:* The garrison to be reduced in 1976 to four infantry battalions, a squadron of engineers, five patrol boats, and a squadron of helicopters. The Hong Kong Government is to pay a larger percentage of the defence costs—rising from 50 per cent in 1976–7 to 62½ per cent in 1977–8, and to 75 per cent thereafter.

*Malta:* Forces to remain until 31st March 1979, when the Military Facilities Agreement expires.

*Cyprus:* Substantial reductions, particularly in the air force, with no fixed-wing aircraft any longer permanently based there.

*ANZUK Agreement:* Withdrawal of all forces except specialist air defence contingents. The Agreement to remain in force.

*SEATO & CENTO:* The Treaties to remain, but no specified forces to be declared to them.

*Brunei:* The Gurkha battalion (whose full cost is met by the Government of Brunei) is to be withdrawn, subject to consultations with the Sultan which are still continuing.

*Indian Ocean:* All forces in Gan and Mauritius to be withdrawn—thus saving about £2½ million and £1½ million respectively per annum (withdrawal completed by March 1976); but the Government has agreed to a relatively modest expansion of the US facilities on Diego Garcia, the costs of which would be met by the US Government.

*Simonstown Agreement:* The Government to enter into discussions with the South African Government to terminate this Agreement (subsequently ended by an exchange of letters).



### 3. 1975 BUDGET CUTS

On 15th April 1975 the Chancellor cut a further £168 million (at 1976 Survey Prices—see Table 1 on p. 603), and thus “destroyed at a stroke the whole basis of the Government's White Paper” (Mr Whitelaw, *Hansard*, 7th May 1975, Col. 1434).

### 4. THE 1975 DEFENCE DEBATES

The White Paper, *Cmnd. 5976*, was debated in the House of Commons on 6th May (*Hansard*, Cols 1225–1352) and 7th May 1975 (*Hansard*, Cols. 1432–1576). The main weaknesses in the Government's GNP proportion formula (see p. 591) were seen to be:

- a. Their pre-emption of the Review by the imposition of arbitrary and politically motivated cuts without analysing their effect on our commitments;
- b. Their relation of our defence capability to that of our allies rather than that of our potential enemies;
- c. Their “phoney” method of basing defence expenditure on comparative GNP proportions related to unpredictable GNP growth rates, whereas per capita expenditure comparisons show that the UK is spending less than its major allies (see Table 2 on p. 604).

Subsequent Debates took place as follows:

17th June 1975 on the *Army* (*Hansard*, Col. 1208)

24th June 1975 on the *RAF* (*Hansard*, Col. 249)

9th July 1975 on the *Navy* (*Hansard*, Col. 533)

10th Dec. 1975 on *Defence Matters* (*Hansard*, Col. 469)

**Professional Misgivings.** The extent of the Government's cuts in Defence expenditure prompted the then Chief of the Defence Staff, **Field Marshal** Sir Michael Carver, to state publicly (in an interview on BBC Television on 31st July 1975):

“We have been through a long, searching examination ... not just by the Ministry of Defence but on an inter-departmental basis, and as a result of that we have already made ... a very large contribution to the reduction of public expenditure. We've been through the examination and we should not be put through the examination again”.

He also said that we were now down to “absolute bedrock”.

In a speech to the North Atlantic Assembly in Copenhagen on 25th September 1975, Dr Luns, Secretary-General of NATO, reminded his audience that:

“The current pressure for cuts in military forces is a clear example of the lack of comprehension of the dangers inherent in the unfavourable military balance of power.

The military facts of life need to be impressed again and again on the public mind and on governments”.

**NATO Reactions:** In a speech in Barnsley on 27th February 1976 Mr Roy Mason, then Secretary of State for Defence, said, “Our Allies in NATO did not conclude that their security and ours had been undermined by our actions”. But the truth was revealed in the conclusions of a highly critical report by the Defence and External Affairs Sub-Committee of the Expenditure Committee (HC 155) which was published on 29th January 1976. It said:

“NATO's response to the review proposals, made by the Secretary-General and by individual allies, was to express regret that any cuts had been made. There was concern that the scale of reduction would affect the already unfavourable balance of conventional forces between NATO and the Warsaw Pact”.

“... The reduction of reinforcement capabilities on the Northern and Southern flanks; the removal of naval and air forces from the Mediterranean area; and the decline in maritime capabilities in the Eastern Atlantic and Channel areas in particular were viewed with disquiet”.

## 5. THE THIRD ROUND OF CUTS

Undeterred by these stern warnings, the Government cut defence expenditure by a further £626 million (at 1976 Survey Prices—see Table 1, p. 603) in their Public Expenditure White Paper, Cmnd. 6393, published on 19th February 1976.

## 6. THE 1976 WHITE PAPER

The White Paper *Statement on the Defence Estimates 1976* (Cmnd. 6432), published on 17th March 1976 is, in the words of Mr Ian Gilmour, “a cover-up” (*Hansard*, 31st March 1976) which, as a leading article entitled “Defence by Mirrors” in the *Daily Telegraph* on 18th March commented:

“reflects a Labour Government determined to comfort itself, and bamboozle the British public. It uses words, and all sorts of sophistries in an attempt to show that Britain is maintaining adequate defence forces while at the same time detailing yet further reductions in defence expenditure ...”.

Like its predecessor—Cmnd. 5976—this White Paper spelt out the threat posed by the Soviet Union and its Warsaw Pact allies very graphically, revealing, as Mr Gilmour said in the defence debate on 31st March, that “since last year the balance has tilted against us by about 8 per cent” (*Hansard*, Col. 1351). But it failed, just as its predecessor had, to draw the obvious conclusion. As **Mrs Thatcher** said:

“We should not have any further defence cuts if the Realm is to be properly and effectively defended, and if we are to play our full part in the Atlantic Alliance” (*The Times*, 24th January 1976).

Introducing this White Paper, Mr Mason claimed that in the time available to conduct their Defence Review (see p. 591) the Government “could do no more than make a broad attribution of savings to the supporting services and the civilian establishments in this country”. He went on to say:

“But I always visualised that when time permitted we would probe these areas more deeply. So when, for economic reasons, I had to make a further contribution from defence towards improving our economic prospects, it was to this area of support that I turned my attention, in order to find a limited financial saving without affecting our front-line capability” (*Hansard*, 31st March 1976, Col. 1328).

Reductions in support and maintenance, which could seriously weaken the operational capability of our armed forces included:

- a. *Cuts in the fuel programme* which may imply reductions in our stockpile which could be dangerous, and possibly further limitations on training.
- b. *Further cuts in Research and Development (R & D)* on top of the 10 per cent cut imposed by the Defence Review which, as Mr Philip Goodhart, speaking from the Opposition Front Bench during the debate on the 1975 White Paper, said “... is indeed to eat the seed corn” (*Hansard*, 6th May 1975, Col. 1334).
- c. Reduction in Spares support.
- d. Delay in, or cancellation of, improvements in communications and radars in fields which will not “directly” impair existing operational capabilities.
- e. Reductions affecting defence against chemical and biological warfare.

Commenting on these further cuts, Mr Gilmour said:

“Any genuine economies—that is, those which lead to less overmanning and greater efficiency—we welcome. But cutting support and allegedly leaving the front line as it was is not a genuine economy and is a deception ... what is often called tail in defence is in fact the backbone, the muscles, and other vital parts” (*Hansard*, 31st March 1976, Col. 1345–6).

**Manpower Reductions.** The White Paper added a further 10,000 to the reduction of about 70,000 provided for in the Defence Review. On 24th April 1974, nearly a year before the results of the Defence Review were published, Mr Mason, addressing the National Union of Mineworkers, at Newcastle-under-Lyme, said:

“Cuts in defence expenditure sound simple enough; the after effects are much more daunting. You can have a good night out on the prospects of the morrow; but if tomorrow's realisation reveals you are unemployed you won't then be so keen—this is the reality of massive defence cuts”

And, speaking of job losses, he added:

“As these get under way, the Ministers for Industry will have a new dimension added to their portfolio and that is finding alternative work for the unemployed of the defence industries—as well as for cancelled defence export orders”.

**The Maritime Threat.** In a debate on the Royal Navy on 12th May 1976, Mr Gilmour said:

“The Opposition agree strongly with two parts of the Government's policy. We agree with their recognition of, though not with their action about, the massive and increasing Soviet threat against us. We agree with their support of NATO as our top defence commitment. Our fundamental disagreement, apart, of course, from the cuts, stems strategically from our conviction that we are now witnessing an important development of the threat—a development which affects this country especially. This consists of the Soviet maritime build-up and world-wide naval deployment which, if there is a virtual stalemate in NATO's central region, provides Russia with ever-widening military options well below the so-called threshold of nuclear conflict. We sometimes forget the extent of our dependence on our sea routes throughout the Southern Atlantic and the Indian Ocean and the threat to them which has been increased by events in Southern Africa, and by the Government's regrettable decision almost a year ago to terminate the Simonstown Agreement” (*Hansard*, Col. 465–6).

He went on to point out that in the portion of the White Paper devoted to NATO strategy, the Government virtually ignored the maritime threat and that its theme and emphasis “seemed to concentrate on the central area and neglect sea and air lanes and the flanks which remain of crucial importance” (*Hansard*, Col. 468).

## **7. THE FOURTH ROUND OF CUTS**

The Chancellor announced on 22nd July 1976 (see also Chapter 2, p. 45) that the planned defence budget for 1977–8 would be cut by a further £100 million, to be achieved by “rephasing the works programme and some deferrals” (*Hansard*, Col. 2015). This cut brought the grand total of Labour defence cuts to a massive £8,000 million at 1976 Survey Prices (*Hansard*, 29th October 1976, Col. 395). Shortly afterwards Mr Mason, who had given stern warnings about the effects of further cuts (see p. 601) was replaced as Secretary of State by Mr Fred Mulley—fresh from his undistinguished performance as Education Secretary.

## **8. THE FIFTH ROUND OF CUTS**

In his mini-Budget on 15th December 1976, the Chancellor announced even further cuts in defence expenditure, by £100 million in 1977–8 and £200 million in 1978–9 (see Table 1, p. 603), raising the total of the present Government's defence cuts to nearly £8½ billion.

Commenting on these cuts, Lord Carrington, Leader of the Opposition in the House of Lords, said:

“I condemn wholeheartedly and absolutely a further cut in defence expenditure. If it were £100 million this year and £200 million next year on a basis of no previous cuts, perhaps that would be wearable. But the fact is that over and over again, since they have been in Office, the Government have cut defence expenditure. This is the fifth occasion and, in my judgement, it is totally and wholly disastrous that they should do so again” (*Hansard*, House of Lords, 15th December 1976, Col. 918).

It seems clear, moreover, that the Government failed to consult our NATO Allies beforehand about these cuts, contrary to the undertaking in their October 1974 Manifesto that “We shall, in consultation with our Allies, press forward with our plans to reduce the proportion of the Nation's resources devoted to defence”.

**A Motion of Censure.** A Defence debate on 12th January 1977, on an Opposition motion, “That the salary of the Secretary of State for Defence should be reduced by a half”, reflected the Conservative Party's acute concern over the effects of the Government's latest round of defence cuts—the fifth since they assumed office. Five days before the cuts were announced, the Chiefs of Staff of the armed forces had taken the rare step of appealing directly to the Prime Minister against further cuts. In the debate Mr Gilmour said:

“If the Secretary of State shares the apprehension of the Chiefs of Staff obviously he should have resigned.... I find it difficult to see how he could disagree with them ... if he found himself in puny disagreement with the Chiefs of Staff out of ignorance or because he had different priorities, he merely showed that defence was not his primary interest. If that is so he has lost, and deserves to lose, the confidence of his professional advisers and of the armed forces ... either way the Secretary of State should resign” (*Hansard*, 12th January 1977, Cols. 1439–40).

**The Critical Level.** Mr Gilmour also said:

“It needs no great application of logic or knowledge to show that our defences are now below the critical level, because in July 1975 the then Chief of the Defence Staff, Field-Marshal Carver, said publicly on television that we were down to ‘absolute bedrock’. (see p. 593) Field-Marshal Carver is a man who chooses his words carefully. Since he made those remarks the Government have cut defence expenditure on three occasions. If we were down to absolute bedrock and then three further cuts are made it is plain that we are now below bedrock and, therefore, below the critical level of defence.... That is why the Chiefs of Staff went to see the Prime Minister before Christmas”. (Ibid, Cols. 1437–8).

**A Go-slow Navy.** As a result of previous cuts, the Navy has had to make its ships go slower in order to save fuel. As Mr Gilmour wrote in an article in the *Sunday Telegraph* on 16th January 1977,

“Only a Socialist government would be ingenious enough to impose a general go-slow upon one of the few bodies of men in this country who never go on strike!”

After the debate no fewer than 76 Labour MPs, or nearly a quarter of the Parliamentary Labour Party, actually voted for *further* cuts.

## 9. LABOUR'S DISTORTED PRIORITIES

These enormous cuts must be viewed in the context of Labour's profligate spending in other areas, e.g., the Community Land Act, costing about £400 million a year when in full operation (see p. 338); the Petroleum and Submarine Pipelines Act, which increases public borrowing by up to £900 million (see p. 237); and the Industry Act

1975, which set up the National Enterprise Board at a cost of about £1,000 million (see p. 149).

It was Mr Healey who, as Secretary of State for Defence, said in a BBC Television “Panorama” programme on 22nd January 1968:

“I think the Services can be rightly very upset at the continuous series of defence reviews which the Government has been forced by economic circumstances—and maybe economic mistakes too—to carry out ...”.

The following year Mr Healey said, in a familiar quotation which bears constant repetition:

“Once we cut defence expenditure to the extent where our security is imperilled, we have no houses, we have no hospitals, we have no schools. We have a heap of cinders” (*Hansard*, 5th March 1969, Col. 551).

## **(C) THE MILITARY BALANCE**

### **1. MRS THATCHER'S KENSINGTON SPEECH**

In a notable speech at Kensington Town Hall on 19th January 1976, **Mrs Thatcher** warned that the dangers of the strategic threat to Britain and her allies posed by Russia's expansionist policy were “graver than at any moment since the end of the last war”.

### **2. FEATURES OF THE SOVIET THREAT**

In the wake of **Mrs Thatcher's** warnings, Mr Gilmour has pointed out that over the last ten years the Russians have made greater additions to their strength than in any other period since the war (*Sunday Express*, 25th January 1976). Itemising some of the salient features of the threat during a debate on East-West relations on 24th February 1976, he said:

“First, on land, in the number of tanks, which we know is usually considered to be a crucial yardstick, the Warsaw Pact has a nearly three-to-one preponderance. In Central Europe the Warsaw Pact has 150,000 more troops than NATO and has geographical advantages in build-up and reinforcements. In the air, the Warsaw Pact outnumbers NATO by two to one and, as General Haig recently said, the Soviet air force has become offensive in character.

“It is at sea that we are witnessing the most serious build-up and it is there that we face the greatest danger. The West depends entirely on the freedom of sea communication, and the Soviet fleet now exceeds anything that could be remotely justified simply for defence. Russia has 400 submarines, compared with Germany's 50 in 1939, and she has four times as many as she had 10 years ago. She is still building submarines at the rate of one every month. She has also doubled the number of her

missile-equipped cruisers during the past six years. No wonder Admiral Lewin said last year that the maritime balance was ‘dangerously marginal’” (*Hansard*, Col. 322).

### 3. SALT, MBFR AND DÉTENTE

**Strategic Arms Limitation Talks (SALT).** When President Ford and Mr Brezhnev met in Vladivostok in November 1974, it was agreed that the interim 1972 SALT agreement should remain in force until October 1977 and that negotiations for a new SALT agreement should be held in 1975. These negotiations have now reached a critical juncture, with the target date for the conclusion of a new SALT treaty having been postponed repeatedly. Both sides have recently made a series of proposals and counter-proposals to resolve the impasse, and they are reportedly considering changing the guidelines set at Vladivostok. The main problem is what constraints, if any, are to be imposed on the Soviet Backfire bomber and the US Cruise missile. Negotiations are further complicated for the United States by the effect on détente, defence expenditure and SALT of the change of President. On nuclear arms limitations, President Carter has said: “I would like to proceed quickly and aggressively with a comprehensive test ban treaty. I am in favour of eliminating the testing of all nuclear devices, instantly and completely”. On the SALT negotiations he added, “... I would guess there would be a two-stage evolution. One is a fairly rapid ratification of the SALT II agreement”. He also added that he would not let the question of Cruise missiles or Backfire, “stand in the way of some agreement” (*Washington*, 23rd January 1977).

**Mutual and Balanced Force Reductions (MBFR).** The MBFR talks opened in Vienna in October 1973 with the laudable aim of ensuring undiminished security for all parties at a lower level of forces and expenditure. So far, virtually no progress has been made. The Soviet bloc continues to reject the concept of “balanced” reductions, upon which the West insists in view of the present substantial Soviet military superiority. The West favours initial reductions by the two super-powers alone, with reductions by the other participating states following later. The Warsaw Pact believes that all states should be involved in reductions from the outset.

The Labour Government's arbitrary and politically-motivated approach commits it—although it does not admit this—to following a policy of unilateral disarmament independently of our allies, thus undermining the general acceptance among them that NATO forces should not be reduced except in the context of an MBFR agreement with the Warsaw Pact. On 2nd February 1977, Dr Owen, Minister of State, Foreign and Commonwealth Office, gave an unequivocal assurance that there would be no weakening of the British commitment to NATO except within the framework of the understandings reached in the negotiations for MBFR (*Hansard*, Col. 528).

**Détente.** The broader aspects of détente are discussed in the section on East–West relations on p. 578. On the military aspects, Mr Brezhnev said on 14th October 1975, “The materialisation of détente is simply inconceivable without the extension of détente to the military sphere ...” (*Soviet News*, 21st October 1975). But, as Mr Gilmour said on 24th February 1976, “There has been precious little sign of that assertion being put into action by the Russians”. Referring to détente in her speech on 19th January 1976, **Mrs Thatcher** said that she “would be the first to welcome any evidence that the Russians are ready to enter into a genuine détente. But I am afraid

that the evidence points the other way ... Has détente induced the Russians to cut back on their defence programme? Has it dissuaded them from brazen intervention in Angola? ... We know the answers”.

Meanwhile, Mr Mason disclosed that Soviet defence spending was rising by some 4 per cent a year in real terms and that about 11–12 per cent of the GNP of the Soviet Union was devoted to defence (*Hansard*, 18th May 1976, Col. 500). Moreover, according to a report in the *Daily Telegraph* of 20th May 1976, Mr Mason revealed that Russia's defence expenditure over the past decade has been about 60 per cent higher than had been realised.

## **4. LABOUR'S COMPLACENCY**

In its 1976 Defence White Paper, Cmnd. 6432 (see p. 574), the Government displayed a somewhat ostrich-like attitude when it asserted that:

“Despite the emphasis placed by the Warsaw Pact countries on building up their military forces, there is no evidence that the Soviet Union and its allies are contemplating a military attack on the West”.

This “emphasis” was later reinforced by reports that Marshal Grechko, then Russia's Defence Minister, had “called for a strengthening of the armed forces and urged that they should be constantly prepared for war” (*Daily Telegraph*, 19th March 1976). As the leading article in the *Daily Telegraph* on 18th March commented, “Mr Mason says that in 1976 Russia will be on trial”. As Mr Solzhenitsyn put it, “Your defence minister has said that after Helsinki the Soviet Union is passing the test. I don't know how many countries still have to be taken. Maybe the Soviet tanks have to come to London for your defence minister to say at last that the Soviet Union has finally passed the test. Or will it still be sitting the exam?” (*BBC Panorama*, 1st March 1976).

## **(D) ARMS AND EQUIPMENT PROCUREMENT**

Mr James R. Schlesinger, when US Secretary of Defense, asserted that:

“Within NATO the combat effectiveness of existing forces could be improved by a third with no increase in force if we were able to obtain greater standardisation” (Washington, 14th January 1975).

Soon afterwards he committed his country to the concept of a “two-way street” for equipment procurement. The main agency at the European end of this “two-way street” is NATO's Eurogroup—a forum for promoting co-operation among the European Allies—of which Mr Mason was Chairman in 1975. Yet when Mr Mason announced important new purchases of guided weapons for the British Services in September 1975, he missed a great opportunity to take an initiative in the direction both of improved NATO-wide standardisation and of taking up the American offer. As Mr George Younger, then Shadow Defence Secretary, said at the time:



“The Government has missed its opportunity and has once more made the sort of piecemeal unilateral decision we can ill afford” (Ayr, 24th September 1975).

Recognising the need for a forum in which all European members of the Alliance could participate, representatives from the major members of the Alliance, including France, agreed at a meeting in Rome on 2nd February 1976, to set up an Independent European Programme Group for this purpose.

## **(E) FORCES' PAY AND PENSIONS**

### **1. PAY**

The following are representative annual pay rates for combatant arms of the Army. Rates for the other Services are similar:

	£
Private Class I, Scale A, Band 1	2,407
Sergeant, Scale B, Band 4	3,378
Major, on appointment	5,415

A supplement of £6 per week (less in some cases) was paid to most ranks of the Armed Forces on the recommendation of the Review Body on Armed Forces Pay, with effect from 1st April 1976. This supplement is included in the figures above, although technically it is distinct from Service pay. (*Hansard*, 27th July 1976, Col. 164).

### **2. PENSIONS**

**The Armed Forces' Pension Scheme** has in recent years undergone a major review, instituted by the last Conservative Government, and changes resulting from the final stage of this review were introduced on 1st April 1975. “As a result, members of the Armed Forces now have a first class modern superannuation scheme as part of their conditions of service, and there is no need for it to undergo any further substantial change in the near future...” Mr Frank Judd, then Navy Minister. (*Hansard*, 21st July 1975, Col. 34).

The following are typical of the new rates (1976 levels):

Corporal, with 22 years service	1,160
Sergeant, with 22 years service	1,261
Major, with 16 years service	1,685

(Source: Ministry of Defence)

**War Widows.** The Conservative Government introduced, for those serving in the forces after 30th March 1973, substantial improvements in benefits for widows and

dependent children under the occupational pension scheme, so that a widow's pension is now at one-half instead of one-third the rate of the husband's pension.

Under the provisions of Section 31 of the Finance Act 1976, the first 50 per cent of war widows' pensions is to be treated as free of income tax as from 6th April 1976.

**Compensation for Injuries Resulting from Terrorism.** This question is discussed in Chapter 24, p. 584.

## (F) LABOUR'S PROGRAMME

**Further Cuts.** The Labour Party's appetite for defence cuts is not yet satisfied. *Labour's Programme for Britain 1976* (see p. 697) proposes further cuts of around £1,000 million a year at 1974 prices (£1,234 million at 1976 prices) which would include two of the following three options:

- in the Navy General Purpose Combat Forces, by paying off large surface units and by changes in the new ship construction programme, including striking out the provision for the second and third ASW (Anti-submarine warfare) cruisers;
- in the European Theatre Ground Forces, by reducing ground force levels, including a run-down of BAOR by some 25,000 to an eventual strength of around 30,000;
- in the Air Force General Purpose Combat Forces, by equipping the Air Force to cover less than the full spectrum of Tactical Air Missions, with a concentration on "battlefield" role and with elimination of the MRCA programme.

All three options would, as *Labour's Programme* states, include the removal from the present defence programme of the provision for Polaris and facilities and army combat forces outside Europe.

Commenting on the proposals Mr Gilmour said that the cuts:

"... if implemented, could render us virtually defenceless. Their proposals would, to all intents and purposes, completely gut two of our three services ... If the Government had anything but a totally irresponsible attitude towards defence, I should expect the Prime Minister personally to reject these proposals out of hand. They do not merit discussion, and they do not require discussion. They are completely irresponsible rubbish which should form no part of the political programme of any party of any country in the free world" (*Amersham*, 18th June 1976).

In answers to Parliamentary Questions on 15th June 1976, Mr William Rodgers, then Minister of State for Defence, admitted that:

"A further cut of £1,000 million a year in the defence budget could be achieved only by a drastic reduction in our front-line forces. This would jeopardise the credibility of NATO's defensive strategy at a time when the military capability of the Warsaw Pact is increasing both in numbers and in quality and thus lessen the prospect of genuine

détente. There would also be serious repercussions on our relations with other members of the North Atlantic Alliance, which could affect the political cohesion of the Alliance” (*Hansard*, Col. 98).

“There has been no ... discussion (between the NATO Allies) because our NATO Allies think that such a prospect is preposterous ... it must be recognised that cuts of this size, however well-intended, would so severely undermine the position of NATO that we could see a complete reversal of the situation that has existed since 1945” (Col. 301).

“Any sizeable reduction in BAOR carried out unilaterally would have a seriously damaging effect on the defensive capability of the Alliance and increase the present imbalance between NATO and the Warsaw Pact in the central region” (Col. 94).

“A cut of such a size would put in jeopardy the jobs of many of the 25,000 men employed in the shipyards on warship construction and of many others employed by sub-contractors. It would be a massive blow to shipbuilding in the United Kingdom, with severe consequences for the development areas” (Col. 300).

“... it is not possible to make massive cuts in defence without consequences on equipment, and it is not possible to make massive cuts in equipment without the loss of job opportunities” (Col. 300).

At their Annual Conference in October 1976, the Labour Party endorsed this damaging proposal by an overwhelming majority in spite of a previous warning by Mr Mason that further cuts on this scale would entail at best a policy of neutrality and, at worst, surrender (*Hansard*, 13th July 1976, Col. 356)—a warning that his successor, Mr Fred Mulley, felt unable to endorse when questioned on the subject in Parliament (*Hansard*, 12th October 1976, Col. 229).

Earlier, in an article in *Labour Weekly* on 11th June, Mr Mason had also warned:

“Any reduction, even of much less than £1,000 million a year ... would require savage cuts in the armed forces and many big equipment orders would have to be cancelled. Our allies would no longer regard us as serious allies and partners. The disarray that would be caused in the NATO Alliance would place at risk the whole security of Europe, not least our own. Our enemies would be able to take advantage of our weaknesses. To achieve such a reduction would entail a major foreign policy change. Our relations with the United States and with the West Germans would deteriorate badly. We would risk unravelling the NATO Alliance and destroying the security which we gain through it. The effect on our financial credit and on economic and trade relations would be incalculable”.

But, deaf to these warnings, in a BBC television “Panorama” programme on 25th October 1976, Mr Callaghan announced to the world that unless our friends and allies were prepared to provide us with more credit on his terms, he would threaten to withdraw our forces stationed in Germany—where, as part of NATO, they play a vital role in our national security. In a statement the following day, Mr Gilmour described the Prime Minister's crude attempt at blackmail as “an act of craven folly” combining “wanton abrogation of his prime responsibility for our security with the kind of abject

statesmanship which can only debase our good name, bringing dismay to our friends and comfort to our foes". What, he added, could our allies "now make of a country whose Prime Minister is prepared to sacrifice national security and allied solidarity for the preservation of his irrelevant Socialist programme. It is as if the deranged captain of a sinking ship had ordered the lifeboats to be jettisoned rather than the ballast". Mr Gilmour went on to say:

"Mr Callaghan knows perfectly well that if his threat was carried out, it would do more harm to Britain than to anybody else. It would remove any remaining shreds of foreign confidence in Britain. Mr Callaghan has behaved in this disgracefully irresponsible manner because he is not prepared to do the necessary things to save Britain's economy".

In a BBC "Tonight" programme on 28th October 1976, after Mr Mulley had vainly attempted to defend Mr Callaghan's statement, the interviewer pointed out that one German newspaper, *Die Welt*, had called it "blackmail", and another, the *Frankfurter Allgemeine Zeitung*, had said, "Internal factors, not external partners, are the cause of Britain's problems... threats to weaken the Atlantic Alliance are completely inappropriate, and by such threats England is hurting herself".

At a meeting on 3rd November 1976, General Alexander Haig, Supreme Allied Commander, Europe, warned the House of Lords Defence Group that it was "unwise to attempt to solve social and economic problems by reducing expenditure on defence" (*Daily Telegraph*, 4th November 1976).

## **(G) CONSERVATIVE DEFENCE POLICY**

Pledges to strengthen Britain's defences have been made by both Mrs Thatcher and Mr Gilmour.

In setting out Conservative Defence policy in her speech on 19th January 1976 **Mrs Thatcher** stated:

"The first duty of any Government is to safeguard its people against external aggression. To guarantee the survival of our way of life ... It is a time when we urgently need to strengthen our defences. Of course this places a burden on us. But it is one that we must be willing to bear if we want our freedom to survive".

Mr Gilmour said:

"We cannot of course be expected to state, while in Opposition, precisely how and where we would wish to strengthen our defences. This will depend on professional advice to which we have no access at present, and also of course on our foreign policy and economic circumstances at the time. Moreover, we have no intention of laying a trap for ourselves, as the Labour Party did by announcing in advance, while in opposition, what they would spend on defence.

“But what I can say loudly and clearly is that it is the firm policy of the Conservative Party that we will strengthen our defences when we return to power. This is a necessity, and we will strengthen our defences because we believe that the defence of our country and the defence of freedom come first and are far, far more important than anything else” (Amersham, 18th June 1976).

*The Right Approach* affirms the Conservative Party's consistent determination to restore defence to its rightful position—as the Government's primary responsibility with pre-emptive claims on the nation's resources which must be met, notwithstanding the Party's commitment to reducing public expenditure in other areas. At the 1976 Conservative Conference Sir Geoffrey Howe confirmed that the defence of Britain was one of only three areas of public expenditure which, under a Conservative government, would be exempt from further cuts (*Brighton*, 5th October 1976).

In her own speech at the Conference **Mrs Thatcher** set her seal on the Conservative's attitude to defence when she said, “We are the Party that regards the defence of the Realm as the overriding duty of any Government” (*Brighton*, 8th October 1976).

## (H) DEFENCE STATISTICS

Table 1

### LABOUR'S DEFENCE CUTS 1975–1976

<i>Date</i>	<i>Occasion</i>	<i>FINANCIAL YEAR (£ million at 1976 Survey Prices)</i>									
		<i>1975–</i> <i>6</i>	<i>1976–</i> <i>7</i>	<i>1977–</i> <i>8</i>	<i>1978–</i> <i>9</i>	<i>1979–</i> <i>80</i>	<i>1980–</i> <i>1</i>	<i>1981–</i> <i>2</i>	<i>1982–</i> <i>3</i>	<i>1983–</i> <i>4</i>	<i>Total</i> <i>to</i> <i>1983–</i> <i>4</i>
<i>March</i> <i>1975</i>	Defence White Paper— Cmnd. 5976— following the Defence Review	460	410	546	760	952	1,020	1,020	1,020	1,020	7,208
<i>April</i> <i>1975</i>	Chancellor's 1975 Budget Statement	—	168	—	—	—	—	—	—	—	168
<i>Feb.</i> <i>1976</i>	Public Expenditure White Paper— Cmnd. 6393	—	—	207	227	192	—	—	—	—	626
<i>July</i> <i>1976</i>	Chancellor's cut	—	—	100	—	—	—	—	—	—	100
<i>Dec.</i>	Chancellor's	—	—	100	200	—	—	—	—	—	300

Table 1

**LABOUR'S DEFENCE CUTS 1975-1976**

<i>Date</i>	<i>Occasion</i>	<i>FINANCIAL YEAR (£ million at 1976 Survey Prices)</i>								
		<i>1975- 6</i>	<i>1976- 7</i>	<i>1977- 8</i>	<i>1978- 9</i>	<i>1979- 80</i>	<i>1980- 1</i>	<i>1981- 2</i>	<i>1982- 3</i>	<i>1983- 4</i>

1976	cut										
	<i>TOTALS</i>	460	578	953	1,187	1,144	1,020	1,020	1,020	1,020	8,402

Source: *Hansard*, 15th November 1976, Cols. 361-2.

Table 2

**DEFENCE EXPENDITURE****Comparisons: NATO Countries—1976**

<i>Country</i>	<i>Defence Expenditure</i>	
	<i>As a percentage of GNP Per capita in US \$</i>	
Belgium	3.4	206
Canada	2.3	157
Denmark	3.0	192
France	4.3	261
Germany	3.8*	255†
Greece (1975 figures)	7.1	151
Italy	2.8	77
Netherlands	3.7	207
Norway	3.5	234
Portugal	4.6	67
Turkey (1974 figures)	4.1	29
United Kingdom	5.5	209
United States of America	6.4	460

\* 4.7 with Berlin Aid

† 314 with Berlin Aid

(Source: *Cmnd. 6735*)

Table 3

**THE MILITARY BALANCE****NATO's Central Front (Ready Forces)**

	<b>NATO/Warsaw Pact Ratio</b>	
	<b>March 1975</b>	<b>March 1976</b>
Total soldiers	1:1.2	1:1.3
Soldiers in fighting units	1:1.3	1:1.4
Main battle tanks	1:2.6	1:2.7
Field guns	1:2.1	1:2.5
Tactical aircraft	1:2.3	1:2.3

Table 3

**THE MILITARY BALANCE**

**NATO's Central Front (Ready Forces)**

	<b>NATO/Warsaw Pact Ratio</b>	
	<b>March 1975</b>	<b>March 1976</b>
<b>Eastern Atlantic</b>		
	<b>NATO/Soviet Northern Fleet Ratio</b>	
	March 1975	March 1976
Surface ships	1:1.7	1:2
Submarines	1:1.6	1:1.7
Combat aircraft	1:1.5	1:1.5

*(Sources: Cmnd. 5976 and Cmnd. 6432)*

## **26. EUROPEAN COMMUNITY**

<b>Speaking Note</b>	<b>605</b>
<b>(A) British Accession to the EEC</b>	<b>605</b>
<b>(B) The Renegotiation and the Referendum</b>	<b>607</b>
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<b>(D) Development of the European Community</b>	<b>610</b>

### **Speaking Note**

#### **The Conservative European Tradition**

- For the last fifteen years, the Conservative Party has consistently believed that Britain's future lay in membership of a strong and democratic European Community.
- In government and opposition Conservatives have fought successfully both to bring Britain within the European fold and to keep her there.

#### **Benefits of EEC Membership**

- Common Market membership has presented this country with new and challenging political opportunities. We belong to an influential and outward-looking Community, which gives Britain increased influence in the world.
- Membership has also presented valuable opportunities for industry and agriculture as well as providing real help in grants and loans from the various EEC funds.
- The long-term trend towards European unity provides a guarantee for our children that the former hostility between European nations, which led to two world wars, will not be repeated.

#### **Priorities in Conservative European Policy**

- Conservatives are preparing for direct elections to the European Parliament in Summer 1978 and are determined to win them to ensure a powerful Conservative presence at Strasbourg.
- Conservatives are seeking to establish the closest possible collaboration both with the other Centre-Right parties of the EEC in advance of direct elections, and in a wider alliance with the Centre-Right parties of all Western Europe in order to counter the Socialist International.
- Conservatives attach particular importance to the evolution of a more co-ordinated EEC foreign policy.

## **(A) BRITISH ACCESSION TO THE EEC**

### **1. HISTORICAL BACKGROUND**

The present European Community has its origin in the fundamental changes which have taken place in the relative position of Western European countries in the generation since the last War. In 1945, the main Continental powers of Europe emerged from the war with their economies strained and distorted to breaking point. Therefore, these nations decided that their needs could only be met through a more effective and extensive pooling of their economic resources.

Accordingly, six Continental nations—France, West Germany, Italy, The Netherlands, Belgium and Luxembourg—decided to establish the European Coal and Steel Community in 1951, and the same six nations signed the Treaties of Rome in March 1957 establishing the European Economic Community and the European Atomic Energy Community (Euratom), both of which came into being on 1st January 1958. In establishing these three Communities over a period of years, the Six were determined to achieve by means of progressive economic integration a degree of unity which would ensure against the outbreak of inter-European war and promote the growth of prosperity in all the member states.

Although Britain played no part in the establishment of these Communities, political opinion in this country gradually came to realise that, in a post-imperial era, it would be in the national interest to look to a European future. Therefore, in July 1961, the Conservative Government of Mr Macmillan initiated negotiations for entry, which were however broken off following General de Gaulle's veto on 29th January 1963.

At that time, the Labour Party showed little enthusiasm for British membership of the Community. However, on 2nd May 1967, Sir Harold Wilson announced his Government's intention to apply for EEC membership. This application at first faced continued French opposition, but after General de Gaulle's resignation as President in April 1969 the atmosphere improved, and when the Conservative Government took office in June 1970 negotiations were able to begin.

### **2. CONSERVATIVE SUCCESS**



In June 1971 the Conservative Government under Mr Heath's leadership reached agreement with the EEC on the terms whereby the United Kingdom could become a member of the European Community. These terms were set out in a White Paper, *The United Kingdom and the European Community* (Cmnd. 4715, July 1971), and were approved by the House of Commons on 28th October 1971 by 356 votes to 244, a majority of 112. Despite official Labour Party opposition, 69 Labour MPs voted in favour of British membership of the Community. Several former Labour cabinet ministers made it clear that they would have accepted the terms obtained by the Conservative Government. In the words of Mr Roy Jenkins:

“I believe that what was right in 1967 is at least as right in 1971 ... we set a course in Government and should now stick to it in Opposition” (*Times*, 19th June 1971).

On 22nd January 1972 the Treaty of Accession to the EEC was signed by Mr Heath on behalf of the United Kingdom. In the course of 1972, the European Communities Bill, which introduced into British law the necessary changes consequent upon entry, passed through both Houses of Parliament. On 1st January 1973 Britain, Denmark and Ireland joined the European Community.

## **(B) RENEGOTIATION AND THE REFERENDUM**

### **1. LABOUR DIVISIONS**

The commitment to “renegotiate” the terms of Community membership was a policy devised to overcome the deep divisions in the Labour Party, displayed by the vote of 28th October 1971 (see above). The split widened when Mr Roy Jenkins, then Deputy Leader of the Labour Party, together with Mr Harold Lever and Mr George Thomson, resigned from the Shadow Cabinet in April 1972, when Labour came out in favour of holding a referendum on the EEC. In the aftermath of these splits, Sir Harold Wilson and Mr Callaghan gave absolute priority to restoring a façade of Labour unity, with the result that in July 1972 the “renegotiation” policy was revealed as part of the draft policy statement, *Labour's Programme for Britain*.

When Labour came to power in March 1974, the process of “renegotiation” was backed by the threat that if the resultant terms did not prove satisfactory, the Government would not recommend them to the British people, who had been offered in Labour's election Manifesto “the right to decide the issue through a General Election or a Consultative Referendum”. On 23rd January 1975, Sir Harold Wilson confirmed that a referendum would take place.

When Mr Callaghan, as Foreign Secretary, first explained Labour policy to the EEC Council of Ministers on 1st April 1974, he spoke in hard, uncompromising terms, which made a deplorable impression on public opinion in the rest of the Community. Subsequently, however, he began to take a more constructive attitude and made it appear that he was looking for a successful conclusion to the renegotiation.

Although the renegotiation demands were a severe trial of our partners' patience, final agreement was reached at an EEC Summit Conference in Dublin on 10th and 11th March 1975 (see below for the results of the seven points of Labour's renegotiation). On 18th March 1975 the Cabinet voted by 16 votes to 7 in favour of recommending continued membership, and on 9th April 1975 the House of Commons voted by 396 votes to 170—a majority of 226—to accept this recommendation. Conservative spokesmen welcomed the successful conclusion of the renegotiations, but insisted, as Mr Whitelaw put it, that:

“The undoubted improvement in Community arrangements from the United Kingdom's point of view could have been obtained in the course of the Community's normal development and without the whole business of renegotiation under threat of withdrawal” (*Hansard*, 7th April 1975, Col. 840).

## **2. RESULTS OF THE RENEGOTIATION DEMANDS**

**EEC Budget.** The Labour Government called for changes to the EEC budgetary procedures to ensure that Britain would not have to contribute an excessive proportion of the EEC Budget. A new corrective mechanism was established containing provision for a refund to any member state whose net contribution to the Community Budget went significantly beyond what was fair in relation to its share of Community GNP. In fact, Great Britain unexpectedly made a net profit in 1975 (see p. 616).

**Common Agricultural Policy (CAP).** The Labour Government called for major changes in the CAP. At the end of the renegotiation, Sir Harold Wilson expressed himself satisfied that greater flexibility to meet special circumstances was now assured, together with improvements in the market system for beef, in financial control, and in access for Commonwealth sugar and New Zealand dairy products.

**Economic and Monetary Union.** The Labour Government originally expressed concern about plans for Economic and Monetary Union (EMU). However, at the end of the renegotiation, Sir Harold Wilson expressed the view that the realization in the foreseeable future of the EMU objective was: “as likely as the ideal of general and complete disarmament” (*Hansard*, 18th March 1975, Col. 1460).

**Regional, Industrial and Fiscal Policies.** The Labour Government was originally concerned that EEC membership would interfere with the powers of Parliament over national, regional, industrial and fiscal policies. However, it subsequently came to the conclusion that membership of the Community posed no significant threat to these powers, except possibly in the case of the steel industry.

**Capital Movements.** The February 1974 Labour Manifesto had called for an agreement on capital movements to protect the balance of payments and full employment. At the end of the renegotiation, the Government realized that no such agreement was necessary, because it could control capital movements by using the relevant articles of the Treaty of Rome.

**Commonwealth and Developing Countries.** The Labour Manifesto called for better safeguards for the interests of the Commonwealth and developing countries. By the end of the renegotiation, the Lomé Convention (see Chapter 27, p. 649) had been agreed, together with improvements in the Community's Scheme of Generalized Preferences, and a more balanced distribution of Community aid.

**Value Added Tax.** The Labour Manifesto called for no harmonization of value added tax which would require taxation of necessities. At the conclusion of renegotiation, the Government declared itself satisfied that any unacceptable proposals could be resisted.

### **3. THE REFERENDUM**

As **Mrs Thatcher** stated on 11th March 1975:

“Used by the Labour Government in the form proposed, the referendum is a tactical device to get over a split in their own party, and any constitutional consequences are, therefore, of only secondary importance in the Government's eyes” (*Hansard*, Col. 306)

**Labour Inconsistency.** Until April 1972 the Labour Party, both in government and in opposition, was firmly opposed to the idea of a referendum. Thus on 28th May 1970 Sir Harold Wilson said:

“Parliament should take that decision (on the EEC) with a sense of full responsibility, with a sense that reflects national views and national interests” (BBC TV).

The leading Labour Anti-Marketees took the same view. Mr Michael Foot and Mr Peter Shore voted against a backbench motion on 10th December 1969 calling for a referendum on EEC membership. As late as 8th July 1971 Sir Harold Wilson said in the Commons:

“The Prime Minister (Mr Heath) said that I oppose a referendum and I agree. I have always done so as he has” (*Hansard*, Col. 1515).

However, the Labour Government brought forward its Referendum Bill and it received a Second Reading in the House of Commons on 10th April 1975 by 312 votes to 248. The Bill received the Royal Assent on 8th May 1975.

**The Referendum Campaign.** The referendum was fought both between parties and, since the parties, especially Labour, were divided, by umbrella groups. Despite its opposition to the referendum, once it became clear that it was going to take place, the Conservative Party launched a vigorous campaign to ensure a massive “Yes” vote, both on a strictly Conservative basis and within the all-party Britain in Europe organization.

The anti-EEC forces were allied in the other umbrella organization: the National Referendum Campaign. However, the main force of the campaign for a “No to Europe” vote came from the Labour Party, which voted against the renegotiated terms

at a special Conference on 26th April 1975, despite the Labour Government's support for these terms. This vote highlighted the strength of the extreme Left within the Labour Party, and as the referendum campaign progressed, Mr Benn and the other leaders of the Left wing of the Labour Party increasingly took the predominant role in the anti-EEC campaign.

Leaders and spokesmen for many Western countries, particularly the United States and the Old Commonwealth, emphasised their support for continued British membership, whereas the press and radio of the Soviet Union persistently attacked the EEC and Britain's membership.

**The Referendum Result.** On 5th June 1975 the British people voted in favour of Britain remaining a member of the EEC. 17,378,581 (67·2 per cent) votes were cast in favour and 8,470,073 (32·8 per cent) were cast against continued membership. 64·5 per cent of the electorate voted. Every area of the United Kingdom produced a “yes” vote, except for the Shetland Islands and the Western Isles. This decisive two-thirds majority vindicated the consistent policy of the Conservative Party towards the European Community over the previous fifteen years.

After the result had been declared, **Mrs Thatcher** stated:

“The message of the referendum for the Government is that the people have looked at the really big issues ... They have looked at what really counts and they have voted that way” (*The Times*, 7th June 1975).

## (C) INSTITUTIONS OF THE EUROPEAN COMMUNITY

**EEC Council of Ministers.** The Council is the main decision making body of the Community. It is normally made up of the Foreign Ministers of the member states but, depending upon the subjects under discussion, other ministers also attend regularly. The presidency of the Council is held for a six month term by each member state in sequence. The United Kingdom assumed the presidency on 1st January 1977. In practice, the Council takes decisions on all matters of major importance on the basis of unanimity.

**EEC Commission.** The Commission consists of 13 members who are appointed by agreement among the member governments for a four-year period. Its main task is to formulate policy proposals for submission to the Council. Its autonomous powers of decision are limited largely to administrative matters in connection with policies agreed by the Council of Ministers. Mr Roy Jenkins assumed the presidency of the Commission on 1st January 1977. The other British Commissioner is Mr Christopher Tugendhat.

**European Parliament.** This consists of 198 members, of which 36 are British. However, it is due to be directly elected and increased in size to 410 members in 1978 (see p. 611). At present, there are six political groups: The Socialists—65 members; the Christian Democrats—50 members; the Liberals—27 members; the

Conservatives—17 members; the European Progressive Democrats (Gaullists and Fianna Fail)—17 members; the Communists—17 members. In addition, there are 5 independents. The powers of the European Parliament are limited (see p. 613).

**European Court of Justice.** The court, which sits permanently in Luxembourg, consists of 9 Judges, assisted by 4 Advocates-General. The Court is the supreme arbiter in all legal questions falling within the scope of the Treaties. Its rulings are binding upon member states, Community institutions, corporate bodies and individuals. It should not be confused with the European Court of Human Rights, which is the arbiter of the Human Rights Convention of the Council of Europe.

**Economic and Social Committee.** This body consists of representatives of various categories of economic and social life in the EEC, such as businessmen, farmers, trade unionists, professional people and representatives of the general interest. There are 144 members, of whom 24 are British. Under the Treaty of Rome it has to be consulted about all major Commission proposals, but it has no power of decision.

## **(D) DEVELOPMENT OF THE EUROPEAN COMMUNITY**

### **1. PARTY ATTITUDES TO THE EEC SINCE THE REFERENDUM**

**Conservative.** Since the referendum, the Conservative Party has continued to give its traditional strong support to all efforts to achieve a common EEC approach to world problems.

Mr Douglas Hurd, Conservative spokesman on European affairs, declared at Norwich on 20th March 1976:

“The next Conservative Government will want to exercise an influence in Europe much greater than that of the present Government, which in its dealings with the Community slithers unhappily between bluster and back-sliding”.

Furthermore, speaking in London on 24th November 1976, **Mrs Thatcher** said:

“This Government has run down our bargaining strength in Europe to a dangerously low level. It will be one of the first tasks of a new Conservative Government to restore it”.

In a further speech at Brighton on 7th April 1976 Mr Hurd said that it would be a mistake to attach too much importance to institutional changes in the EEC. However, there was a need for “a directly elected Parliament to control the central institutions of the Community which national Parliaments cannot reach”. The preparations for these elections and the moves to create a Centre-Right alliance (see p. 613) provide the central thrust of Conservative European policy.

In an interview in *Europa* (January 1977) **Mrs Thatcher** said:

“I believe we should continue to have a partnership of nation states each retaining the right to protect its vital interests, but developing more effectively than at present the habit of working together. The next generation may want to move on. They may become impatient with the bargains and compromises which are the price we pay for a Community of partner states; but I do not believe we shall get far by drawing up blueprints for the next generation. Our object in the political realities of today is to make a success of the partnership.”

**Labour.** The Labour Government has pursued an uncertain and equivocal policy. Its declared intention of pursuing a positive European policy after the referendum is called into question by the continued activities of Mr Anthony Wedgwood Benn and Mr Peter Shore within an anti-EEC grouping. Mr Benn, in particular, attracted notoriety by an outrageous statement that he had delayed an important EEC conference to attend a minor Labour Party function, adding that:

“Through me the energy policy of the whole Common Market is being held up. Without opening old wounds, it pleases me no end” (*The Times*, 13th December 1975).

The Labour Government has still shown signs of not altogether appreciating the full meaning of Britain's membership of the EEC. The most spectacular example of this was Mr Callaghan's exaggerated and truculent demand for separate British representation at the Conference on International Economic Co-operation.

After the Government was forced to back down from this demand at the European Council of EEC Heads of Government on 2nd December 1975, Sir Harold Wilson aptly illustrated the extent of his failure when he commented:

“If you shoot for the moon, you might hit the top of Snowdon. That's what we've done” (*Guardian*, 3rd December 1975).

There is no reason to suppose that the influence of the anti-EEC lobby within the Government has weakened since Mr Callaghan became Prime Minister. Indeed it was widely suggested that the pro-European Mr Roy Jenkins was prevented from moving to the Foreign Office, when the Callaghan Government was formed, by the influence of Mr Michael Foot, the Lord President of the Council and for many years a strong opponent of the EEC. Furthermore, the policy document of the Labour Party's National Executive Committee, *Labour's Programme for Britain 1976*, demonstrates a largely negative approach to the EEC, for example in its hostility to direct elections to the European Parliament (see p. 612)

## **2. DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT**

**The Commitment.** Since the creation of the EEC in 1958, the European Parliament has been composed of delegates nominated by the national parliaments. However, Article 138/3 of the Treaty of Rome has always provided for a directly elected Parliament in due course.

**EEC Discussions.** In December 1974 the European Council of EEC Heads of Government issued the following statement:

“The Heads of Government note that the election of the European Assembly (i.e. Parliament) by universal suffrage, one of the objectives laid down in the Treaty, should be achieved as soon as possible. In this connection, they await with interest the proposals of the European Assembly on which they wish the Council to act in 1976. On this assumption, election by direct universal suffrage could take place at any time in or after 1978”.

The British and Danish delegations, however, felt unable to commit themselves to this declaration at that stage.

In January 1975 the European Parliament approved detailed proposals on the subject, in the form of the so-called Patijn Convention, by 107 votes to 2 with 17 abstentions. This suggested a Parliament of 355 members, of which 67 would come from the United Kingdom, to be elected for the first time in May 1978.

**Conservative policy** on direct elections was made clear by Mr Maudling, when he declared at the Conservative Party Conference on 9th October 1975:

“We are committed by the Treaty of Rome to the principle of direct elections. There is no going back. The point is the timing and the details”.

At the December 1975 meeting of the European Council, all EEC member states, except Britain and Denmark, agreed to hold direct elections in May 1978. Sir Harold Wilson indicated that he hoped that the United Kingdom would be able to adhere to the May 1978 deadline, but was uncertain whether agreement could be reached on the outstanding problems, or whether the legislative and technical processes could be completed in time.

On 17th February 1976 a Green Paper (Cmnd. 6399) was published, and was debated in Parliament on 29th March 1976. Speaking for the Conservative Party in this debate, Mr Maudling recognized that direct elections presented practical difficulties. However, he stressed that there was;

“A commitment of honour for this country ... to work actively and sincerely to find a set of proposals which will be acceptable to our colleagues in an agreed time scale” (*Hansard*, Col. 920).

At the European Council meeting on 12th and 13th July 1976 it was agreed that the new European Parliament would have 410 members. Britain, France, West Germany and Italy would each have 81 seats, the Netherlands 25, Belgium 24, Denmark 16, Ireland 15 and Luxembourg 6.

On 20th September 1976 the EEC Foreign Ministers signed an agreement setting out the broad rules for direct elections. This was preceded by a preamble, restating the intention of the member states to try to keep to the May/June 1978 target date.

**Labour Divisions.** The continuing strength of the anti-EEC forces in the Labour Party was shown when a motion opposing direct elections was passed by nearly two to one at the Labour Party Conference on 29th September 1976. However, the Foreign Secretary, Mr Crosland, made it clear that:

“Despite the Conference vote, the Government will lay before Parliament the legislation needed to implement Direct Elections in Britain at the earliest practicable date” (*Socialist Commentary*, November 1976).

Conservative spokesmen have urged the Government to bring forward the Bill as early as possible so that the Boundary Commission has adequate time to delineate the European constituencies according to generally acceptable procedures.

As Mr Roy Hattersley, then Minister of State at the Foreign Office, had earlier explained, because of the form of the agreement, “if elections are not possible in Britain, they will not be held anywhere in the Community” (*Hansard*, 31st July 1976 Col. 444).

**Detailed Arrangements for Direct Elections.** It is generally accepted that for a transitional period each member state will be able to organise its election according to its own preferred national rules. Only later would a uniform system be established over the whole European Community.

A Select Committee of the House of Commons published a report on 19th August 1976 which recommended that our traditional “first past the post” system should be used, at least for the first elections. In a further report published on 25th November 1976 the Committee recommended that British nationals, living and working abroad and meeting certain nationality criteria, should be able to vote in the direct elections, but that, in general, normal British electoral law should apply. However, the report suggests that candidates should have to put down a deposit of £1,000, as opposed to the existing £150 in British General Elections.

**Powers of the European Parliament.** These are limited. The Parliament has to be consulted on most Commission proposals before the Council of Ministers can take a decision on them. Since January 1975 the Parliament has had limited powers to amend that part of the EEC Budget described as “non-obligatory” (expenditure *not* necessarily resulting from the Treaty of Rome or Acts adopted in accordance with it). In addition, under the terms of a treaty signed on 22nd July 1975 but not yet ratified by all member Parliaments, the European Parliament's budgetary powers are to be increased further. This treaty will give the European Parliament the right, by a two-thirds majority, to reject the Budget as a whole, and ask the Council of Ministers for a new draft.

Since its inception, the European Parliament has had the power to dismiss the Commission *en bloc* by a two-thirds majority. This power has never been used. At present, the Parliament has no positive say in the membership of the Commission. However, in his report on European Union (see p. 614) Mr Tindemans, the Belgian Prime Minister, proposed that the President of the Commission, having been appointed by the European Council, should have to appear before the Parliament and have his appointment confirmed by vote.



Speaking on this subject at Norwich on 20th March 1976, Mr Douglas Hurd commented:

“The European Parliament could not take fresh powers by its own decision. Any extension of powers would need to be approved by national governments in the Council of Ministers. It would then have to be approved by national parliaments as an amendment to the Treaty of Rome”.

**The Conservative Presence in the European Parliament.** Since Britain joined the Community in 1973, the European Conservative Group (ECG) representing British and Danish Conservatives, and led by Sir Peter Kirk, MP, has provided a forceful Conservative influence in the European Parliament. Working wherever possible in concert with other Centre-Right groups, the ECG has vigorously upheld British, European and Conservative interests.

The Conservative Group has sought to exercise to the full the European Parliament's powers to act as a check on the Community's bureaucracy. Thus, the Conservatives were the first to press a motion of censure on the Commission, in a debate on the Commission's handling of skimmed milk surpluses on 16th June 1976. In various policy sectors, particularly transport and the environment, the ECG has opposed unnecessary and restrictive harmonisation. In the words of Sir Peter Kirk:

“What we are asking for is an end to harmonisation for harmonisation's sake and the creation of harmonisation with diversity ... which I believe will be of great benefit to the Community” (European Parliament debate, 12th February 1974)

Secondly, on the vital question of agriculture, the ECG has made clear that, in the words of Mr James Scott-Hopkins, deputy leader of the Conservative Group:

“The CAP as it stands will not do. It has got to advance and change in nature and application” (European Parliament debate, 16th September 1974)

At the same time, in economic and energy policy the Group strongly supports measures to strengthen the Community's industrial and commercial base, while seeking to ensure that in trade negotiations with Third World countries the Community, as the world's largest trading group, is sensitive to the needs of the developing countries.

**Need for Centre-Right Alliance.** The prospect of elections to the European Parliament in the next few years gives added importance to moves to bring European Centre-Right parties together in the fight against Socialism and Communism. A “European People's Party” has recently been formed, but this consists only of the Christian Democratic parties of the EEC. Parallel with this, negotiations are in progress with a view to creating an alliance of all Centre-Right parties in Europe. Speaking in Hanover on 25th May 1976 **Mrs Thatcher** said:

“I am convinced that Christian Democratic, Conservative and Centre parties in Europe should now join together in an effective working alliance ... this is a task of historic importance, and one in which we should all invest our energies”.

As *The Right Approach* says, this is necessary both to provide a counter to the Socialist International and “to encourage the new parties and groups in Portugal and Spain which share our ideas and are painfully struggling to build parliamentary democracy in those countries.”

Equally, it is necessary that there should be a specific understanding between the Centre-Right parties of the European Community. Since, in the words of *The Right Approach*, it would be unwise “to fight direct elections to the European Parliament as fragmented groups in opposition to a coherent socialist movement”.

### **3. EEC SCRUTINY PROCEDURES**

Both Houses of Parliament have Select Committees which scrutinize EEC legislation and recommend whether or not each piece of legislation should be debated at Westminster before a decision is taken on it in the Council of Ministers. Despite the conscientious efforts of these two committees, Conservatives believe that “effectiveness in dealing with EEC matters needs to be improved” (*The Right Approach*), largely because of the frequent failure of the Government to provide adequate time for debates in advance of relevant meetings of the Council of Ministers.

### **4. THE TINDEMANS REPORT ON EUROPEAN UNION**

**Background.** In December 1974 Mr Leo Tindemans, Prime Minister of Belgium, was invited by the other EEC Heads of Government to draw up a report on the subject of European Union. After holding discussions with a wide range of political opinion in all the member states, Mr Tindemans published his report on 7th January 1976.

**Content of Report.** His general conclusion was that, with all Europe facing the most severe social and economic pressures, it was essential for the EEC member states to agree on new aims and procedures if the achievements of the Community since its creation in 1958 were to be safeguarded.

Mr Tindemans proposed that the institutions of the European Community should feel free to discuss all problems relevant to European interests, regardless of whether these were covered by the Treaty of Rome; and that the present artificial distinction between meetings on foreign policy and those on other subjects should be ended, in order to give greater coherence to Community decision-making.

The Belgian Prime Minister attached considerable importance to the formulation of a European foreign policy. He suggested that the present arrangements for foreign policy co-ordination, where the Community adopted a European policy only when unanimous agreement was possible, should in time give way to a common foreign policy, with the member states having the obligation to agree if necessary by majority vote. Elsewhere in his report, Mr Tindemans proposed that majority voting in the Council of Ministers should also become the normal practice in other fields.

On defence, Mr Tindemans maintained that the European Union would not be complete until it had drawn up a common defence policy, although he recognised that this would not be possible in the near future. Nevertheless, he proposed that the member states should exchange views on specific defence problems and that priority should be given to co-operation in armaments manufacture.

Mr Tindemans' most controversial suggestion was that there should be a “two-tier” Community in economic and monetary matters, whereby those states able to move on towards further integration should forge ahead, while those with weaker economies would proceed more slowly.

**Reactions.** In general, reaction to the report was welcoming, but the “two-tier” proposal was widely criticized. Mr Maudling, speaking for the Conservative Party, described the Report as “a very important document”, which he hoped could “be the basis for further progress towards European unity” (*The Times*, 22nd January 1976). However, he expressed reservations both about the “two-tier” proposal and the suggestion that a concerted foreign policy should give way to a common foreign policy with majority voting.

Speaking in the House of Commons on 17th June 1976 Mr Hurd said:

“We need to develop a European foreign policy going beyond a simple exchange of information and declaration of principle, but providing a continuous back up so that points that are agreed are reinforced in our dealings with the outside world. It follows that Mr Tindemans is right in saying that ... the Foreign Ministers should accept an obligation to reach a common view. That does not mean removing the veto by some constitutional piece of surgery. It means creating the habit of agreement” (*Hansard*, Col. 870).

In a speech at Hamburg on 22nd January 1976, Mr Callaghan, then Foreign Secretary, said:

“Mr Tindemans has tried to avoid provoking further argument between the federal or supranational approach, and the inter-Governmental approach ... Instead, he has indicated across the whole range of issues which affect our countries the subjects on which he believes we can work together in the coming years to promote greater unity between us”.

However, he expressed “serious doubts” about the proposition for a “two-tier” Community.

The European Council of Heads of Government discussed the report on 29th and 30th November 1976. While endorsing many of the general principles underlying the document, the Heads of Government did not take any specific decisions on the basis of the report. However, they called on the Foreign Ministers to report once a year on the degree of progress made towards European Union.

## **5. FOREIGN POLICY CO-ORDINATION**

Foreign policy is not covered by the Treaty of Rome. Accordingly the member states of the European Community seek to co-ordinate their foreign policies through a procedure outside the institutional framework of the EEC, known as Political Co-operation (or the Davignon Procedure). Under this procedure the Foreign Ministries of the Nine seek to concert their foreign policies, wherever possible, under the auspices of the country holding the presidency of the Council of Ministers. It has been suggested that the effectiveness of the co-ordination would be increased by the establishment of a permanent administrative back-up, either within the Commission or in the form of a Political Secretariat.

Areas of foreign policy where the Community has been particularly active have been the Euro-Arab dialogue, East-West *détente*, and events in Southern Africa. The EEC has been particularly successful in presenting a common front at the United Nations. In the 1975–6 session of the United Nations General Assembly, the Nine voted together on 83 per cent of the resolutions debated and the country holding the EEC presidency spoke on behalf of the Nine on 30 occasions.

A recent example of a helpful EEC foreign policy initiative at the United Nations took place on 28th October 1976, when the Nine said that the world should maintain ties with South Africa in order to encourage peaceful change there.

Nevertheless, in a speech in London on 24th November 1976 **Mrs Thatcher** called for:

“A much stronger effort to concert the foreign policies of the Nine and to ensure that the economic strength and importance of the Community are used to further our common interests”.

## 6. ECONOMIC AND MONETARY QUESTIONS

**Monetary.** The meeting of EEC Heads of Government in October 1972 called for Economic and Monetary Union by the end of 1980. However, it is now accepted that this commitment was over-ambitious and unattainable. The economic recession which has affected the whole Western world has also done much to prevent moves towards economic and monetary integration. Nevertheless, regular meetings of EEC Finance Ministers ensure a useful degree of co-operation between the member states.

The joint EEC currency float (the “snake”) has had a chequered career since its inception in April 1972. Britain and Ireland left the “snake” in June 1972, Italy in February 1973 and France in January 1974. France subsequently rejoined, but left again in March 1976.

**EEC Budget.** The following table shows British contributions to, and receipts from, the EEC Budget from 1973 to 1976, and estimates for 1977–81:

	<i>£ million</i>		
<b>Year</b>	<b>Gross Contribution</b>	<b>Receipts</b>	<b>Net Contribution</b>
1973	181	79	102
1974	181	150	31

	<i>£ million</i>		
<b>Year</b>	<b>Gross Contribution</b>	<b>Receipts</b>	<b>Net Contribution</b>
1975	342	398	-56
1976	465	295	170
1977	725	295	430
1978	810	285	525
1979	930	295	635
1980	1,010	310	700
1981	1,050	345	705

(Source, White Paper, *Public Expenditure to 1980-81*, Cmnd 6721-II).

It should be noted that the final overall figure for 1973-6 was very substantially less than that originally estimated—£247 million compared to £525 million estimated in the White Paper, *The United Kingdom and the European Communities* (Cmnd. 4715, July 1971). Should our contribution to the Budget in future years go significantly beyond what is fair in relation to our share of EEC GNP, a corrective mechanism exists (see p. 607).

**Benefits to Britain from EEC funds.** The funds and institutions of the EEC are providing help for this country—both to individuals and for our regions. From the new Regional Development Fund, gross payments of up to £150 million are being made available over the period 1975-7 to help employment and investment in our regions. The European Social Fund has made payments of £120 million to date to help redundant, handicapped and disadvantaged workers. From the European Investment Bank, low interest loans of £463.3 million have helped to finance useful projects in this country. The European Coal and Steel Community has approved loans of £577.8 million and grants of £36.2 million to the coal and steel industries since accession, covering such areas as technical research, industrial safety and health, miners' housing and equipment, and redundancy among coal and steel workers.

Finally, from the Agricultural Guidance and Guarantee Fund, grants of £55.7 million have been received or approved, providing help for such projects as farm modernization, herd conversions, food processing and development of fish and fish-using industries, (*Hansard*, 22nd November 1976, Col. 902).

In addition, through the system of Monetary Compensatory Amounts, and by reason of the discrepancy in value between the Pound Sterling and the so-called Green Pound (see Chapter 12, p. 294), food prices in Britain were subsidized by the European Community in 1976 by up to £1.5 million a day (see p. 292).

## 27. EXTERNAL AFFAIRS

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## (A) INTRODUCTION

### 1. THE CONSERVATIVE LEGACY

Under the last Conservative Government Britain's foreign relations were conducted with skill, realism and success. Some of its main achievements were, in outline:

- Entry into the EEC and effective participation in the running of the Community.
- Improvement in our contribution to NATO's collective strength, combined with active promotion in conjunction with our NATO allies of a realistic détente with the countries of Eastern Europe, and the recognition that détente with the countries of Eastern Europe must be based on allied strength and solidarity.
- Establishment of full diplomatic links and greatly improved relations with the People's Republic of China, despite the ideological differences between the two countries.
- Marked improvement of Britain's relations with Third World countries, notably in the Middle East, the Indian Sub-Continent and Latin America.

### 2. NEW PERSPECTIVES

In the field of external affairs Britain's national interests have today to be viewed against a background that has changed rapidly and radically during the last few years in the following areas:

- a. *East-West relations* (see p. 621)—where the West has been experiencing a phase of weakness caused by high inflation and recession and, in the wake of the withdrawal from Vietnam and the Watergate affair, by a temporary lapse of self-confidence in the United States. Moreover, Soviet attempts (e.g., in Angola and Portugal) to exploit the West's temporary infirmity and the resulting imbalance in the East-West power relationship has increased Western scepticism about the current Soviet interpretations of détente. The change of régime in China has also produced new uncertainties, although so far there seems to be little alteration in their attitude towards the Soviet Union (see p. 642).
- b. *The North-South Dialogue*—in which economic issues have been dominant.
- c. *The Middle East and Southern Africa*—where events in these volatile areas crucially affect relations between the Western countries and the Soviet Union, and between the developed and less-developed nations.

- d. *Britain's membership of the EEC*—where it has become increasingly clear that our influence in world affairs can henceforth best be applied through concerted action with our partners in the Community.
- e. *Britain's defence effort*—which, much reduced geographically, is now geared almost exclusively to NATO which we regard as the linch-pin of our security.

### 3. THE NATIONAL INTEREST

These new, more complex, perspectives have increased the need to maintain what Mr Maudling, then chief Conservative spokesman on foreign affairs, described as “a general custom of trying to reach an agreed approach on the British national interest in our dealings with the outside world” (*The Times*, 18th August 1975). In a later article he wrote:

“The broad stream of British foreign policy should not be sharply diverted with every change of government, for the national interest does not change, much as it needs to adapt to external circumstances. In these circumstances, the primary function of Opposition is to exercise vigilance, to keep a critical eye on the performance of the Government, to chide when it displays tardiness or lack of vision, to suggest when new ideas are needed, and openly to support where support is justified and necessary ... when it comes to Britain's dealings with other countries, the Opposition must wish to see the Government succeed, so long as it is defending British interests” (*The Times*, 21st January 1976).

### 4. LABOUR GOVERNMENT'S BUNGLING

Unfortunately, the Labour Government, due largely to the antics of its Left Wing supporters, has all too often displayed a distorted view of our national interest, making it impossible on occasions for the Opposition to pursue a bi-partisan policy.

The Conservative Party has strongly denounced the Labour Government's inept, and in some cases disastrous, handling of our affairs, notably in the following areas, where it has yielded to increasing pressure from its Left wing:

- Its complaisant attitude to the Soviet Union of which the Katyn memorial and Ponomarev incidents (see p. 624) are typical.
- Its tactics in the European Economic Community, characterised by the diplomatic misjudgement involved in the Government's unsuccessful attempt to obtain separate British representation at the Conference on International Economic Co-operation (see Chapter 9, p. 251).
- Its double standards in protesting about the actions of some foreign governments while condoning the actions of others (see p. 620).
- Its massive defence cuts now totalling over £8,000 million and the Prime Minister's crude attempt to blackmail our allies by threatening to withdraw our forces from Germany unless these allies were prepared to bail us out on his terms (see Chapter 25, p. 601).
- Its irresolution over Rhodesia (see p. 635), which has increased the dangers of a polarisation of the East-West conflict on racial lines.
- The failure of its Icelandic fisheries policy (see p. 629).

## 5. LABOUR PARTY POLICY

The Labour Party's policy document, *Labour's Programme for Britain 1976*, which was endorsed by an overwhelming majority at their last Conference, includes a section entitled "A Foreign Policy for Labour" that contains a collection of platitudes on the alleged evils of British and international capitalism. It suggests that Labour's foreign policy and domestic policy "must be seen as forming an integral whole", and makes the extraordinary claim that Labour's total aspirations "will be achieved only in alliance with Socialist and liberation movements abroad". It is not clear whether this includes those "liberation" movements that use terrorist methods and "Socialist" movements like those behind the Iron Curtain, in Cuba and in South-East Asia. The Programme states that bolstering "regionally strategic states such as Iran, Indonesia, and Brazil" by aid and investment is not "an appropriate role for Britain". The programme also calls for further cuts in defence expenditure of at least £1,000 million a year at 1974 prices (see Chapter 25). As Mr Roy Mason, then Defence Secretary, said:

"To achieve such a reduction would entail a major foreign policy change. Our relations with the United States and with the West Germans could deteriorate badly. We would risk unravelling the NATO Alliance and destroying the security which we gain through it. The effect on our financial credit and on economic and trade relations would be incalculable" (*Labour Weekly*, 11th June 1976).

## 6. THE CONSERVATIVE APPROACH

**Main Aims.** In the foreign affairs field, *The Right Approach* defines the main aims of our strategy as being "to maintain Britain's security and interests, and to increase her influence abroad, not least through a whole-hearted contribution to the development of the European Community".

The document states:

"The Conservative Party has always been outward-looking, while concerned with the security, the economic interests and the honour of Britain. The deplorable economic weakness of the country should not persuade us to turn our backs on this tradition. Despite our relative (and we hope temporary) impoverishment, we still carry considerable diplomatic strength, based on our history and experience and on the feeling the world still has that we shall pull ourselves together when it really matters".

**Regional Balances.** After emphasising the changes in the world's economic and political balances, the document outlines the threat posed by Soviet expansionism and the growth of its military, and particularly naval, power—a threat which now extends to regions outside the NATO/EEC area where the security of our raw materials is increasingly menaced. Here we urgently need complementary regional balances, embracing political, economic and military features, within which NATO and the EEC should help the United States to safeguard our mutual interests.



**Mrs Thatcher's Lead.** In her speech at Hanover on 25th May 1976, Mrs Thatcher, speaking of the most important aspect of external relations, the security of our freedom, said:

“We must build a world in which freedom is on the offensive ... Let us fight for freedom with all our might, and build a Europe worthy of freedom. Let us hand on to our children an inheritance for which they in turn will work with gladness and pride”.

**A New Theme.** On 10th December 1976 Mr John Davies, principal Conservative spokesman on Foreign and Commonwealth Affairs, outlined a new approach to Foreign Policy in a speech in London, emphasizing in particular the importance of trade and investment. Pointing out that Britain is “the most experienced international investor in the world today”, Mr Davies said:

“The conduct of our external business is now clearly geared to our weight as a world-wide trader and investor rather than as a political or military force ... (and) that weight is going to need to be exercised more and more in concert with our European partners rather than as a sole operator”.

Mr Davies, describing himself as “a committed European by my deepest convictions”, referred to the European Community, praising its considerable achievements in economic matters and external trade, but deploring its tendency “to flounder when faced with critical problems”, like the Middle East confrontation, international energy problems, Cyprus, Southern Africa and relations with the USA and the Soviet Union. He thought however that this was a result of the shortcomings of the member states rather than of the Community, and added:

“I particularly charge our own Government with having failed hopelessly either to infuse any spirit of real co-operation into the political mechanism of Europe or to use its own diplomatic strength to help solve some of the most intractable of problems”.

Mr Davies then alluded to “the apparent faltering of détente” and stated that:

“We contemplate the Belgrade reappraisal of next year with a mixture of dissatisfaction and anxiety. We see détente as indivisible: they do not”.

He went on to refer to Southern Africa, which he described as “the main arena of the ideological struggle”. He emphasized “the immense importance to our own way of life” of the maintenance of British investment in Southern Africa, and went on to say:

“If Britain is indeed to play a more determined part in a just and stabilizing settlement [in Rhodesia] then she will do it with greater authority if supported by her European neighbours ... and buttressed by the collective strength and resolve of NATO”.

Amplifying his remarks, Mr Davies was reported to have said that all Europe, together with America and the rest of the free world, if their whole future was not to be endangered, depended on the enormous supplies of crucial metals from Southern Africa and on unimpeded passage round the Cape. Making it clear that he was not advocating any extension of the NATO area south of the Tropic of Cancer, he said:

“If the European Community and NATO can be mobilised to stand with us with their authority and economic strength, then the future of Southern Africa could be assured” (*Daily Telegraph*, 11th December 1976).

Referring to relations with the Third World, Mr Davies welcomed the fact “that there was now bipartisan assent to the proposal that trade was in the long run bound to be more efficacious than aid”. However, he added that investment was the natural corollary of trade and he criticised the

“hopeless ambivalence on the part of our present government to the encouragement of investment in the developing countries ... (because) it is bound up in the socialist mind with distrust of international companies and incorrect beliefs that investment there inevitably means a loss of jobs here”.

## **(B) EAST-WEST RELATIONS**

In August 1976 Mr Maudling stated:

“The Conservative Party has one overriding concern in foreign policy, and that is the growth of Communist power and influence in the world, and the dangers it can bring for all of us” (*Times*, 26th April 1976).

The Government, too, is aware of the dangers. As Mr Crosland, Foreign Secretary said: “We cannot ignore the evidence of our eyes” (*Guardian*, 27th May 1976). But Labour’s irresponsible defence cuts cast doubts on the Government’s resolution.

### **1. DÉTENTE**

**The CSCE.** The third and final stage of the Conference on Security and Co-operation in Europe (CSCE) took place at Helsinki from 30th July 1975 to 1st August 1975, attended by the Heads of Government, or their representatives, of every European country (except Albania), together with those of the USA, Canada and the Soviet Union.

The first stage, also at Helsinki, had taken place in July 1973, when the Foreign Ministers agreed on the agenda for the Conference. The various items on this agenda were then discussed at official level at the second stage at Geneva, which lasted from September 1973 to July 1975. Finally, after lengthy debate, a consensus was reached on the Final Act, a 30,000 word document covering the very wide range of subjects considered relevant to European Security and Co-operation. At the third stage, this Final Act was formally signed by the 35 national representatives, after each had addressed the Conference.

The Final Act contained four sections or “baskets”. The first dealt with principles relating to European security, and confidence-building measures such as prior notification of manoeuvres. The second section dealt with economic co-operation, and the third—which has received most attention in the West—concerned the freer movement of information, ideas and people between countries. The last part of the

Final Act dealt with the follow-up to the Conference. It was agreed that the participating states should meet again in Belgrade in 1977 to review the implementation of the Helsinki provisions. The Final Act was, however, an expression of political will, not a legally binding document.

**Détente and the Communist Bloc.** While it will be necessary to wait until the Belgrade conference begins in June 1977 before making a final judgement on Soviet adherence to the Final Act, it is clear that the general Soviet interpretation of détente remains radically different from that of the West. First, restrictions on the number of Jews allowed to emigrate to Israel remain severe, and the total allowed to emigrate in 1974 and 1975 was in fact considerably less than in 1972 and 1973 (about 30,000 in 1972 and only some 13,000 in 1975). Second, according to a report published in November 1975 by Amnesty International, there are at least 10,000 political and religious prisoners in the Soviet Union. Third, Western newspapers remain almost as hard to obtain in the Soviet Union as they were before Helsinki—although “Basket III” is supposed to encourage the relaxation of such restrictions.

Furthermore, Soviet support for Cuban involvement in Angola (see p. 630) and the continuous Soviet worldwide military build-up (see p. 623) appear completely incompatible with the reduction of international tension.

Herr Erich Honecker, the Secretary General of the East German Communist Party, revealed the Communist attitude to détente when he declared:

“The conclusion of the CSCE has inaugurated a new stage of our struggle for peace and Socialism. It has opened up more favourable prospects of world-wide revolutionary progress; it facilitates the strengthening of our positions and the promotion of détente” (*Neues Deutschland*, the East German party Newspaper, 12th September 1975).

**Conservative Attitude. Mrs Thatcher** explained the Conservative attitude towards détente in a speech in London on 26th July 1975, when she said:

“We long for a real détente. We demand only that it is a reality. A reality which Russia supports in action as well as words”.

On 31st July 1976—the eve of the first anniversary of the Helsinki Declaration—**Mrs Thatcher**, addressing a Conservative Rally in Dorking on the subject of East-West relations, said: “Twelve months is long enough to make a first assessment”, and after reminding her audience that in international affairs delusions, though comforting, could be dangerous, she cited Alexander Solzhenitsyn's eloquent warning that “there is a quite fundamental separation between our ideas and ideals and those of the Soviet Union”. She went on to say:

“The danger is our Western tendency to assume that other people will apply our own standards and values. When considering international matters, the important thing is not to look at other nations as if *we* were standing in their shoes, but as if *they* were standing in *their* shoes ... The Soviet régime makes no secret of the fact that it is in principle hostile to everything we stand for ... the question of how to change that hostility becomes one of the central problems of foreign affairs”.

Questioning whether the Soviet Union genuinely wants to relax tension or whether she is using détente to lull the West into a false sense of security, **Mrs Thatcher** pointed to the following areas where there were doubts as to the extent to which the Soviets had so far observed the letter and the spirit of the Helsinki Accord:

- Russia's interference in the internal affairs of Portugal.
- The extension of Soviet activity in Angola (with whom Russia has since signed a military agreement and secured an agreement between the MPLA and the Communist Party of the Soviet Union) (see p. 630).
- Transgression of the commitment to disarmament and the relaxation of confrontation by progressive growth of Soviet armed strength and, in particular, their naval expansion, and development of their civil defence system.
- The fact that there is still no free circulation of Western newspapers in the Soviet Union.
- The condemnation of Dr Yuri Orlov and his friends for “unconstitutional activity” on pain of being arrested when they attempted to check how far their Government was honouring the Accord.
- Continued persecution of intellectual dissidents and religious minorities.
- Continued restriction on the freedom of individuals to leave the Soviet Union.

Mrs Thatcher's overall assessment of the results so far was that “they have been a profound disappointment” and that “the realities of Soviet foreign and military policy have not changed”.

**Action required by the West.** Discussing the action we should take before the review conference, which is to begin in Belgrade in June 1977, Mrs Thatcher emphasised that “of course we must go on striving for a confident and true peace with the Soviet Union”. She welcomed the “new awareness of the military threat posed by the Soviets and a new determination to meet it”, citing the decision by the United States, France and Germany to increase their defence expenditure. But she condemned the Labour Government's disastrous defence cuts and the Labour Party's call for further cuts (see p. 620). She went on to question the wisdom of large-scale credit facilities, such as those offered by Britain which “have enabled the Soviets to divert resources from their industries to build up their already massive military establishment”.

## 2. ANGLO-SOVIET RELATIONS

**Trade.** In February 1975 Sir Harold Wilson and Mr Callaghan paid an official visit to the Soviet Union during which agreements on economic and technical co-operation were signed. The main result of the visit was an agreement whereby the United Kingdom would provide credits of £950 million at low interest rates to finance exports to the Soviet Union. The Government has refused to divulge the exact terms of the agreement, but the value of contracts placed, so far, under the agreement is £188 million, with substantial further contracts under negotiation (*Hansard*, 8th March 1977, Col. 1298). (see also chapter 10, p. 262).

**Mrs Thatcher** has stressed:

“... We must consider how we can ensure that our commercial relations with the Soviet Union don't damage our own long-term security interests” (Dorking, 31st July 1976).

**Espionage.** The last Conservative Government took firm measures against spying, expelling 105 Soviet diplomats from the United Kingdom in September 1971 on account of their involvement in espionage. However, when two Hungarian diplomats were caught red-handed photographing a secret nuclear weapons establishment in April 1976, the Labour Government failed to expel the diplomats concerned. The late Mr Crosland, then Foreign Secretary, described the action as “foolish and provocative”, but questioned whether their expulsion would serve any useful purpose (*Hansard*, 30th April 1976 Col. 199). As the former Conservative Foreign Secretary, Lord Home said:

“When in this country we catch Communist spies on the job and fail to send them packing, the Russians and their satellites simply interpret it as weakness” (*The Guardian*, 5th May 1976).

**Labour's Complaisance.** Undeterred by the hostile reception the British public gave Mr André Shelepin, the former chief of the Soviet Secret Police (KGB), who came here at the invitation of the TUC in April 1975, the National Executive Committee of the Labour Party saw fit last October to entertain as their guest an equally notorious (and even more influential) Soviet official—Mr Boris Ponomarev, chief of the International Department of the Central Committee of the Soviet Communist Party.

Mr Ponomarev, whose task is to co-ordinate activities of Communist parties in both Eastern and Western Europe (see p. 628) played a prominent part in planning the invasion of Czechoslovakia.

As Mr Douglas Hurd, an Opposition spokesman on Foreign Affairs, said: “Any association between this man and the Labour Party is prejudicial to the national interest” (28th October 1976). In fact the Prime Minister received Mr Ponomarev officially during the very week in which he threatened to withdraw our forces from Germany (see Chapter 25, p. 601). **Mrs Thatcher** rebuked the Prime Minister in Parliament when she said, “We totally condemn his decision to invite Mr Ponomarev to see him, and to receive him” (*Hansard*, 28th October 1976, Col. 696).

Earlier, when on 18th September 1976 the Polish community in Britain dedicated a memorial in Kensington Cemetery to the Polish prisoners of war murdered at Katyn, the Government, yielding to Soviet pressure, refused to send a representative, and forbade the Armed Forces to do so. Mr Airey Neave, representing Mrs Thatcher (who was abroad) at the ceremony, condemned the Government's craven attitude.

The policy document, *Labour's Programme for Britain 1976*, which recommends a dangerously complaisant approach to the Soviet Union, was overwhelmingly approved at Labour's Conference in October 1976. As Mr Gilmour wrote in an article in the *Sunday Express* on 14th November 1976:

“Labour's National Executive Committee ... has a pro-Eastern majority” .... The Labour Party Conference in general made noises rather more appropriate to a meeting

of the Supreme Soviet than to a Conference of a Party which is supposed to be democratic and pro-West”.

**Soviet Reactions to Mrs Thatcher's Speeches.** The Soviet Union made a series of quite unwarranted attacks on Mrs Thatcher, following her speech on the Soviet military threat on 19th January 1976 (see Chapter 25, p. 597). The Soviet Ambassador delivered an official protest to the Foreign Office, while various Soviet newspapers criticised her in violent terms. It was regrettable that the then Defence Secretary, Mr Mason, should have joined in this chorus of abuse, describing Mrs Thatcher's speech as “reactionary, ill-timed and provocative” (*The Times*, 26th January 1976.)

Following her speech in Dorking on 31st July 1976 (see p. 623) there were renewed attacks upon Mrs Thatcher by the Soviet press.

## **(C) WESTERN EUROPE**

*(Developments in the European Community are discussed in Chapter 26.)*

The last three years have seen a wave of instability and uncertainty sweep across Southern Europe. The Right-wing dictatorships in Greece and Portugal fell suddenly and without warning. Greece and Turkey have twice come to the brink of war: over Cyprus in 1974 and the Aegean in 1976. In Spain, the death of General Franco has led to a gradual and difficult movement towards parliamentary democracy; while in Italy, spectacular gains by the Communist Party have cast doubt on that country's political future. These developments have both placed NATO's southern flank under unprecedented strain and opened up the possibility of an enlargement of the European Community.

### **1. THE IBERIAN PENINSULA**

**Spain.** On 20th November 1975 General Franco died and the monarchy was restored in the person of King Juan Carlos. Sustained economic growth during the last two decades of the 36 years of the Franco era had created strong pressure for political and social changes. A reformist government, at first led by Sr Arias Navarro and latterly by Sr Adolfo Suarez, embarked upon a programme of reform designed to introduce parliamentary democracy within two years. The Government has faced hostility both from the extreme Right, which has feared that the break-up of the authoritarian system would lead to instability and ultimately Communism, and from the Left, which has regarded the pace of reform as too slow.

On 18th November 1976 the existing Cortes (the largely nominated parliament) voted by 425 votes to 59 in favour of a programme of political reform, legalizing trade unions and creating a parliament of two chambers, each elected by universal suffrage. The King will have considerable powers, including the right to nominate 40 members out of the 204 members of the Senate and to submit decisions of Parliament to a referendum. The reform package was approved by an overwhelming majority in a

referendum on 15th December 1976. A general election will be held in the early summer of 1977. The development of political parties in Spain presents a highly confused situation with a multiplicity of groups and factions jockeying for position in advance of the elections.

Spain's future is vital to Western Europe, and Mr Douglas Hurd, Conservative spokesman on European Affairs, has expressed the hope that:

“... one day Spain may wish and be able to join the European Community and possibly NATO as well” (*London*, 10th June 1976).

In contrast, the unhelpful approach of the Labour Government was epitomised by the then Secretary of State for Employment, Mr Michael Foot, who proclaimed:

“Nothing fundamental has changed yet. Fascist dictatorships don't just fade away ...” (*London*, 14th February 1976).

Such statements serve to harden opinions in Spain. They are also reminiscent of the ‘China lobby’ in the US twenty years ago, which blocked the development of US policy on China for many years. Mr Hurd has warned:

“We must not allow an anti-Spain lobby to develop in this country based on the same negative and out-of-date emotions” (*London*, 10th June 1976).

**Gibraltar.** In a referendum on 10th September 1967 the Gibraltarians demonstrated their wish to retain the link with Britain by 12,138 votes to 44. Successive British governments have consistently stated their opposition to any arrangements under which the people of Gibraltar would pass under the sovereignty of another state against their wishes.

Despite General Franco's death, and minor relaxations of the blockade against the Rock, the Spanish Government's position remains unchanged, i.e., to press for the return of Gibraltar to Spain. The Conservative position was made clear by Mr Hurd, who stated:

“No British Government would or could over-ride the wishes of the people of Gibraltar. It is the people of Gibraltar who hold the key to the Rock” (*London*, 10th June 1976).

**Portugal.** The overthrow of the Caetano government on 25th April 1974 was followed by eighteen months of political instability as the Communists sought to replace one dictatorship with another. But the abortive Leftist coup in November 1975 marked the turning point, and subsequently legislative elections were held in April 1976. The distribution of votes was as follows, with the percentages achieved in 1975 in brackets: Socialists 35 per cent (37·9); Popular Democrats 24 per cent (26·4); Centre Democrats 15·9 per cent (7·5); and Communists 14·6 per cent (16·6, including votes cast for the Portuguese Democratic Movement). At the Presidential Election in June 1976 the successful candidate was General Eanes, who had the backing of the Socialists, the Popular Democrats and the Centre Democrats, and received 61 per cent of the vote. The following month a minority Socialist government was formed under

the leadership of Sr Mario Soares. This government, despite the substantial aid which has been provided by both the European Community and the United States, faces grave economic problems. These have been made worse by the flood of refugees from Angola and Mozambique.

Mr Maudling, speaking of our NATO ally, stated: "We must help the course of democracy in practical ways", which required not only "maximum economic aid" from the EEC, but also assistance to Portugal's democratic parties (*Hansard*, 10th November 1975, Col.995). The Conservative Party has established close links with the Centre Democrats, whose share of the vote doubled between 1975 and 1976.

## **2. THE EASTERN MEDITERRANEAN**

**Greece.** Following the collapse of the Greek Junta on 23rd July 1974 in the wake of the Cyprus crisis, parliamentary democracy was rapidly re-established. On 17th November 1974, Mr Constantine Karamanlis's moderate conservative New Democracy Party gained a crushing victory in a General Election, winning 220 seats. The liberal Centre Union won 60 seats and the extreme Left 20 seats.

Mr Karamanlis from the start indicated that his Party considered that the future of Greece lay in Europe, and in June 1975, Greece formally applied for membership of the European Community. The whole range of Greek political opinion, except the extreme Left, favours early EEC membership, because it hopes that Community membership will prove a guarantee of democratic conduct in Greece, and an alternative source of Western influence to the United States, which remains very unpopular in the aftermath of the Turkish invasion of Cyprus.

On 3rd December 1975 Mr Maudling said:

"We welcome the possibility of the accession of Greece to full membership of the European Community, and Greece, too, is a country without which Europe cannot really in any historic terms be complete" (*Hansard*, Col. 1701).

In August 1974 Greece had declared its intention of leaving NATO. However, its final intentions are still unclear on this matter.

**Turkey.** Events in Greece and Cyprus have had a substantial effect on Turkey. Tension with Greece over both Cyprus and the question of sovereignty over the Aegean continental shelf has led to a considerable military build-up on both sides. American Congressional disapproval of Turkish policy in Cyprus led to an American arms embargo, to which Turkey retaliated by temporarily closing American bases. In the Spring of 1976, the United States signed parallel arms agreements with both Greece and Turkey. However, these have not been ratified by Congress, and the future train of events will depend largely on the policies to be adopted by the new American administration.

Turkish relations with the EEC deteriorated in the second half of 1976, because of Turkish dissatisfaction with both EEC-Turkish trade arrangements, and with EEC policy towards Turkish migrant workers. In addition, Turkish opinion is concerned



that early Greek membership of the EEC will give Greece an advantage in its bilateral disputes with Turkey.

**Cyprus.** The short-lived “Sampson” *coup d'etat* and the subsequent Turkish occupation of 40 per cent of the island in the summer of 1974 left the Cypriot people bitterly divided. In the Greek sector, Archbishop Makarios recovered his authority while in the Turkish-occupied sector, the Turkish Cypriot leader, Mr Rauf Denktash, set up a self-styled Turkish Federated State. In the last two years, there has been a steady movement of Greeks from the Turkish sector and *vice versa*. Inter-communal talks have taken place in Vienna, but no progress was made until a meeting between Archbishop Makarios and Mr Denktash on 13th February 1977 indicated that a compromise might be reached.

On 17th June 1976 Mr Hurd declared that:

“The EEC has a duty to exert itself more than it has done in the past to try to find a solution to this essentially European problem” (*Hansard*, Col. 869).

The British role in the Cyprus crisis of 1974 was recalled on 19th May 1976, when a Parliamentary Select Committee reported. The Report attacked the British Government for not intervening, and expressed the view that Britain “had a legal right to intervene, she had a moral obligation to intervene (and) she had the military capacity to intervene.” The Government rejected the Select Committee's criticism in a White Paper (Cmnd. 6579), published on 4th August 1976.

In a speech in London on 24th November 1976, **Mrs Thatcher** called for:

“a joint initiative between the Community and the new American administration to bring together the different parties on the island and outside and make a strenuous effort to achieve the settlement which has eluded us all for so long”.

### **3. COMMUNISM IN WESTERN EUROPE**

Much attention has been directed towards the emergence of so-called “Euro-Communism” in certain countries in Western Europe, where various Communist parties claim to have put aside any unquestioning obedience to Moscow, and to have become democratic and independent. This tendency has been observed in the case of France, Spain and above all Italy. (The Portuguese Communist Party has not moved in this direction, remaining rigidly pro-Soviet).

These Communist claims have been received with justified scepticism. In a speech at Hanover on 25th May 1976, **Mrs Thatcher** said:

“Today, in some European countries we see Communist parties dressed in democratic clothes and speaking with soft voices. Of course, we hope that their oft-proclaimed change of heart is genuine. But ... despite the new look of these Communists we should be on the watch for the teeth and appetite of the wolf”.

**Italian Communism.** The Italian Communist Party (PCI) has been far more successful than other Communist parties. Before the General Election of 20th June 1976, the PCI campaigned for a share in power, preferably in coalition with the long-governing Christian Democratic Party (their traditional main opponents since the War)—the so-called “Historic Compromise”. In order to try to establish their democratic credentials, the Communists even expressed qualified support for Italian membership of NATO. However, although winning 34.4 per cent of the vote and 228 seats out of 630 (a gain of 49), the Communists did not do well enough to enter the Government, and a minority Christian Democratic administration was formed by Sr Giulio Andreotti, relying for its existence on the benevolent abstention of the parties of the Centre and Left, including for the first time the Communist Party, who indicated that they would give qualified support to the Government on the understanding that they would be consulted on economic and social policy. Signor Andreotti has since announced a tough programme of economic austerity, and there are signs of increasing unrest within the Communist rank and file towards the present moderate tactics of the Communist party leader, Signor Berlinguer.

## 4. ICELANDIC FISHERIES DISPUTE

In November 1975, the interim Icelandic fisheries agreement, negotiated by the Conservative Government in 1973, expired. This had been based on an annual catch of some 130,000 tons by British vessels in the disputed waters. In October 1975, Iceland had unilaterally declared a 200 mile limit, but she offered Britain a temporary arrangement, based on a catch limit of 65,000 tons a year. However, this was rejected by the British Government and the so-called “Cod War” resumed.

After seven months of wrangling and confrontation, during which Iceland's links with NATO were put at risk, the British Government, faced with a universal move towards 200-mile fishing limits (see p. 646), felt obliged on 1st June 1976 to accept an Icelandic offer, greatly inferior to that put forward in November 1975, whereby for a period of only six months, British fishermen would be allowed to catch about 15,000 tons of fish. The fishing industry estimated that some 9,000 people would lose their jobs as a result of this agreement. Moreover, the taxpayer was faced with compensation claims and naval repair bills of nearly £30 million.

Throughout the period of confrontation the Government ignored Conservative demands that it should look at the fishing industry's problems in a wider perspective and concentrate on renegotiating the EEC's Common Fisheries Policy which holds the key to the industry's future. Conservative spokesmen called repeatedly for mediation and warned of the grave danger to NATO interests posed by the Labour Government's inflexibility. Mr Maudling commented:

“The Government have gravely mishandled these negotiations, with very serious results for the British fishermen and their families ... The next stage will be the EEC fishing agreement. It is of vital importance that the Government should not bungle this too” (*Times*, 2nd June 1976).

Since then the European Community has decided to establish an EEC 200-mile limit with exclusive coastal zones for member states (see Chapter 12, p. 296). This has

permitted the EEC Commission to take over from Britain the negotiations with Iceland.

## (D) AFRICA

### 1. THE TURN OF EVENTS

In his prophetic speech well over a decade ago, Mr Harold Macmillan spoke of “the wind of change”, which he saw blowing through the African continent. In recent years, the withdrawal of the Portuguese from Angola and Mozambique has led to a dramatic quickening in the rate at which that change is taking place. The large-scale Soviet and Cuban intervention in the war in Angola added a new and dangerous dimension to developments in southern Africa, where the Communists seek to polarise the ideological conflict on racial lines, identifying themselves with the “liberation” movements and seeking to identify the West exclusively with the White minority governments.

### 2. RELATIONS WITH BLACK AFRICA

Naturally, Britain's relations are closest with those Black African states of the Commonwealth with whom we have long historic ties. The course of these relations has not always run smoothly, yet the 1970–4 Conservative Government constantly sought to foster closer understanding.

**Nigeria.** In February 1976 relations with Nigeria were temporarily strained when, following the assassination of General Gowon's successor, General Mohammed, in an attempted coup, the British High Commissioner was withdrawn from Lagos at the Nigerian Government's request. Given the close ties between the two countries, the deterioration in relations was most unexpected, and had potentially serious implications for Britain, because of the substantial sterling balances held by Nigeria in London.

**Uganda.** Relations with Uganda have followed a troubled course ever since August 1972 when President Amin peremptorily expelled all Asian holders of British passports. Since then, Britain has provided no further aid to Uganda, although Uganda is a signatory to the Lomé Convention (see p. 649).

**Trade.** In 1976 British exports to Black Africa totalled some £1,380 million, while our imports, which included many crucial raw materials, amounted to £969 million. Britain's four major Black African trading partners are Nigeria, Zambia, Kenya and Ghana.

**Investment.** The total book value of direct British investment in independent countries in Africa (excluding South Africa) in 1974 amounted to £617.4 million (£198.7 million in Nigeria; £54.8 million in Ghana; £88.5 million in Kenya). These figures exclude oil, banking and insurance.

**Aid.** In 1975, the latest year for which figures are available, Commonwealth states in Africa received from Britain a total of £66.6 million in grants and loans. These countries are also signatories to the Lomé Convention (see p. 649).

### 3. ANGOLA

When the Portuguese authorities decided to grant independence to Angola, following the overthrow of the Caetano regime in Lisbon in 1974, they had hoped to hand over power to a “government of national unity”. But a scramble for power ensued between the three rival nationalist movements—the Popular Movement for the Liberation of Angola (MPLA), the National Front for the Liberation of Angola (FNLA) and the National Union for the Total Independence of Angola (UNITA)—and escalated into a full-scale civil war after the Portuguese withdrawal on 11th November 1975. On 18th February 1976 the Labour Government gave official recognition to the MPLA as the Government of Angola.

**Outside Intervention.** The Soviet Union had given aid to the MPLA since the mid-1960s, when the Soviet planners first recognised the importance of Angola to their world strategy and to the future of southern Africa. The Soviet Union apparently sees no inconsistency between the pursuit of East-West détente on the one hand and aid for so-called “wars of national liberation” on the other (*Izvestia*, 7th January 1976). The Soviet Union has since signed a military agreement with Angola. An agreement between the MPLA and the Communist Party of the Soviet Union has also been signed—the first time that the CPSU has made such an agreement with a political faction in Africa.

An estimated 12,000 Cuban troops fought with the MPLA, and the régime's continued dependence on them precluded an early departure. In November 1976 Cuban troops were reportedly involved in the MPLA's efforts to crush UNITA in southern Angola.

South African forces were also involved in support of the anti-MPLA forces. They were withdrawn by April 1976, but their intervention had damaged Mr Vorster's policy of détente.

During 1975 American aid (estimated to total \$32 million) was given to neighbouring moderate governments (e.g. in Zaire), who were supporting the anti-MPLA forces. But in December 1975, the US Senate rejected the Administration's request for a further \$28 million. Subsequently, Dr Kissinger reiterated America's aims in Angola in his statement to the Senate Foreign Relations Committee's Sub-Committee on African Affairs on 29th January 1976. The aims were: a cease-fire; the withdrawal of outside forces, Soviet, Cuban and South African; the cessation of foreign military involvement; and negotiations among the nationalist factions. These aims reflected in large part the Organisation of African Unity (OAU) position, adopted in Kampala in July 1975.

The OAU, at its summit meeting at Addis Ababa from 10th to 13th January 1976, reflected the extent of African opposition to Soviet-Cuban involvement. 22 member states supported recognition of the MPLA as the Government of Angola, but an equal

number favoured the withdrawal of all foreign intervention, a cease-fire and a negotiated settlement.

**Conservative Approach.** Speaking a month before the Labour Government gave official recognition to the MPLA régime in Angola, **Mrs Thatcher** emphasised the importance of events in Angola by listing the four reasons for the deep concern felt by Conservatives:

“The first is that Angola occupies a vital strategic position. If the pro-Soviet faction wins, one of the immediate consequences will almost certainly be the setting up of Soviet air and naval bases on the South Atlantic.

The second reason is that the presence of Communist forces in this area will make it much more difficult to settle the Rhodesian problem and achieve an understanding between South Africa and Black Africa.

The third reason is more far-reaching. If the Russians have their way in Angola, they may well conclude that they can repeat the performance elsewhere. Similarly, uncommitted nations would be left to conclude that NATO is a spent force and that their best policy is to pursue an accommodation with Russia.

Finally, what the Russians are doing in Angola is against détente” (*Kensington*, 19th January 1976).

**EEC Reactions.** In the debate on East-West relations initiated by the Conservatives on 24th February 1976, Mr Maudling welcomed the statement of the previous day on Angola by the Foreign Ministers of the European Community. He stated:

“It is of great importance that they should have declared together, unitedly, their wish to do all they can to see a withdrawal of foreign troops from Angola. I wish that had come earlier. We on this side of the House have often pressed that this should be done. It is better late than never, but it is no good unless the declaration is followed by most vigorous action by all members of the Community through all diplomatic channels available, including, I believe, the Security Council of the United Nations” (*Hansard*, Col. 207).

**Angola at the UN.** In June 1976 the US vetoed the resolution at the conclusion of the UN Security Council debate on Angola, thus preventing Angolan membership of the UN, but in November 1976 the US withdrew its objections.

**Mercenaries.** In June 1976, an Angolan court sentenced to death three British subjects who had fought as mercenaries for the anti-MPLA forces—the men were subsequently executed, along with an American mercenary. Nine other mercenaries received lengthy prison sentences. Asserting that in the circumstances the Prime Minister’s plea for clemency was inadequate, Mr Maudling stated that Mr Callaghan should have been demanding justice (*Hansard*, 29th June 1976, Col. 206).

## 4. SOUTH AFRICA

Mr Vorster's **Policy of Détente**. In 1974 the whole situation in southern Africa was changed with the overthrow of the Caetano Government in Portugal (see p. 626) and the new régime's decision to withdraw from its territories in Africa. The loss of the buffer-states of Angola and Mozambique led to the launching of Mr Vorster's détente policy in October 1974, and for eighteen months the outlook for the development of a dialogue—or détente—between South Africa and her Black neighbours had seemed favourable.

There was a marked deterioration in the prospects for peace in southern Africa during the first half of 1976 as a result of South African intervention in the civil war in Angola, the breaking off of the constitutional talks in Rhodesia between Mr Smith and Mr Nkomo (see p. 635) and, within the Republic of South Africa itself, the rioting by blacks which began at the African township of Soweto but soon spread to other parts of the country and at one time included demonstrations by coloureds in the Cape Town area.

**Western Diplomacy.** The West's vital interest now lies in seeking peace and stability throughout southern Africa, supporting a speedy solution to the crises in Namibia and Rhodesia. The Foreign Ministers of the European Community adopted a common position on Southern Africa in their statement of 23rd February 1976 on Angola, which was reaffirmed by the nine Heads of Government on 2nd April 1976. The Community's position takes the form of five principles, in which the Nine declare their readiness to co-operate with African states to the extent that this is desired by those states; dissociate themselves from any action by any state seeking to establish a zone of influence in Africa; give their support to the right of self-determination and independence of the people of Rhodesia and Namibia; and condemn the policy of apartheid in South Africa. The US Secretary of State, Dr Kissinger, visited six Black African states in April and May 1976, met Mr Vorster in West Germany in June, and at Zurich in September, and then embarked upon a diplomatic shuttle between Black Africa and Pretoria later in September. In Lusaka, on 27th April 1976 Dr Kissinger made clear the opposition of the US to the system of "legalised and institutional racial discrimination" in South Africa.

The Carter Administration has made US opposition to the policies of the white minority governments even more emphatic, and the appointment of Mr Andrew Young as US Ambassador to the UN is of particular significance (Mr Young is black, and a former civil rights campaigner).

**Need for Dialogue.** The Labour Party's policy towards relations with South Africa is one of ostracism and isolation, epitomised by the stark heading, "Break the links", which appears in *Labour's Programme 1976*. In marked contrast, Conservatives believe in the need for dialogue in international relations.

While not defending the concept of apartheid, it is the Conservative Party's view that the regular exchange of views and the liberalising impact of trade are ultimately more effective than any demands for a severing of ties or banning of economic relations, which can only increase a country's isolation from the outside world and thereby serve to harden attitudes. In any case, a breach of relations with a country with a recognised Government is usually counter-productive, since it greatly reduces the chance of exercising British influence or protecting British interests.

**Economic Relations.** In its February 1974 Manifesto, the Labour Party committed itself to a “disengagement from Britain's unhealthy involvement with Apartheid”. Nevertheless, during 1975 the value of British exports to South Africa increased by 23.2 per cent. By 1976, annual exports totalled £645 million and imports £613 million. In 1974, the book value of direct British investment in South Africa and Namibia (excluding oil, banking and insurance) totalled £1003.7 million.

*Labour's Programme 1976* calls for a ban on any further investment by British companies in South Africa; the withdrawal of all British banks from South Africa and a ban on all further loans by British banks to the Republic; a licensing system on all trade between Britain and South Africa and a ban on the export of capital goods to the Republic; and urges that the Government should work towards a general ban on imports of South African gold and towards a mandatory ban on all trade with apartheid South Africa.

**British Companies in South Africa.** Following a report by the House of Commons Expenditure Committee in January 1974 on British firms in South Africa, the Government accepted the recommendation that a code of practice should be adopted which British companies operating in South Africa should observe. The aim is that British companies should be encouraged to use all available opportunities for improving the conditions of employment of their African labour force.

On 12th December 1975 Mr Shore, then Secretary of State for Trade, announced further guidelines for British companies. The major change reflected the implications of South Africa's Second General Law Amendment Act 1974. The British Government now only looks for publication of detailed information on employment practices where a British company holds 50 per cent or more of the equity in a South African company.

But Mr Shore also announced a significant change in government policy, when he stated:

“Any company applying for an ECGD guarantee to cover new or further investment in South Africa will in addition to satisfying the underwriting conditions have to give undertakings to promote the adoption of the policy and practices recommended in the Code of Practice” (*Hansard*, 12th December 1975, Col. 418).

**The Simonstown Agreements**, which dated from 1955, provided for co-operation between Britain and South Africa in the defence of the sea routes round the Cape of Good Hope, which are vital for the West's supplies of strategic raw materials (see Chapter 25). In a Debate on 6th May 1975 Mr George Younger, then Conservative spokesman on Defence, said:

“The base [Simonstown] is there if we need it and we can use it. It gives great security to that route which is vital to us” (*Hansard*, Col. 1255).

On 16th June 1975 the Labour Government announced in a Written Parliamentary Answer (*Hansard*, Col. 321) its irresponsible decision to terminate the Agreements.

**Sale of Arms.** The Labour Government has placed an embargo on all sales of arms to South Africa and will give no help or co-operation to the South African Government which could be used for internal repression or the enforcement of apartheid (*Hansard*, 19th March 1974, Col. 873).

Under the Simonstown Agreements, the British Government was obliged to supply arms for the South African maritime forces. In its 1974 Election Manifesto and again in *Labour's Programme 1976*, the Labour Party has committed itself to supporting the so-called liberation movements in southern Africa.

The Conservative position remains consistent with the statement by Lord Home, then Foreign Secretary, that

“As regards any further sales to South Africa, we must reserve our own judgement and judge this matter in relation to British interests at a future date” (*Hansard*, 22nd February 1971, Col. 35).

**Independence for the Homelands.** Central to the South African Government's policy of apartheid are its plans for separate development. The intention is to establish nine Bantustans, or Homelands, for the entire African population, and to grant independence to these territories. Despite the widespread disturbances in the Republic in the Summer of 1976, Mr Vorster has stated that blacks' rights must be limited for all time to the Bantustans (*CBS Interview*, 7th November 1976).

The South African Government granted independence to the first such homeland, the Transkei, on 26th October 1976. No other states have yet granted official recognition to the Transkei. The criteria for recognition usually applied by British Governments are the likely permanence of the Government, its control over its territory, and the obedience of the mass of the population. The Labour Government refused to grant recognition on the grounds that the “purported independence” of the Transkei represents “... an extension of the Bantustan policy of South Africa and not the birth of a new nation” (Mr Edward Rowlands, *Hansard*, 17th November 1976, Col. 1313).

**Namibia (South West Africa).** The South African Government administers the territory of Namibia under a League of Nations mandate. As part of Mr Vorster's détente policy, the South African Prime Minister announced in May 1975 that the various peoples of Namibia were free to determine their own constitutional future. The first meeting of the Namibian constitutional conference was held later that year in Windhoek. In August 1976 the conference announced that the date for independence of the territory would be 31st December 1978, with an interim government being established prior to independence.

However, the UN no longer recognises South Africa's mandate over Namibia, and in January 1976 the Security Council unanimously passed a resolution which called for free elections in Namibia by August 1976. The UN and the OAU recognise the South West African People's Organisation (SWAPO) as the sole representative of the Namibian people. Although SWAPO is not represented at the constitutional conference, Mr Vorster has indicated that he is willing to include it in further talks (15th October 1976). Both the European Community and the USA have urged Mr Vorster to seek a speedy solution to the Namibian problem.



## 5. RHODESIA

**Failure to Negotiate a Settlement.** Ever since the Rhodesian Government's Unilateral Declaration of Independence (UDI) in 1965, successive British Governments have been unable to reach agreement with the Rhodesian Prime Minister, Mr Ian Smith, on a settlement to the constitutional dispute that would include a guarantee of unimpeded progress to majority rule and that would be acceptable to the Rhodesian people as a whole. Sir Harold Wilson, then Prime Minister, held abortive talks with Mr Smith on HMS "Tiger" in December 1966 and on HMS "Fearless" in October 1968. In November 1971, Lord Home, Foreign Secretary in the Conservative Government, came to an agreement on proposals for a settlement with the Rhodesian administration, subject to the approval of the people of Rhodesia as a whole. In May 1972 the Pearce Commission, appointed by the Government to assess opinion towards the settlement, reported (Cmnd. 4964) that, in their view, the majority of Africans rejected the proposals.

Launching his policy of *détente* with Black Africa (*see above*), Mr Vorster stated that the alternative to a peaceful settlement in Rhodesia would be "too ghastly to contemplate". Mr Vorster and President Kaunda of Zambia attended the subsequent Victoria Falls talks in August 1975 between Mr Smith and the leaders of the African National Council (ANC)—Bishop Muzorewa, Rev Ndabaningi Sithole and Mr Joshua Nkomo. But the talks collapsed and served only to reopen old divisions within the nationalist ranks, with Bishop Muzorewa and Mr Sithole of the ZANU faction leading the "external wing" of the ANC, and Mr Nkomo of the ZAPU faction leading the "internal wing".

In December 1975 constitutional talks were resumed in Salisbury between Mr Smith and Mr Nkomo, but the gap between the two sides remained wide and the talks were broken off on 19th March 1976. In the ensuing months, guerilla warfare increased, as the so-called "operational areas" of guerilla activity spread from the north-eastern frontier into southern Rhodesia and sabotage raids were made on the rail and road links with South Africa.

**Labour Government's Proposals.** Following the failure of the Smith-Nkomo talks, Mr Callaghan, then Foreign Secretary, in a statement to the House of Commons, listed four pre-conditions on which there should be agreement amongst the various parties prior to any negotiations leading to a constitutional settlement:

1. "Acceptance of the principle of majority rule;
2. Elections for majority rule to take place in 18 months to two years;
3. Agreement that there will be no independence before majority rule;
4. The negotiations must not be long drawn out" (*Hansard*, 22nd March 1976, Col. 30–1).

In a statement on 2nd April 1976, the Heads of Government of the European Community reaffirmed the Foreign Ministers' declaration of 23rd February on Southern Africa (*see p. 632*), and gave their support to Mr Callaghan's proposals. They also appealed "solemnly to the Rhodesian minority, which at present is opposing a system of majority rule, to accept a rapid and peaceful transition to such a system".

In the months following Mr Callaghan's statement, the Labour Government's handling of the Rhodesian crisis was wholly inadequate. Conservative spokesmen repeatedly urged the Government to play a more constructive role, and on 17th September 1976, at the time of Dr Kissinger's visit to Southern Africa, Mr Maudling criticised the "inert and supine attitude of the British Government", who were contenting themselves with sending a Foreign Office official as part of Dr Kissinger's "baggage train". The Labour Government also agreed to give £15 million in aid to Mozambique, following President Machel's decision in March 1976 to enforce sanctions against Rhodesia. The Conservative Party opposed giving aid to a Marxist regime which clearly favoured a violent solution to the problem in Rhodesia, and which, as Mr Maudling stated, was "... conniving at, if not fomenting, terrorism and bloodshed across the frontier with Rhodesia" (*Hansard*, 10th March 1976, Col. 398).

**US Diplomacy.** In the wake of the Angolan crisis, the US Secretary of State visited six Black African states and, in Lusaka on 27th April 1976, gave the first public declaration of a new US policy towards Africa (see also p. 632). The major section of Dr Kissinger's speech dealt with Rhodesia and included the announcement of the "unrelenting opposition" of the US Administration to the white minority régime in Salisbury. Dr Kissinger spelt out US policy "for a just and durable Rhodesian solution", which included support for Mr Callaghan's proposals of 22nd March 1976.

**Mr Smith's Acceptance of Majority Rule.** On 24th September 1976 Mr Smith, the Rhodesian Prime Minister, announced in a speech to the nation that he and his colleagues had decided to accept the proposals for a constitutional settlement which he said had been put to him in Pretoria five days previously by Dr Kissinger.

In accordance with the proposals which Mr Smith said Dr Kissinger had put to him, the Rhodesian administration accepted:

- Majority rule within two years;
- The speedy establishment of an interim Government, comprising:
  - i. a Council of State (half white, half black) to draw up a Constitution, and
  - ii. a Council of Ministers (black majority and with a black First Minister) to exercise executive responsibility during the transitional period.

In return, the "package", according to Mr Smith, specified that:

- During the period of the interim Government, the Ministers of Defence and of Law and Order would be white.
- On the establishment of an interim Government, sanctions against Rhodesia would be lifted and guerilla activity would cease.
- There would be subsequent economic assistance to secure the country's future, including financial guarantees for the whites.

However, the exact status of the "package deal" was soon shrouded in confusion. The only summary of the proposals was that given by Mr Smith, which the Foreign Office appeared to endorse in a statement following the speech. However, the Foreign Secretary subsequently stated that the points listed by Mr Smith were negotiable (Press Conference, 7th October 1976, Washington DC) and refused to clarify the

position, despite close questioning by the Opposition (*Hansard*, 12th October 1976, Col. 242–251).

**The Geneva Conference** was convened on 28th October 1976, with Mr Ivor Richard, Britain's Permanent Representative at the UN, acting as Chairman, to discuss the formation of an interim government. Mr Smith led the Rhodesian Government's delegation, and the groups representing the black nationalists were led by Mr Robert Mugabe (a leading member of ZANU and regarded as a spokesman for the guerillas), Mr Joshua Nkomo (leader of ZAPU and the internal wing of the African National Council, who formed the "Patriotic Front" coalition with Mr Mugabe), Bishop Abel Muzorewa (President of the external wing of the ANC) and Rev. Ndabaningi Sithole (a former leader of ZANU).

The talks soon ran into difficulties on the question of the timetable for majority rule and independence. The Patriotic Front delegates demanded independence within 12 months from the end of the Geneva talks, rejecting the British plan for an interim period of 15 months which envisaged 1st March 1978 as independence day. Neither this issue, nor problems concerning the nature of an interim government, had been resolved when the talks were adjourned by the Foreign Secretary on 14th December 1976.

Following the adjournment, Mr Richard visited Southern Africa in an effort to secure agreement on an interim government, which would include a direct British role. But the "front line" African Presidents inflicted a serious setback to Mr Richard's consultations by announcing, on 9th January 1977, that they would give their full support exclusively to the Patriotic Front coalition of Mr Nkomo and Mr Mugabe. Mr Richard's mission finally collapsed on 24th January with Mr Smith's rejection of a fresh set of British proposals for the interim government, which differed from the Kissinger proposals by incorporating a British Resident Commissioner who would have a casting vote in a black majority Council of Ministers and in a National Security Council, composed of black and white leaders and Services and police chiefs. However, Mr Smith did repeat his readiness to implement the Kissinger proposals.

The US Secretary of State, Mr Cyrus Vance, in his first press conference, told the Rhodesian authorities bluntly that "under no circumstances can they count on any form of American assistance" (Washington, 31st January 1977). He endorsed the British proposals, which Mr Richard had put to Mr Smith, and warned that the Carter Administration would not support any attempt by Mr Smith to secure a "so-called internal solution", which excluded the leaders of the nationalist movements.

Mr John Davies, condemning the Government's "dilatatory and ineffective handling" of the Rhodesian problem, summed up the Conservative position when he stated:

"We think that a unique opportunity was offered by the Kissinger initiative, and we believe that the inconclusive nature of the Geneva Conference and the apparently inadequate authority given to the principal spokesman for this country in these matters has led very much to the situation we face today." (*Hansard*, 25th January 1977, Col. 1184).

He added that Conservatives were deeply disturbed by the way in which the original basis of the Kissinger negotiations had been discarded. As Mr Davies commented:

“After all, that basis embodies what constituted a great breakthrough—the acceptance within a reasonable time of majority rule, coupled with major safeguards for all Rhodesians, black and white” (ibid).

In an emergency debate in the House of Commons on the Foreign Secretary's refusal to make immediate representations over the alleged abduction of 400 schoolchildren from Rhodesia to Botswana, Mr Davies deplored the Government's failure to take any action until pressed by Conservatives.

**Sanctions.** Mandatory sanctions against Rhodesia are embodied in a number of Resolutions passed by the UN Security Council between April 1966 and Spring 1970 which, unlike others passed by the UN, are binding in international law and equivalent to international treaties. The United States has now reversed its policy under the ‘Byrd Amendment’, which had permitted continued American imports of Rhodesian chrome. This brings the USA into line with the UN sanctions policy.

In his statement of 24th September 1976 Mr Smith accepted that sanctions would not be lifted until an interim government had been established. The Minister of State at the Foreign Office, Mr Rowlands, in response to Conservative demands during the annual debate on the renewal of sanctions in 1976, reassured the House that “detailed contingency planning is under way” for the lifting of sanctions on the establishment of an interim government in Rhodesia (*Hansard*, 20th October 1976, Col. 1614).

## **(E) THE MIDDLE EAST**

### **1. ARAB/ISRAELI CONFLICT**

The war of October 1973 broke a situation of “neither war nor peace” which had prevailed between the Arab States and Israel since the end of the 1967 war. The latter had resulted in Israel's occupation of the Sinai Peninsula, the Golan Heights (on the border with Syria), Jerusalem and the Gaza Strip. During the period 1967–73 the one major advance was the passage through the UN Security Council of Resolution 242 in November 1967, which provides the basis for evolving a peace formula whereby two fundamental claims could be reconciled—the Israeli need for security and Arab claims of sovereignty over occupied territory.

**UN Resolution 242.** In this resolution, the Security Council:

(1) Affirms that the fulfilment of the Charter principles requires the establishment of a just and lasting peace in the Middle East which should include the application of both the following principles:

- i. Withdrawal of Israeli armed forces from territories occupied in the recent conflict.

- ii. Termination of all claims or states of belligerency and respect for and acknowledgement of the sovereignty, territorial integrity and political independence of every State in the area and their right to live in peace within secure and recognised boundaries free from threats or acts of force.

(2) Affirms further the necessity:

- a. For guaranteeing freedom of navigation through international waterways in the area.
- b. For achieving a just settlement of the refugee problem.
- c. For guaranteeing the territorial inviolability and political independence of every State in the area, through measures including the establishment of demilitarized zones.

**The October 1973 War and its Aftermath.** The October 1973 war resulted in Israeli advances across the Suez Canal and further into Syria. Meanwhile, the UN Security Council had passed Resolutions 338, 339 and 340 (21st–25th October 1973) calling for an immediate cease-fire, the implementation of Resolution 242 and negotiations for a “just and lasting peace” in the area.

**European Declaration on the Middle East.** In November 1973 the EEC Foreign Ministers agreed on a joint Declaration, in which they declared their support for UN Resolution 242. The Nine also reaffirmed the need for international guarantees and saw a clear role for peace-keeping forces.

**Arab Use of the Oil Weapon.** The Arabs' control over a large proportion of the world's oil supplies enabled them during late 1973 and early 1974 to deploy the so-called oil weapon, involving production cuts, destination embargoes and a fourfold increase in the price of crude oil.

**Ceasefire and Disengagement Diplomacy.** Following active diplomacy by Dr Kissinger, then US Secretary of State, Egypt and Israel agreed, first, to a six-point ceasefire plan in October 1973, and subsequently, at the Geneva Peace Conference, to the establishment of a buffer zone between their forces in the Sinai (the UN Secretary-General, Jordan, the USA and the Soviet Union also participated at Geneva, while Syria refused to attend and the Palestinian organisations were not invited).

The UN Disengagement Observer Force was established on the Golan Heights, between the Israeli and Syrian forces, as a result of UN Security Council Resolution 350, 31st May 1974.

**The Sinai Agreement.** Again largely as a result of Dr Kissinger's diplomacy, the Egyptian-Israeli Disengagement (Sinai) Agreement was signed on 4th September 1975 and successfully implemented on schedule within five months. The Agreement is a highly complex document giving new responsibilities to the UN Emergency Force in the Sinai, which polices the buffer zone.

**UN Security Council Debates on the Middle East.** An important development took place at an Arab summit conference at Rabat in October 1974 where it was agreed that the Palestine Liberation Organisation (PLO) was the sole legitimate

representative of the Palestinians. The Middle East was discussed in debates at the Security Council in December 1975 and January 1976. The PLO was invited on both occasions with the right of participation as a member state of the UN. However, the Israelis refused to attend the January debate in protest against PLO participation, which it regarded as “a flagrant violation of the UN Charter”, and also because it saw the Security Council debate as an attempt to destroy the negotiating procedure provided by the Geneva Conference.

## **2. THE LEBANON**

The civil war in the Lebanon, lasting 19 months and costing up to 40,000 lives, posed a threat to peace throughout the Middle East. The causes of the civil war were extremely complex, but basically the conflict was between Rightist and Christian factions on one side, and Leftist and Muslim factions, as well as the Palestinians, on the other. The terms for a settlement were agreed at an Arab Summit, held in Riyadh, 16th–18th October 1976, and were subsequently endorsed at a full scale Arab League Summit in Cairo a week later. On 10th November 1976, Syrian troops, who comprise the bulk of the 30,000 strong Arab Deterrent Force, moved into Beirut. Ten days later the Force, nominally under the control of the Lebanese President, Mr Sarkis, had occupied virtually the whole of the Lebanon.

## **3. LABOUR GOVERNMENT'S POLICY**

Referring to the unresolved Arab/Israeli conflict in his speech to the UN General Assembly on 5th October 1976, Mr Crosland said that Britain and her partners in Europe urgently wanted to see negotiations which would lead to a peace agreement supported and sustained by the world community. He said that an enduring settlement must be based on a compromise solution in which the Arabs accepted that Israel is a fact and that her right to exist is not in question. Peace would be impossible, he said;

“... unless the Arab states give Israel formal recognition, within secure, recognised and mutually agreed boundaries, as a permanent feature of the geography and politics of the Middle East”.

He added:

“But if Israel is to obtain this recognition, she must, in a settlement, put an end to the territorial occupation which she has maintained since the war of 1967; the nine members of the European Community have declared that this is an essential element in a settlement. On behalf of the British Government I underline that need today”.

Mr Crosland also emphasised that one essential element in a settlement would be a land for the Palestinians, “not necessarily a sovereign state but a place where they will be free to look after their own affairs”.

## **4. CONSERVATIVE POLICY**

Mrs Thatcher's highly successful fact-finding visits to Egypt and Syria in January 1976 and to Israel two months later illustrate the Conservative Party's consistent and even-handed approach to the Arab/Israeli dispute.

**UN Resolution 242.** Conservative support for UN Resolution 242 was reaffirmed by **Mrs Thatcher** when she stated:

“The Conservative Party believes, as it has always done, that any settlement must be based upon the United Nations Resolution 242. There is no change of policy” (*Finchley*, 27th November 1975).

But Mrs Thatcher acknowledged the need for flexibility when she said that provided the key principles of Resolution 242 are preserved, “Maybe now we should have a slightly different resolution” (*Damascus*, 11th January 1976).

**The Palestinian Problem.** **Mrs Thatcher** has pointed out that the Middle East problem now has “two limbs”—Israeli withdrawal from occupied territories in return for security within guaranteed borders and a solution to the Palestinian problem (*Cairo*, 9th January 1976). She also stated that the Palestinian issue was now “more than a refugee problem”, and that its solution was essential for a final Middle East settlement. She added:

“Ultimately, if we are to get a settlement, we have to get a reconciliation between the two sides. This is not aided by unilateral pronouncements, but only by diplomatic activity between the two (sides) of the kind that resulted in the Sinai Agreement” (*Cairo*, 9th January 1976).

**Arms Sales to the Middle East.** During her visit to Egypt and Syria in January, Mrs Thatcher stated that a Conservative government's policy would be to look at each case on its merits and to judge whether it would ultimately jeopardise a Middle East settlement.

**Britain's Role in a Peace Settlement.** Praising the Sinai Agreement between Egypt and Israel, Mrs Thatcher described it as a “courageous and wise move”, and added that it was a “first step” towards a lasting solution (*Cairo*, 9th January 1976).

Discussing a possible British role in further Geneva peace talks and the possibility of Britain acting as one of the big power guarantors of a settlement, **Mrs Thatcher** stated:

“I imagine that when we get a final Middle East settlement we will not get one without some international guarantee of the frontiers, because obviously every single state will be looking for some guarantee of its own right to exist in the area” (*Cairo*, 9th January 1976).

Commenting on the resolution adopted by the UN General Assembly on 10th November 1975, by 72 votes to 35 with 32 absentions, which declared Zionism to be “a form of racism and racial discrimination”, **Mrs Thatcher** stated:

“We are glad that Her Majesty's Government voted against that wrongful expression of view by the majority of the UN member countries. We consider it will have done nothing to help the cause of peace” (*Finchley*, 27th November 1975).

## 5. BRITAIN'S RELATIONS WITH THE MIDDLE EAST

**Economic Relations.** In addition to considerable direct British investment in the Middle East, Britain's balance of trade with the Middle East and North Africa, while still in deficit, has improved since 1974. Exports have more than doubled in value to £2,810.5 million in 1976, while the value of our imports has increased by less than 15 per cent to total £3,995.9 million.

**Labour Party's Attitude.** While the Labour Government, with Conservative support, has succeeded in fostering closer economic and political links with Arab states and Iran, the Labour Party seems determined to wreck British diplomacy. *Labour's Programme 1976* advocates the promotion of democracy and Socialism throughout the Middle East, opposes “the bolstering of repressive régimes in the area such as those of Saudi Arabia or Iran”, and also condemns arms sales to those governments.

## (F) THE AMERICAS

**Atlantic Relations.** The pre-eminent role of the United States in the Western world was emphasized by **Mrs Thatcher** in her speech at Kensington Town Hall on 19th January 1976, when she said:

“We look to our alliance with America and NATO as the prime guarantee of our own security and, in the world beyond Europe, the United States is still the prime champion of freedom ... We believe in the Conservative Party that our foreign policy should continue to be based on a close understanding with our traditional ally, America”.

Conservatives believe that co-operation with the United States is complementary to the building of a strong, co-ordinated EEC foreign policy.

**Latin America.** The rapidly expanding economy of Latin America is of increasing importance to Britain, which in 1976 had a trade surplus of £54 million with the continent as well as substantial invisible earnings. The influence, both collective and individual, of Latin American countries is also growing in areas such as the UN Law of the Sea Conference (see p. 646), the North-South economic dialogue, and in the affairs of the OPEC oil cartel, of which Venezuela is a member.

British diplomacy in Latin America as a whole has been seriously hampered by the hypocritical attacks of extremist sections of the Labour Party on various authoritarian Right-wing regimes in Latin America. Substantial sections of the Left wing have demanded the isolation, both economically and diplomatically, of governments in Chile and Brazil, for reasons such as the mistreatment by Chilean authorities of Dr Sheila Cassidy. Yet breaking off relations is usually counter-productive in protecting



human rights and British interests. As Mr Douglas Hurd, a Conservative spokesman on foreign affairs, has said:

“It is not possible to expect the Government both to break off relations with Chile in disapproval of practices there and to protect British subjects in Chile who get into trouble. We have to choose, and the Government have rightly chosen, the course of maintaining diplomatic relations with Chile so that they can intervene in cases such as that of Dr Cassidy” (*Hansard*, 9th February 1976 Col. 79).

## (G) ASIA

**China.** Events in China have been overshadowed by the deaths of Chou En-lai in January 1976 and Mao Tse-tung in September 1976. Under the new Party Chairman, Hua Kuo-feng, the “moderates” have seized and consolidated power. But the term “moderate” is used in the domestic context. Changes in foreign policy under the new régime have yet to be discerned. There are, however, grounds for cautious optimism that, despite an initially conciliatory approach to the Soviet Union, China remains sceptical of the Russian attitude to détente. Mr Li Hsien-nien, Deputy Prime Minister, attacked the “criminal actions” of the Russians in Africa and complained that the Soviet Union “kept creating false impressions of the relaxation of (Sino-Soviet) relations” (15th November 1976). Earlier, in a speech to the United Nations General Assembly on 5th October 1976, Mr Chiao Kuan-hua, then Chinese Minister of Foreign Affairs, warned the delegates that:

“The expansionist activities of the Soviet Union are all-pervasive ... every day it talks ‘peace’ but practises expansion ... Soviet social-imperialism is the biggest peace swindler and the most dangerous source of war today”.

China's diplomatic weight continues to be felt in areas such as Asia, Africa, the Middle East and at the UN, and is particularly significant because of its consistent anti-Soviet line. China has warmly endorsed Mrs Thatcher's warnings concerning the Soviet threat (see p. 623) and has welcomed several Conservative Party delegations. Britain's relations with Peking have continued to improve, particularly in the economic field, where our increasing trade with China is important. In December 1975 Rolls-Royce concluded an £80 million contract to supply military aeroengines.

Mrs Thatcher plans to visit China (as well as Japan and Hong Kong) in April 1977.

**South-East Asia.** The Communist takeover in Vietnam, Cambodia and Laos during 1975 threatens further instability throughout the region. Not only are there reports of continued upheavals and bloodshed, particularly in Cambodia, but Communist insurgency in Malaysia and Thailand has increased.

Conservative spokesmen have expressed grave concern about the situation in Cambodia and have criticised the Labour Government's silence on the matter. Lord Carrington, Leader of the Opposition in the House of Lords, speaking about the sufferings of the inhabitants of Cambodia, said:

“Those of us ... who condemn oppression, murder and cruelty from wherever it comes, find it very noticeable that there has been a silence from those who are most condemnatory about what happens in Spain and South Africa” (*Hansard*, House of Lords 28th May 1976, Col. 1263).

Since then there have been reports of the deaths of hundreds of thousands of peasants—through disease, starvation, and by liquidation.

**Indian Ocean.** The area is vital for Britain, for through it passes much of our trade, including 66 per cent of our oil imports. Against a background of British withdrawal from Singapore and Gan, and US withdrawal from Indochina, **Mrs Thatcher** has warned of the dangers of Soviet military expansion:

“They are searching for new naval base facilities all over the world, while we are giving up our few remaining bases. They have moved into the Indian Ocean ...” (Kensington Town Hall 19th January 1976).

Britain has co-operated in US plans for expanding military facilities at Diego Garcia (see Chapter 25, p. 592); and the new Conservative governments in Australia and New Zealand have extended their co-operation in countering Soviet expansion in the area.

## (H) THE COMMONWEALTH AND BRITISH DEPENDENCIES

**The Commonwealth.** The Commonwealth is made up of 36 independent member countries—the United Kingdom, Canada (1876), Australia (1901), New Zealand (1907), India (1947), Sri Lanka (1948), Ghana (1957), Malaysia (1957), Nigeria (1960), Cyprus (1961), Sierra Leone (1961), Tanzania (1961), Jamaica (1962), Trinidad and Tobago (1962), Uganda (1962), Kenya (1963), Malawi (1964), Malta (1964), The Gambia (1965), Singapore (1965), Zambia (1966), Guyana (1966), Botswana (1966), Lesotho (1966), Barbados (1966), Mauritius (1968), Swaziland (1968), Nauru (1968), Tonga (1970), Fiji (1970), Western Samoa (1970), Bangladesh (1972), The Bahamas (1973), Grenada (1974), Papua New Guinea (1975), Seychelles (1976). (Pakistan withdrew from the Commonwealth in 1972 following the Pakistan-India war). These countries have a combined population of more than 900 million, nearly one-quarter of the world's total. Through its central secretariat and specialised agencies the Commonwealth promotes widespread economic, political, technical and educational co-operation. The 1975 Commonwealth Prime Ministers' Conference in Kingston, Jamaica, took a major initiative in promoting North-South discussion on a new world economic order (see p. 647). Britain also gained valuable Commonwealth assistance in “defusing” the Belize crisis (see below).

Speaking in Wellington, New Zealand on 10th September 1976, **Mrs Thatcher** said:

“A strong, united, prosperous, and politically cohesive Western Europe is clearly in the vital interests of the Western Alliance. But if the price of entry had been our

abandonment of our old and valued Commonwealth friends, I, for one, would never have supported it.”

**British Dependencies.** There are 17 British dependencies left throughout the world, ranging from uninhabited islands to Hong Kong, where, for the time being, China seems content with the British presence.

**Belize.** The British garrison in Belize was strengthened in November 1975 to defend the colony against threatened military action by Guatemala in support of its claims to this territory. The crisis was averted after Commonwealth countries helped to organise an overwhelming UN majority supporting British demands for self-determination for Belize, which does not desire to be incorporated into Guatemala but favours eventual independence. Negotiations with Guatemala have failed to make progress.

**Falkland Islands.** In February 1976 Argentina pressed its long-standing claim to the Falkland Islands by firing on, and attempting to arrest, a British research vessel operating near the Islands. This resulted in a vigorous British protest. While accepting the Labour Government's desire to avoid inflaming a delicate situation, Mr Christopher Tugendhat, then a Conservative spokesman on Foreign Affairs, warned that:

“A display of weakness is likely to precipitate precisely the kind of crisis we wish to avoid” (*Hansard*, 5th February 1976, Col. 1415).

A report on the economic future of the Islands, the Shackleton Report, was published in July 1976. It envisaged considerable economic potential, provided that substantial financial investment was forthcoming. This may in turn depend upon confidence in the political future of the Islands which is at present in some doubt.

Mr John Davies welcomed the Government's determination to seek co-operation with Argentina through a visit in February 1977 by the Minister of State, Mr Edward Rowlands, but he warned that there must be no coercion upon the Islanders “to accept what might otherwise be unwelcome arrangements in order to secure their economic future” (*Hansard*, 2nd February 1977, Col. 552).

## **(I) NUCLEAR NON-PROLIFERATION**

There are now 100 parties to the Nuclear Non-Proliferation Treaty (NPT) which first came into effect on 5th March 1970 after several years of negotiation. A welcome recent development has been Japan's decision to become a signatory. The Treaty binds the signatory states possessing nuclear weapons—the United States, the Soviet Union and the United Kingdom—not to transfer such weapons to any other country, and commits the other states which are parties to it not to manufacture or otherwise acquire nuclear weapons. While the Treaty's basic commitment is negative, it also contains a positive obligation on all parties, namely the promotion of nuclear technology for peaceful purposes.

However, nuclear capability ostensibly acquired for peaceful use can readily be turned to destructive purposes; and the problem grows each year with the spread of peaceful nuclear power. The world's nuclear generating capacity is expected to increase some 25 times by the end of this century. A by-product of the reactors is plutonium, a material which can be used for nuclear weapons.

The paramount need for tighter safeguards against further nuclear proliferation does, however, raise many complex problems. These include the security of non-nuclear states and their freedom to make use of nuclear technology for peaceful purposes.

**Review Conference.** Four weeks of discussion to review the NPT took place in Geneva in April/May 1975. This Review Conference, initially acclaimed by some as “The most important disarmament conference since Hiroshima”, seems to have suffered from the deadlock between super-power obduracy and assertions by the non-nuclear states that America and Russia were hindering progress by the ineffectiveness of their efforts to slow down the arms race. It did, however, produce widespread support for the development of more effective safeguards for nuclear installations, policed by the International Atomic Energy Agency (IAEA).

With the aim of preventing technology and material from being diverted from peaceful to military ends, the “London Group” of nuclear suppliers (Britain, the United States, the Soviet Union, France, West Germany, Japan and Canada) meets regularly—and in confidence—in London. The hope must now be that all the nuclear supplying countries (including non-signatories of the NPT) will impose controls on the export of materials and equipment to non-nuclear states which are at least as stringent as those required by the IAEA.

## **(J) THE UNITED NATIONS**

### **1. CONSERVATIVE POLICY**

Conservatives fully support common efforts to see that the UN works as the drafters of the Charter intended. This necessitates a condemnation of double standards at the UN and realism on the part of all members.

### **2. CONTROVERSY AT THE UN**

The UN's 30th Anniversary in 1975 was marred by the continued use of the UN's fora and agencies by some states for narrowly ideological ends. The former US Secretary of State, Dr Kissinger, in a speech at Milwaukee on 14th July 1975, warned the Third World countries not to continue to try to turn the UN into a weapon of political warfare, since they would merely “inherit an empty shell”. In fact, two months later, the UN's Seventh Special Session did see the emergence of a constructive dialogue between the industrial democracies and the Third World (see p. 647). Yet only two days after Dr Kissinger's warning, the Islamic nations, meeting at Jedda, produced an unhelpful reaction by approving a resolution seeking Israel's expulsion from the UN. Subsequently, the UN General Assembly adopted an anti-Zionist resolution on 10th November 1975 (see p. 641), and in June 1976 the UN Conference on Human

Settlements failed to agree on a declaration of final principles, largely because the so-called Group of 77 (comprising 113 developing countries) insisted on retaining a clause equating Zionism with racism (see p. 647). Moreover, South Africa has not attended the General Assembly since its unconstitutional suspension in 1974.

Against this background, Mr Moynihan during his period as US Ambassador to the UN, made a forthright defence of the views and interests of the minority of democratic member states. The British Permanent Representative at the UN, Mr Ivor Richard (the former Labour MP appointed by Sir Harold Wilson in 1970) stridently disagreed with this approach. However, **Mrs Thatcher** has stated:

“We stand with that select body of nations that believe in democracy and social and economic freedom. Part of Britain's world role should be to provide, through its spokesmen, a reasoned and cogent defence of the Western concept of rights and liberties: the kind of defence that America's Ambassador to the UN, Mr Moynihan, has recently provided in his powerfully argued speeches” (*Kensington*, 19th January 1976).

### 3. OTHER ASPECTS OF THE UN

**British Contribution.** Britain is one of the major contributors to the UN's funds, providing some 4.4 per cent of the UN budget, approximately \$15 million in 1977.

**Reform of the UN.** A resolution adopted unanimously at the UN's Seventh Special Session in September 1975 marked a significant step towards the reform of the economic and social sectors of the UN. An *ad hoc* Committee of the General Assembly was established to prepare detailed proposals by the end of 1976, which were to be based on a report on the reform of the UN structures by a Group of Experts appointed in 1974. The experts had reached remarkable unanimity on the need to make the UN system more responsive to changing needs and to produce a more integrated approach to the problems of world development.

**Peace-keeping Forces.** At present there are UN peace-keeping forces in the Middle East (since the 1973 War, see p. 638), in Cyprus (since 1964, see p. 627), and in Korea. There is also a nominal force on the India-Pakistan border. The concept of a permanent peace-keeping force, which has been proposed, raises difficulties about command, control and finance.

### 4. CONFERENCES

**Third UN Conference on the Law of the Sea (UNCLOS III).** Whereas the 1958 Conventions on the law of the sea were based largely on existing customs and activities, UNCLOS III, which began its work in Caracas in 1974, is intended to make and recast the law on a much wider scale. All 156 participants accept that the need for agreement is urgent, but the complexity of the issues and the number of participants have resulted in slow progress. By the end of the fourth session in May 1976, delegates had agreed on a revised “Single Negotiating Text” (SNT) comprising 407 articles, which serves as the basis for an eventual Convention. Issues covered in the SNT include: an international régime and machinery to regulate the exploration and

exploitation of the sea-bed area beyond national jurisdiction (defined as “the common heritage of mankind” by the UN General Assembly in 1970); the delimitation of territorial waters and “exclusive economic zones” (EEZ); pollution control; scientific research; and arbitration procedures. But at the end of the fifth session in September 1976, despite progress on most items, there was still considerable disagreement on the single most controversial issue, deep sea-bed mining.

Britain has as much at stake as any other country in the world on the whole range of issues, but the most urgent are those which affect the fishing nations. Here, although there is agreement in principle to the coastal states' claims to an EEZ of 200 miles, there is little prospect of an early written agreement, as the intention is still to produce a single all-embracing Convention. A number of fishing nations have introduced legislation to claim EEZs and during the fourth UNCLOS III session, President Ford signed a Bill extending US fishing limits to 200 miles with effect from 1st March 1977, in the absence of a Convention. On 30th October 1976, the Foreign Ministers of the European Community agreed to extend the Community's fishing limits to 200 miles, with effect from 1st January 1977 (see Chapter 12, p. 297).

On the much more contentious issue of deep sea-bed mining, Dr Kissinger has warned that failing international agreement, the US Administration is likely to give the go-ahead for US-based consortia to start mining the deep sea-bed (New York, 8th April 1976).

**UN Conference on Human Settlements (Habitat), Vancouver, June 1976.** Called to discuss how to solve the plight of the world's homeless and under-housed, Habitat quickly became a platform for views on apartheid in South Africa, the lack of human rights in South America, and the Arab/Israeli conflict. As a result of the Group of 77's (see p. 645) insistence on the retention of a clause equating Zionism with racism, 15 of the wealthiest nations, those with the greatest skills and knowledge to contribute to an agreed programme, were unable to sign the final Declaration of Principles. This was in marked contrast to the constructive conclusions agreed at the World Employment Conference, organised by the International Labour Organisation at Geneva in June 1976 (see p. 649).

**Fourth UN Conference on Trade and Development (UNCTAD IV), Nairobi, May 1976.** This is referred to on p. 649.

## **(K) OVERSEAS DEVELOPMENT**

### **1. GLOBAL INTERDEPENDENCE**

Post-war economic progress has created an increasingly interdependent world. In the 1970s, a series of conferences on global problems have reflected a growing awareness of this interdependence—the World Environment Conference, Stockholm, 1972; the World Population Conference, Bucharest, 1974; the World Food Conference, Rome 1974; and the World Employment Conference, Geneva, 1976 (see also p. 649). But the key turning-point came in 1973–4, with the deployment of “the oil weapon” by the oil exporting countries (see p. 639). This cataclysmic event showed how vulnerable



Total Aid Figures 1969–74

	1969	1970	1971	1972	1973	1974
B Total Private†	295	331	316	335	330	637
A as a % of GNP	0.39	0.37	0.41	0.39	0.37	0.42
B as a % of GNP	0.64	0.65	0.55	0.53	0.46	0.78
	£ million*					
<i>Total Net Financial Flows (official and Private)</i>	473	520	552	584	601	980
As a % of GNP	1.03	1.02	0.97	0.92	0.83	1.20

\* Figures rounded

† Net of disinvestment and amortization.

The 1970–4 Conservative Government sought to encourage private flows to LDCs, unlike the present Labour Government, whose White Paper, *The Changing Emphasis in British Aid Policies* (Cmnd. 6270, October 1975) makes only a limited reference to the private sector.

As Mr John Davies has argued:

“There is a hopeless ambivalence on the part of our present government to the encouragement of investment in the developing countries: it is in fact the one means of creating productive potential and transferring technology, and yet it is bound up in the socialist mind with distrust of international companies and incorrect beliefs that investment there inevitably means a loss of jobs here” (London, 10th December 1976).

**The 0.7 (percentage of GNP) Target.** The Conservative Party has never accepted the recommendation of the World Bank’s Pearson Commission in 1969 that official development assistance should comprise 0.7 per cent of GNP. Instead, emphasis is placed on the type of aid given and the role of the private sector, accepting the UN target of 1 per cent of GNP for total official and private flows. But Labour remains happy to make empty gestures, and Mr Reginald Prentice, then Minister for Overseas Development, pledged the Government “to work towards the target of 0.7 per cent”, (*Hansard*, 7th November 1975, Col. 787). In December 1976 cuts of £50 million in the aid budget for each of the financial years 1977–8 and 1978–9 were among the economic measures announced by the Government (see also Chapter 3, p. 63).

*Labour’s Programme 1976* nevertheless makes renewed calls for substantial increases in spending on aid, without saying how it would be financed.

**Aspects of Aid.** The Government’s intention to direct UK bilateral aid to the poorest countries and to those who have been most affected by the oil and other commodity price increases was endorsed by Mr Tugendhat (*Hansard*, 7th November 1975, Col. 790).

He also agreed that priority should be given to rural development, a view subsequently endorsed by the House of Commons Select Committee on Overseas Development in their report, “The World Food Crisis and Third World Development: Implications for UK Policy” (*HC Paper* 191, February 1976). Conservatives also



welcomed the call by Mr Robert McNamara, President of the World Bank, for recognition of the problems of the urban poor. Mr McNamara emphasised the need to help by encouraging the “informal sector” of small-scale, labour-intensive operations (Address to the Board of Governors of the World Bank, 1st September 1975), a view endorsed at the World Employment Conference at Geneva in June 1976.

Furthermore, in 1971 the House of Commons Select Committee on Overseas Development concluded that “multilateral aid”—i.e., aid channelled through international organisations such as the UN Agencies, the World Bank group, regional development banks and the European Community—is often the most effective (HC Paper 299, Session 1970–1).

**Trade.** *The Right Approach* states:

“A partnership between developed and less developed countries will depend on the future course of the world economy and on the opportunities for the poorer countries to benefit from the recovery of trade. Trade will provide the engine of development for these countries but they will also need more stable earnings for commodity exports and greater access to Western markets for their processed and manufactured goods, enabling them to diversify their economies”.

Britain participates in a number of commodity agreements, but in May 1976 at Nairobi, UNCTAD IV agreed on an “integrated approach” on commodities, although Japan, the UK, the USA and West Germany expressed reservations. A negotiating conference on a common fund for 10 key commodities is to be held by March 1977, with a view to completing specific commodity agreements by the end of 1978. Conservatives have argued that a common fund would be extremely expensive and could still prove inadequate. UNCTAD's proposals could also benefit better-off producers at the expense of the LDCs (*Hansard*, 10th November 1975, Col. 1049–50). It would be better, as *The Right Approach* says, to build on the model of the Lomé Convention.

The EEC's Generalised Preference Scheme (GPS) gives tariff concessions or duty-free entry to many manufactures and processed products from developing countries. The Community is pressing for more concessions at the “Tokyo” round of the General Agreements on Tariffs and Trade (GATT) multilateral trade negotiations (see Chapter 10, p. 260).

**European Dimension.** Under the Lomé Convention, concluded in 1975 with 46 African, Caribbean and Pacific countries (ACPs), the Community has undertaken:

- a. To provide, through the European Development Fund, £1,600 million in aid to the ACPs until 1980 (with a further £200 million in soft loans).
- b. To help, through the “Stabex” scheme, to stabilise ACP export earnings from twelve commodities (in July 1976, 17 ACPs received a total of some £30 million in the first round of disbursements from the “Stabex” fund).
- c. To guarantee to purchase and import ACP sugar.
- d. To grant free access to ACP industrial products.

The Community also financed an estimated £94 million worth of food aid in 1975, 70 per cent going to non-ACP LDCs.

*The Right Approach* sets out the Conservative attitude to the Community's development policy:

“We should try to persuade the members of the Community to direct a growing proportion of their aid through Community channels. The Nine can achieve far more together than on an individual basis. A joint effort would also help to make the rest of the world more aware of the Community's potential as a source of economic power and political influence”.

## 28. LABOUR PARTY

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### Speaking Note

- The Labour Government's disastrous record is a direct result of its doctrinaire approach. It proudly boasts that it has carried out almost the whole Socialist programme as laid down in both the 1974 election manifestos.
- The Labour Party has moved to the Left because the “social democrats” in the Party failed to run the economy competently from 1964–70. After this, the Left claimed that the 1964–70 government failed because it was not Left enough.
- As a result of years of equivocation by Sir Harold Wilson, and because the union leadership is now more Left-wing than 10 years ago, the Left dominates the Labour Party's National Executive Committee. Together with the Tribune Group and Left-wing union leaders, the NEC has disastrously hindered and delayed the adoption of sensible policies to restore the prosperity of a free enterprise mixed economy.
- The strength of the Left almost enabled Mr Foot to become Prime Minister, and certainly helped him to defeat Mrs Shirley Williams for the Party's Deputy Leadership. Former Cabinet ministers have shown their disillusionment with Labour; Mr Roy Jenkins went to Brussels, and Mr Prentice “resigned in protest at the Government's drift”.
- Mr Benn's chairmanship of the Party's key Home Policy Committee ensures constant pressure for more Left-wing policies.
- The membership of Labour's constituency parties has greatly declined. This, and the failure of the Party leadership to prevent it, has made it easier for Trotskyists to take control and “sack” MPs like Mr Prentice and Mr Tomney.
- As a consequence of the growing strength of the Left in the Labour Party at all levels, *Labour's Programme for Britain 1976* was adopted by the 1976 Party Conference. This gave the Left virtually all they could reasonably desire in terms of policy, including a wide-ranging shopping list of industries and firms for nationalisation, more State control and “planning”, and more defence cuts.

### (A) GROWING DISILLUSION

The Labour Government that took office in March 1974 did so with a lower percentage of the popular vote than any Government elected since 1931. The British people have usually shown reluctance to elect the Labour Party to power after a period of Conservative government. With the exception of 1945, Labour have obtained power either in a minority in the Commons—as in 1924, 1929 and March 1974—or with only a tiny majority—as in 1964. In March 1966, after care had been taken by leading Labour Ministers, in particular Mr Callaghan, to cover up or minimise the country's economic problems, the existing Labour Government was re-elected with an overall majority of 96. In October 1974, after a similar period in which the true extent of the crisis was hidden from the people by Labour ministers, and in particular, the present Chancellor, Mr Healey, Labour were re-elected with an overall majority of only 3. This has been cut by the loss of three seats in by-elections, but the Government has been sustained in power by the votes of Mr Fitt of the SDLP, and Mr Maguire an Independent Irish Republican, and by the support, abstention or absence of Liberals, Nationalists and some Ulster Unionists.

Yet despite this lack of popular support, the Labour Party not only committed itself to an extreme Left-wing programme in opposition in 1970–4, but has insisted on carrying that divisive programme through (cf, for example, Labour's insistence on nationalising ship repairing companies, Chapter 19, p. 471). Further, its policy makers, undismayed by the tragic results of their earlier measures, have now produced a further programme of nationalisation, state control, spending increases and vindictive tax measures to carry the country on towards their Marxist Utopia (see p. 697).

**The Disillusioned.** In addition to thousands of ordinary Labour voters and trade unionists, who in Parliamentary by-elections and local government elections have abandoned the Party, some of Labour's most respected former supporters have found that it no longer represented the ideals which originally prompted them to join.

Lord George- Brown, formerly Deputy Leader of the Labour Party, first Secretary of State and then Foreign Secretary in Mr Wilson's Government of 1964–70, resigned the Labour Whip in the House of Lords on 2nd March 1976 on the issue of press freedom. He said:

“I am leaving the Labour Party for the same reasons that I first joined it 45 years ago—the defence of the individual's right to dissent. It no longer seems concerned with individuals. It has become another kind of machine” (*Guardian and Daily Telegraph*, 3rd March 1976).

Lord Chalfont, who was Minister of State at the Foreign Office in the 1964 Government, resigned from the Labour Party on 21st September 1974. Among his reasons were:

“The growing influence of the Left-wing of the Party ... the Party's industrial and economic policies ... (and) its approach to defence expenditure” (*The Times*, 23rd September 1974).

He had earlier written that if Labour continued on its course and the Left was allowed to get away with “wholesale nationalisation, workers' councils and the overthrow of

the capitalist system”, this would mean “the end of our present political system—probably sooner rather than later” (*The Times*, 22nd July 1974). He added:

“The first essential requirement is that the moderate, social democratic element in the Labour Party should dissociate itself formally from the extremists and the Marxists. There is, however, very little prospect that this will happen in the near future” (*The Times*, 23rd September 1974).

Mr Christopher Mayhew, who as Labour MP for Woolwich East defected from the Party on 9th July 1974, gave as his reason:

“The Left has advanced sharply in the Party in recent years ... the trend is shown plainly in the Party's changed attitudes towards nationalisation, Europe, trade union power, the supremacy of Parliament, the media, the supremacy of law, the independence of the Parliamentary Party, membership of Communist Front organisations, Chilean Marxism, picketing, law and order and so on” (letter to *The Times*, 18th July 1974).

Mr Dick Taverne, who held Lincoln against official Labour opposition until October 1974 as Democratic Labour MP after his local Labour Party had dismissed him, said of Mr Mayhew's defection:

“Many other Social Democrats within the Party will increasingly be brought face to face with a difficult choice.”

“Either they are swamped by the Scanlons and the Benns and find themselves supporting policies they do not believe in, or they have to assert themselves as a group outside the Labour Party” (*Daily Telegraph*, 11th July 1974).

Sir Leonard Neal, formerly Chairman of the Commission on Industrial Relations and a lifelong Labour voter, although not involved in active politics, said that he could not vote for the October 1974 Labour Manifesto, adding:

“In latter years I think the Labour Party has departed from the ethical emphasis that motivated it in years gone by. Now it seems a selfish party, a party of sectional interests” (*Daily Express*, 26th September 1974).

The most recent eminent defector from Labour was Professor Hugh Thomas, who was in 1957–8 a Labour prospective Parliamentary candidate, and who is noted for his authoritative book *The Spanish Civil War*. Professor Thomas has joined the Conservative Party. As he wrote:

“In the 1950s, there seemed a good chance that the jaded arguments of the class war would soon disappear; that the Labour Party would cut the cord that bound it to the unions; and that the movement would mature into a broad national one, comparable, say, to the Democratic Party in the US. But no major party of reform in Europe save in West Germany has managed to escape from the habit of looking at politics from the angle of a class war.

“New ideas have a much greater chance of being heard among them (the Conservatives) than they had in the past, and at the very least, the party is firmly committed to the preservation of the open society.

“I see the Englishman of today as one walking on a ridge. On the left, the streams flow down eventually to a tranquil but rather grey sea of state socialism. On the right, they flow to the more turbulent but brighter waters of free enterprise” (*Daily Mail*, 23rd November 1976).

Mr Reg Prentice, Minister for Overseas Development, resigned from the Cabinet on 21st December 1976 and explained his reasons for doing so the same afternoon from the back benches in the debate on Mr Healey's public expenditure cuts:

“I could summarise them in one sentence by saying that too often we have made key decisions as a reaction to pressure rather than on the merits of the decisions ... (My) growing disenchantment became more intense during the summer and after our resumption in October when it seemed that this side of the House was obsessed with pushing through far too many controversial and irrelevant measures which did not command the support of the majority of the British people ...

“We were wrong to make a further cut in defence ... My criticism of the package is not merely of the choices made but of the motives that lie behind the choices. There are two aspects. Looking through the measures the most obvious point is that none of them requires legislation and hardly any require statutory instruments. They were designed to avoid a situation in which we had to rely upon Labour Members of Parliament to carry through the legislation of a Labour Government” (*Hansard*, 21st December 1976, Cols. 517, 518 and 523).

Mr Prentice's most recent move further emphasises his increasing disillusion with virtually the whole Labour Party. On 21st February, he spoke from the same platform as Mr Dick Taverne at the Annual Meeting of the Lincoln Democratic Labour Association. Mr Prentice suggested that he might stand as a “Social Democrat”, adding, “the label under which I run is something still to be decided” (*The Times*, 22nd February 1977). Nor did he rule out a link with the Liberals, saying “I have more in common with David Steel than someone like Ian Mikardo” (*ibid.*). Indeed, in November 1976 Mr Prentice had a meeting with Mr Steel and Mr Taverne at the House of Commons.

Mr Hugo Young, Political Editor of the *Sunday Times*, summed up the factors producing disillusionment among the many young professional workers who had formerly “never contemplated voting anything but Labour” but were preparing never to do so again. The first factor was “the present crushing ascendancy of the collectivist over the libertarian tradition of the Labour Party”. Another was that while “equality of opportunity was a main article of faith in 1964 ... the new privileges conferred on unions, both in formal statutes and in their exclusive access to political power, have superseded that objective and nullified it”. He continued:

“It now appears to be Labour, through the Stalinist activities of some of its local parties, which has become the citadel of censorship and intolerance ... They (these voters) are confronted by a Labour Party which they now see as socially reactionary,

intolerant, anti-libertarian, excessively class-conscious and actuated, in many parts, by self-seeking economic ruthlessness” (*Sunday Times*, 9th January 1977).

## **(B) TRIUMPH OF THE LEFT**

While most of the leading figures in the present Labour Party—Messrs Callaghan, Healey and, until recently, Mr Jenkins—still mouth platitudes about the mixed economy and even the profit motive, and are considered to stand on that wing of the Party popularly regarded as “moderate”, the facts show that the “traditional” Left, typified by Mr Foot and Mr Mikardo, and the “New Left” (most of those MPs recruited to the Tribune Group since 1970) provide most of the driving force of Socialism. In the words of the Book of Genesis, “The voice is the voice of Jacob but the hands are the hands of Esau” (chapter xxvii, v. 22).

Mr Foot, excluded from the Shadow Cabinet and Cabinet during the 1950s and 1960s, is now Labour's Deputy Leader (see p. 674). The analysis of, and prescription for, Britain's economic problems provided by Mr Benn, the Labour Party's National Executive and the Tribune Group evoke far more support from the rank and file of the Party than do those of the Prime Minister or the Chancellor. The leaders of the largest unions tend to be Left-wing, and the Party's National Executive and the Party Conference are now more dominated by the Left than at any time since the war. Instead of confining themselves to annual protests at Brighton or Blackpool, the Left is now in a position to force its own policies on the Party as under *Labour's Programme for Britain 1973* and still more so with *Labour's Programme for Britain 1976* (see p. 697).

### **1. THE “REVISIONISTS” AND CLAUSE 4**

To understand why this should be so one must examine the attempt by the late Hugh Gaitskell and his followers over 15 years ago to persuade the Labour Party to update its constitution and ideology. After 1945 Labour hoped to avoid any return to the depression of the Thirties by nationalising the country's basic industries and by extensive controls on most other aspects of economic life. When the Conservatives, after returning to power in 1951, halted further nationalisation, de-nationalised the steel industry and made a “bonfire” of the Attlee Government's controls, Labour sourly predicted that this would inevitably lead to slump and unemployment. Instead, not only was full employment maintained but all sections of the community obtained increases in real wealth never equalled before (or since), and the Conservatives increased their majority in the Commons in two further General Elections. As G. D. H. Cole, one of Labour's leading intellectuals, wrote in 1951, “We have drifted into a position in which nobody feels any enthusiasm for further nationalisation” (*New Statesman*, 12th May 1951).

Certain younger members of the Party tried to recast its policy. Among these “revisionists” were the late Mr Anthony Crosland, Mr Roy Jenkins and Mr Denis Healey, Gaitskell's keen followers. Mr Crosland set out their analysis in *The Future of Socialism* (Jonathan Cape, 1956) and *The Conservative Enemy* (Jonathan Cape, 1962). He accepted that the post-war achievements of full employment and the virtual

abolition of primary poverty owed nothing to nationalisation. He set out “the underlying moral values” of Socialism (*The Future of Socialism*, p. 103), giving priority to a desire for equality, to be pursued by taxation and educational reforms within the framework of a mixed economy. This was later reinforced by the work of the American economist J. K. Galbraith who in *The Affluent Society* argued that the “market economies” of the USA and Britain would be unable to provide the resources for necessary social investment. Extensive intervention in the economy and greatly increased public spending were required. Mr Crosland declared, “I am ... wholeheartedly a Galbraith man” (*The Conservative Enemy*, p. 103). Nationalisation was not an end, only a means, as were new methods which have now been taken over and emphasised by the Left: municipalisation and “competitive public enterprise”.

The reaction of the revisionists to the Party's third successive election defeat in 1959, and to predictions by some psephologists that it was, literally, a dying force in politics, was to seek to rewrite Clause 4 of the 1918 Labour Party constitution, which called for the nationalisation of the means of production, distribution and exchange. Mr Gaitskell's criticism of it rings hollow against the nationalisation proposals of *Labour's Programme 1976*:

“It implies that the only precise object we have is nationalisation, whereas in fact we have many other Socialist objectives. It implies that we propose to nationalise everything, but do we? Everything?—the whole of light industry, the whole of agriculture, all the shops—every little pub and garage? Of course not” (Blackpool, 28th November 1959).

Electoral realities, however, did not assist this attempt to change the constitution. As Mr Crosland wrote:

“It is surely depressing, and would be true of no other country in the world, that a proposal to re-write a forty-year-old constitution should arouse such acute suspicion and resentment” (*The Conservative Enemy*, p. 120).

Gaitskell was forced to give way, partly because he needed the support of the moderate wing of the Party, and especially the leaders of the large trade unions, for his struggle against unilateral nuclear disarmament. In July 1960 the Party's National Executive decided “not to proceed with any amendment or addition to Clause 4 of the constitution”, and Mr Gaitskell confessed to the Conference that autumn:

“In view of the reaction, not only of people who would ordinarily be regarded as left-wing ... but of many other people in the Movement who ... would probably describe themselves as right-wing, we decided to drop the idea”.

As a result of this failure the Labour Party became “no longer merely a coalition, (but) a coalition facing in two diametrically opposite directions” (Vernon Bogdanor, “The Labour Party in Opposition 1951–1964”, in *The Age of Affluence 1951–1964*, edited by Vernon Bogdanor and Robert Skidelsky, Macmillan 1970, p. 103). Its ideology embodied both a social democratic thesis and a traditionalist antithesis and if the former failed, there would be even more vigorous pressure for a resort to the latter. As Mr Bogdanor wrote:



“The majority of the party accepted the mixed economy, at least for the foreseeable future. They relied upon economic growth to secure radical reform. This required dependence upon private industry to increase production and exports. Another section of the party, however, was totally hostile to private industry, seeking to enclose it within more and more rigid controls with the ultimate aim of eliminating it altogether. It would rely upon state control and the growth potential of the nationalised industries to increase the wealth of the community. These two visions are totally inconsistent and incompatible” (*Op. cit.*, p. 103).

The accession to the leadership of Sir Harold Wilson in February 1963 did not immediately tilt the balance further to the Left. He sought to equip the Party with a programme to make the mixed economy work better and overcome the problem of slow growth for which he and his colleagues belaboured the Conservatives. This explains his resort to the “white hot technological revolution” which also had the electoral value of appealing to the expanding white collar and professional workers who, it was believed, had given the Conservatives their victory in 1959. As Sir Harold declared at Scarborough in 1963, “We must harness Socialism to science and science to Socialism”. Mr Bogdanor wrote:

“The commitment to Galbraith and to the scientific revolution represented merely an obscure and clouded vision which, however, possessed the essential tactical merit of uniting the Party. In Wilson's hands, the thought of a Galbraith could be reduced to slogans. These slogans—planning, social justice, expansion—served not as stimulants to thought but as a substitute for it ... Thus the Labour Party had become a purely ‘pragmatic’ Party—pragmatic was one of Wilson's favourite words. The Party was to justify itself not by faith, but by works, and to be judged accordingly” (*op. cit.*, pp. 107–9).

## **2. FAILURE OF THE SOCIAL DEMOCRATS**

The chief criticism of the first Wilson Government of 1964–70 was not, as we have seen above, that it set out to carry through a programme of extreme Socialism, although the demands of Clause 4 were met by the nationalisation of one of the last privately held “basic” industries, the iron and steel industry. The indictment is rather the humiliating failure of all the aspirations and techniques developed by the Social Democrats in opposition. The “white hot technological revolution” failed to materialise. The four-year National Plan, designed, in Mr Callaghan's words, to ensure “that we can say to industry generally ‘go ahead and produce in the confident knowledge that the plan, the targets and the priorities we have laid down will be carried out’ ” (Brighton 4th October 1962), was ignominiously abandoned in July 1966. In the event, unemployment almost doubled, living standards stagnated, with real disposable incomes rising at less than one per cent a year, and the burden of taxation rose by nearly £3,000 million a year. Bank rate and mortgage rates rose, and prices rose considerably faster than previously under the Conservatives, with the rate of increase accelerating in 1969–70.

Prominent members of the Labour Party passed judgement on that performance. Mr Crosland, later Foreign Secretary and earlier one of the architects of the Social Democrats' approach, said:

“The central failure ... was the failure to achieve sustained economic growth”  
(*Socialist Commentary*, November 1971).

The late Richard Crossman, Minister of Housing and Local Government, Lord President of the Council and then Secretary of State for Health and Social Security in the 1964–70 Government, said it lacked “the central strategic drive and purpose ... We just ditched our chances” (TV, 12th December 1971). He also spoke of “an elaborate indictment of us for leaving the poor poorer than they were in 1964” (BBC Radio, 27th January 1970). Mr Michael Foot described Labour's programme for the June 1970 election as

“that parody of a party manifesto, the least credible in the party's history”,

and continued:

“since we have patently not been able to deliver the goods we wanted to the people who needed them most, we should have offered a radical programme for the 1970's, but there was not a word, not a hint” (*Tribune*, 3rd July 1970).

Perhaps the most scathing criticisms came in a series of essays on *Labour and Inequality* published by the Fabian Society in February 1972. The authors stated:

“We cannot find any important example of relative improvement in the lot of the low paid worker during the years of Labour Government ... Many lower paid workers must have experienced greater job and income insecurity ... It is possible that the absolute numbers of pensioners living below the Government's subsistence standard may not have decreased and may even have increased”.

The main judgement of these essays was that “an élitist leadership lost touch with the main-springs of its power”.

Mr Foot declared after the election defeat:

“The party, starting with the PLP, should insist that the Leadership over the next few years of reconstruction should not consist solely of the 1970 Cabinet which led us to defeat. What is needed is a strong shift leftwards. The party in Parliament ought to start that process, and if it won't the Party Conference will have to do it for them” (*Tribune*, 3rd July 1970).

Mrs Castle provided the judgement on the 1964–70 government that, by 1973, had been accepted by the majority of the Party's active members:

“Does anyone really believe that the Labour Party lost the last election because the Labour Government had been too Left?” (Tiverton, 11th March 1973).

Even Mr Crosland later admitted:

“Much more should have been achieved by a Labour Government in office and Labour pressure in opposition. Against the dogged resistance to change, we should

have pitted a stronger will to change. *I conclude that a move to the Left is needed ...*" (*Socialism Now*, Jonathan Cape, 1974, p. 44).

Through their passion for equality, which inevitably involved "levelling down" rather than "levelling up", and by their acquiescence in nationalisation proposals both in government up to 1970 and in opposition afterwards, the Social Democrats ensured that the mixed economy, which it had been their previous objective to preserve, should now be endangered as never before.

### **3. CHANGE IN POLITICAL POSITION OF THE UNIONS**

During the struggles in the Labour Party over relations with Eastern Europe and German rearmament in the late 1940s, with the Bevanites in the early 1950s and over nuclear disarmament and Clause IV before and after the 1959 election, a number of the largest unions helped to keep the Party on a moderate path. Under Arthur Deakin, until 1955 General Secretary of the TGWU with 1 million votes, the union "stood for militant anti-communism and an only slightly diminished hostility to left-wing policies" (Martin Harrison, *Trade Unions and the Labour Party since 1945*, Allen and Unwin, 1960, p. 132).

Typical of the views of these moderate and practical leaders was Mr Deakin's comment to the 1953 Labour Conference:

"We cannot always accept the theories launched upon us. I have in mind some of the ideas projected within the political movement" (*Conference Report 1953*).

Mr Harrison sums up:

"If the only possible line of advance for Labour were towards traditional red-blooded socialism, then the balance of union power has, undoubtedly, been a brake" (op. cit, p. 239).

The mid-Fifties saw the high point of moderate leadership in the trade union movement. Apart from the displacement of the Communist leadership of the ETU in 1961, the movement has since been to the Left. Deakin's successor as General Secretary of the TGWU, Jack Tiffin, another moderate, died after a few months in office in December 1955. Mr Harrison wrote:

"Soon after Mr Frank Cousins became General Secretary in 1956, the union seemed to be headed steadily leftward" (op. cit, p. 134).

Mr Jack Jones is probably now regarded as the most important trade union leader. A Gallup Poll commissioned for the BBC "Man Alive" programme found that 54 per cent of those surveyed thought that he wielded more power and influence than the Prime Minister (*The Times*, 4th January 1977). His union is both larger than Mr Scanlon's AUEW and provides more funds to the Labour Party. He was elected General Secretary of the TGWU in 1969 and is to retire in 1978. He consistently opposed membership of the EEC and bitterly opposed the 1966-70 Labour

Government's pay restraint policies. However, he was a main author of the "social contract" and the £6 a week policy, and in return has secured that the Labour Government should continue on its Left-wing course. He continues to argue for even more Left-wing policies: for example, he has pressed for selective import controls which would help "in stopping British currency going abroad" (*The Times*, 30th July 1975). He also declared:

"We (the trade union movement) have had a very great deal of confidence in Tony Benn and we would like him to stay where he is" (i.e. in the Department of Industry)—(*Daily Mail*, 7th June 1975).

"Cuts in public expenditure must be opposed ..." (*Tribune*, 4th July 1975).

"Instead of giving them (the National Enterprise Board) £1,000 m. over five years, give them authority to spend that figure this year" (*Evening Standard*, 28th January 1976).

In the National Union of Mineworkers, the Communist Mr McGahey (president of the Scottish miners), and the extreme Leftist Mr Scargill (president of the Yorkshire miners) constantly strive to force the union to adopt militant positions.

Since the late 1950s there has been a considerable growth in the white collar and public service unions. Two of the largest have militant leadership and are in the top 12 of union contributors to Labour funds. Mr Clive Jenkins, General Secretary of ASTMS, is strongly opposed to the EEC and to pay restraint. Mr Alan Fisher, General Secretary of NUPE, is partly responsible for the Government vendetta against private medicine and NHS pay beds and is bitterly opposed to cuts in public spending.

#### **4. MILITANCY IN OPPOSITION 1970–4**

Faced with an analysis of its failure before 1970 which discredited policies of moderation, the leadership thereafter drew closer to the predominantly Left-wing party activists. Thus, on the three issues which had been most unpopular with the Left—reform of industrial relations, entry to the EEC, and pay restraint—the leadership in opposition followed a line diametrically opposed to the one it had tried to pursue in government.

**Industrial Relations.** Following his surrender on the "In Place of Strife" proposals in 1969 (see Chapter 8, p. 212), Sir Harold Wilson pledged a Labour Government to repeal the Conservative legislation only three weeks after the proposals had been published. Mrs Castle declared:

"However long it takes, we shall destroy the Bill" (*Hansard*, 26th November 1970, Col. 666).

**Europe.** The lasting effect of Labour's double about-turn—opposition to EEC entry and support for a referendum—in contrast to Sir Harold Wilson's former stance on both issues was not on British membership of the EEC but on the position of the mainly moderate supporters of the EEC in the Labour Party. In April 1972, when Sir

Harold decided to campaign for a referendum, Mr Roy Jenkins resigned as Deputy Leader as well as from the Shadow Cabinet, has never regained the influence he formerly held and has now left Parliament altogether, while Mr Harold Lever and Mr George Thomson resigned from the Shadow Cabinet, the latter also in 1973 leaving British politics for an EEC post. Mr Lever, now Chancellor of the Duchy of Lancaster, admitted recently:

“I may be an anachronism in my Party” (*Hansard*, 19th May 1976, Col. 1479).

After 69 Labour MPs had voted in 1971 for the principle of entry to the EEC, Mrs Judith Hart warned:

“Labour members exercising their integrity could destroy the credibility of the Party” (*Daily Telegraph*, 20th October 1971).

Since then there has been a marked increase of constituency pressures on moderate Labour MPs (see p. 686).

**Support for Militant Pay Claims.** The Labour Party consistently voted against all the stages of the Conservative Government's pay policy in 1972–3. Strikes resulting from nationalised industries' refusal to concede extravagant pay claims brought clamour from Labour's leadership for concessions and compromise. During the 1972 miners' strike, Sir Harold Wilson declared:

“We have backed the miners and we shall continue to back them” (*Hansard*, 15th February 1972, Col. 242).

Mr Benn said of the TUC's protest strike directed against the Conservative Government's incomes policy on 1st May 1973, which involved 1,600,000 employees:

“The protest was an educational function for the benefit of the Government” (*Guardian*, 2nd May 1973).

During the 1973 miners' overtime ban (which later became a strike) Sir Harold Wilson said:

“If we need a pay settlement which goes beyond the arid rigidities of Stage 3, then the miners must be supported” (TV 22nd November 1973).

Mr Benn declared:

“The Labour Party will resolutely support the unions in their efforts. We shall support the miners” (Heanor, Derbyshire, 24th November 1973).

**Disrespect for the Law.** In numerous ways since 1970 the Labour Party has weakened respect for the law, thus showing that a political party can have a destructive effect without necessarily being in Government. Its first notable equivocation came over the imprisonment of five dockers for contempt of court in the circumstances of a dispute arising from picketing and blacking of cold stores in June 1972. Mr Benn issued a statement about men

“who would rather go to jail than betray what they believe to be their duty to their fellow workers and the principles which they hold” (21st July 1972).

Mrs Barbara Castle said:

“It is no solution to say that we must all obey the law. Society is littered with anti-democratic laws” (*Daily Express*, 24th July 1972).

Mr Reg Prentice, then Labour's spokesman on Employment, however, as in so many cases since, intervened on the side of moderation:

“Trade unionists should not rally round these men as though they are latter day Tolpuddle martyrs. They are just not worth it” (Press Statement, 21st July 1972).

Sir Harold Wilson assumed his habitually equivocal role:

“I said that the court should not be there with those powers, but I said that the law must be obeyed. Behind those five there are another five and 25 and there are battalions created by the Government's sowing of the dragon's teeth of provocative industrial law” (*Hansard*, 25th July 1972, Cols. 1542 and 1551).

Mr Michael Foot, now Lord President of the Council, has also made statements which discredit the law. Attacking the National Industrial Relations Court and its President, Sir John Donaldson, in a speech at the Scottish Miners' Gala in Edinburgh on 3rd June 1972, he asked:

“How long will it be before the cry goes up: let's kill all the judges?”.

Later, as Secretary of State for Employment, he referred to Sir John Donaldson as:

“Some fool or some trigger-happy judicial finger” (*Hansard*, 7th May 1974, Col. 239),

and spoke of

“Judges who stretch the law ... to suit reactionary attitudes” (ITV *People and Politics*, 9th May 1974).

It is not surprising that Mr Foot secured the handing back of £10 million of taxes which had been paid by trade unions as a result of their deliberate boycott of the registration procedures of the Industrial Relations Act.

**Clay Cross.** The most notable example of the condoning of law breaking by the Labour Party, however, arose following the refusal by the militantly Left-wing Labour councillors at Clay Cross in Derbyshire to implement the 1972 Housing Finance Act. Unlike the examples cited above, the Clay Cross episode involved the whole Labour movement, with such moderates as Mr Roy Jenkins, Mr Reg Prentice and Mrs Shirley Williams voting for the Housing Finance (Special Provisions) Act (see below). Three prominent Labour ministers were particularly involved: Mr Edward Short, Mr Anthony Crosland and Mr Samuel Silkin.

Failure by local councillors to implement such legislation as the Housing Finance Act 1972 not only carries financial penalties, but can involve the disqualification of such councillors from holding office—either for a period or indefinitely. The 1973 Labour Party Conference resolved:

“That upon the election of a Labour Government, all penalties, financial or otherwise, should be removed retrospectively from councillors who have courageously refused to implement the Housing Finance Act 1972.”

This resolution was passed by an overwhelming majority on 2nd October 1973, having been recommended to the Conference by Mr Edward Short, then Labour's Deputy Leader. When later asked about his advice to the Conference, Mr Short replied:

“It is not our job to go about telling everybody to obey the law” (*Sunday Times*, 25th November 1973).

At about the same time, Mr Samuel Silkin, Labour's “shadow” law officer, gave the following advice to his colleagues in a confidential paper:

“An Act of indemnity passed for this purpose would, in my opinion, contravene all constitutional practice and would set a dangerous precedent ... It is my opinion that no Law Officer of the Crown of any political party would be likely to advise the Government of which he was a member to initiate such legislation” (reported in *Daily Telegraph*, 7th November 1974).

Mr Crosland, then Secretary of State for the Environment, protested that

“As a democratic Socialist profoundly committed to the rule of law, I could not condone, let alone encourage, defiance of the law” (*Hansard*, 6th November 1974, Cols. 1076–7).

Yet Mr Crosland introduced the Housing Finance (Special Provisions) Bill, which received the Royal Assent on 12th November 1975, and Mr Silkin not only saw no reason to resign from his post as Attorney General while the Bill was passing through Parliament, but even spoke in favour of the Bill in Commons debates, such as the one on 4th August 1975.

The Act exempted any councillors, in Clay Cross and elsewhere, from any surcharge which they would have to pay as a result of their refusal to implement the 1972 Act. While the existing surcharges on the Clay Cross councillors, which amounted to £6,985, would stand, the councillors would no longer be liable for any further surcharges. Their disqualification from holding office for another three and a half years was also to be removed, but the Conservatives and other opposition parties were able to defeat the Government on 4th August 1975 and remove this provision from the Bill.

The Act also provided means of collecting money which the various councils had lost by not putting up their rents as required by the 1972 Act: this could be done either by raising the rents and rates of the local government area which had defaulted in the first

place or by raising the rents or rates of the whole area to which the original locality now belongs as a result of local government re-organisation. For example, the loss of rent income in Clay Cross, which was understood to be about £120,000, was recovered from the rent payers or rate payers of the North East Derbyshire District Council.

Not only did this legislation clearly encourage *further* defiance of the law, it obliged law-abiding citizens, who were in no way involved in the original defiance of the law, and who may not even have elected the original councillors who defied the law, to share the penalties. Perhaps not surprisingly, in the May 1976 local elections in Clay Cross, all six official Labour candidates were defeated by Ratepayers' candidates for seats on the North-East Derbyshire District Council. This was the first time for 25 years that Clay Cross had not elected Labour councillors.

**The Shrewsbury Pickets.** Although the Left-wing were not successful in forcing the Labour Government to pardon these particular law-breakers, the fact that defiance of the law has gained respectability in the Labour movement is shown by the constant pressure for their release by many Labour MPs and leading trade unionists over nearly three years.

On 19th December 1973 Mr Denis Warren and Mr Eric Tomlinson were given prison sentences of three and two years respectively for causing an affray, unlawful assembly and conspiracy on building sites in Shropshire. A third man, Mr John Jones, was jailed for nine months on the same charges, and three others received suspended sentences. As Mr Maurice Drake, QC, for the prosecution, explained at the opening of the trial in October 1973, some 300 flying pickets from North Wales had descended on the area "to intimidate, terrorise and terrify" building workers who were not participating in the 1972 building workers' strike. He listed both human and material damage which on one day "totalled probably £2,000", and witnesses at the trial said the pickets pulled one man from scaffolding and hit him with a brick.

The Labour Party Conference in November 1974 supported the National Executive Committee in describing the jailings as being "to a very large extent politically motivated", and the sentences "deplorably excessive". Mr Reg Prentice, then Secretary of State for Education, complained that some delegates had "tried to raise law breakers to the status of working class heroes" (*Observer*, 8th December 1974).

Yet when Mr Len Murray was asked about the TUC giving support to a threatened one-day strike over the pickets, he replied: "You would be surprised at the number of things we do not discourage" (*Morning Star*, 9th January 1975).

Mrs Audrey Wise, Labour MP for Coventry South West, told demonstrators:

"Those of you who think that this matter will be settled in Parliament are under some misapprehension. This matter will be settled ultimately by the strength which is shown by working people" (*Morning Star*, 15th January 1975).

Mr Eric Heffer, **MP**, former Minister of State for Industry, said:



“Whenever I think of the Shrewsbury Two ... I say to myself ‘there, but for the grace of God, go I’” (*Morning Star*, 18th July 1975).

In February 1975, 88 Labour MPs signed a Commons motion calling for “the immediate release from jail of the Shrewsbury trade unionists”.

Mr Roy Jenkins, then Home Secretary, persistently rejected demands that he should overturn the judgement of the courts and secure their release. Mr Tomlinson was in fact released on parole on 25th July 1975 while Mr Warren, as a result of losing a number of days remission of sentence for clashes with the prison authorities, was not released until 5th August 1976. The British-Bulgarian TUC Association had a “whip-round” of trade union militants to raise funds to send Mr Warren on a holiday in Bulgaria (*Daily Telegraph*, 17th September 1976).

**Policy Developments 1970–73.** In opposition, Labour also developed a programme involving extensive nationalisation, state control, municipalisation of housing, massive increases in almost every area of government spending except for defence—where savage cuts were promised—and tax increases (like the social security contributions levied on the self-employed and Capital Transfer Tax) deliberately designed to extract, in Mr Healey's phrase, “howls of anguish” from various sections of society. Mr Benn said of this programme:

“The 1973 Labour Conference will have before it the most radical programme the Party has prepared since 1945” (*The Times*, 1st October 1973).

Many of these policies have been forced through two congested sessions of Parliament, often with the use of the guillotine (see Chapter 18). Other proposals developed in Opposition have not yet been implemented but have reappeared in *Labour's Programme for Britain 1976*, and the Labour Party clearly considers itself firmly committed to them. They include the proposals for an annual Wealth Tax and Land Nationalisation (see Chapter 4, p. 98 and Chapter 12, p. 291).

The intention to nationalise the banks and insurance companies was first proclaimed by the Labour Party Conference in 1971 and the threat was reiterated in 1973 by Mr Healey and Sir Harold Wilson himself. The proposals to nationalise land and banks and insurance companies have been reiterated in *Labour's Programme 1976* (see Chapter 6, p. 164).

**The 1974 Election Manifestos.** In addition to the programme of nationalisation, tax increases, compulsory comprehensive education, ending fair rents, cutting defence spending, seeking the removal of American Polaris bases from Britain, and pledging support for the liberation movements in Southern Africa, both the February and October manifestos lacked any effective policy to deal with the central problem of inflation. The February manifesto stated:

“We believe that the action we propose on prices, together with an understanding with the TUC on the lines which we have already agreed, will create the right economic climate for money incomes to grow in line with production. That is the essence of the new social contract which the Labour Party has discussed at length and agreed with

the TUC and which must take its place as a central feature of the new economic policy of a Labour Government.”

The October manifesto placed a firm reliance on the Social Contract (see Chapter 2, p. 31):

“At the heart of this manifesto and our programme to save the nation lies the Social Contract between the Labour Government and the trade unions.”

The opening paragraphs of the February manifesto made wide-ranging claims which few Labour politicians would dare to repeat now:

“The Labour Party is ready with the policies essential to rescue the nation ... We do say that the problems cut so deep that the solutions must cut deep also. The sooner Labour gets the chance to heal the savage wounds inflicted upon our society in recent years and turn the hopes and exertions of our people in a new direction, the better for the nation as a whole ...

“We face a crowning test of our democracy—whether we can show the resilience, the ingenuity, the courage, the imagination, the sense of community necessary to meet the economic perils ...

“Immediately, for the vast majority of families, the economic crisis takes the form of fear for their jobs (and) ever-rising prices ... For the nation the economic crisis involves an appalling balance of payments deficit, mounting debts and an ever sinking pound.”

Both manifestos showed the class antagonism which normally inspires Labour policies. Both claimed that it was Labour's intention to

“bring about a fundamental and irreversible shift in the balance of wealth and power in favour of working people and their families”.

It is clear that Labour's definition of “working people” is much narrower than the definition most people would prefer. The October manifesto rejected proposals for co-operation between the parties to solve the country's problems and stated:

“There is no meeting point between us and those of quite different philosophies”.

This tendency, if anything, has intensified, as shown by a Labour Party political broadcast on 1st December 1976, which told “the story of the Honourable Algernon who was born with a silver spoon in his mouth”. *The Sun* commented:

“The ordinary men and women who are Britain's floating voters today know that the only class war of 1976 is the one waged by the Inland Revenue ... This kind of dated political rubbish ... can only boomerang against the Labour Party” (8th December 1976).

Mr Benn has aptly summed up the change in the direction of Labour policy over the years:

“We are a party which in some respects has put growth as a substitute for equality over the years. If growth is not to come in the quantities we want, then we shall have to argue much more fiercely about the distribution of what there is. This will pose serious difficulties for us” (*Hansard*, 26th November 1973, Col. 142).

## **(C) PARTY ORGANISATION**

The large trade unions are essential to the Party's financing and organisation. Unlike many continental Socialist parties, the British Labour Party originated as a result of the efforts of the trade union movement to gain direct representation in Parliament. As Ernest Bevin, a prominent trade union leader who became Foreign Secretary in a Labour Government, put it, the Party “grew out of the bowels of the trade union movement”.

In 1900 the Labour Representation Committee was set up to promote the election of trade unionist MPs, and in the general election of 1906, as a result of an arrangement with the Liberal Party, 29 Labour Party candidates were elected to Parliament and in the ensuing years were joined by a similar number of trade unionists elected as Liberals.

### **1. THE UNIONS AND LABOUR PARTY FINANCES**

The relationship between the unions and Labour Party finance was also determined before the First World War. Until 1910 trade unions had used their general funds to support their Parliamentary candidates, but the Osborne case of that year provided an obstacle, only removed by the passage under a Liberal Government of the Trade Union Act 1913, which enabled unions to establish a separate Political Fund, financed by a political levy, once a majority of the members voting by ballot had so decided. Any member who did not wish to contribute might indicate by signing a notice, and this was known as “contracting out”. In 1927 “contracting in” was introduced, by which no union member needed to contribute to the Political Fund unless he had specifically agreed to do so. The effect of this was substantially to reduce the flow of funds to the Labour Party, which took care, on obtaining a majority in Parliament for the first time in 1945, to restore “contracting out”.

Between 1968 and 1972 the proportion of union members not paying the political levy (most of whom had contracted out) ranged between 20·4 per cent in 1969, when the Labour Government was particularly unpopular, and 13·8 per cent in 1971 after the Conservative Government had introduced the Bill which became the Industrial Relations Act.

Details of the political funds of the largest unions for the year ended 31st December 1975, as ascertained from their annual returns to the certification officer of the Chief Registrar of Friendly Societies, are as follows:

<b>Name of Union</b>	<b>Total Union Membership</b>	<b>Number and per cent not paying Political Levy</b>	<b>Amount paid to Labour Party (incl. related expenses)</b> <b>£</b>	<b>Political Fund Income</b> <b>£</b>	<b>Amount in Political Fund at end of Year</b> <b>£</b>
Association of Professional, Executive, Clerical & Computer Staffs	136,097	35,704 (26.2)	34,243	55,395	91,947
Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths & Structural Workers	136,193	39,156 (28.8)	14,695	19,311	7,443
Associated Society of Locomotive Engineers and Firemen	29,000	1,232 (4.2)	14,662	16,234	9,041
Association of Scientific Technical and Managerial Staffs	351,000	301,860 (86.00)	31,376	49,080	25,119
Amalgamated Union of Engineering Workers (Constructional Section)	31,220	7,503 (24.0)	3,580	5,717	2,860
Ditto (Engineering Section)	1,204,720	312,821 (26.0)	242,860	247,742	104,330
Ditto (Foundry Section)	57,815	<i>NOT STATED</i>	15,353	20,577	21,474
Ditto (Technical, Administrative & Supervisory Section)	140,784	70,618 (50.1)	18,600	27,774	17,778
Bakers' Union	52,676	10,963 (20.8)	8,065	8,209	5,992
Confederation of Health Service Employees	167,200	508	13,828	16,035	8,333

<b>Name of Union</b>	<b>Total Union Membership</b>	<b>Number and per cent not paying Political Levy</b>	<b>Amount paid to Labour Party (incl. related expenses)</b>	<b>Political Fund Income</b>	<b>Amount in Political Fund at end of Year</b>
			<b>£</b>	<b>£</b>	<b>£</b>
		(0.3)			
Electrical, Electronic, Telecommunication & Plumbing Union	426,812	33,871	58,375	59,175	8,800
		(7.9)			
Fire Brigades Union	41,251	15,821	6,235	9,297	3,079
		(38.4)			
Furniture, Timber & Allied Trades Union	84,100	32,900	10,931	15,040	13,434
		(39.1)			
The Iron & Steel Trade Confederation	118,142	12,392	25,002	24,593	5,059
		(10.5)			
National Graphical Association	108,676	58,873	7,314	13,466	16,817
		(54.2)			
National Union of General & Municipal Workers	881,356	18,602	210,110	287,572	185,299
		(2.1)			
National Union of Mineworkers	374,164	NOT STATED	155,220	187,546	164,346
National Union of Public Employees	584,485	NOT STATED	235,083	294,540	182,510
National Union of Railwaymen	180,931	10,614	63,865	74,484	174,024
		(5.8)			
National Union of Seamen	45,200	2,676	4,337	4,704	5,561
		(5.9)			
National Union of Tailors & Garment Workers	109,429	21,555	13,093	9,164	17,168
		(19.7)			Deficit
Post Office Engineering Union	125,216	32,835	33,661	40,091	15,708
		(26.2)			

Name of Union	Total Union Membership	Number and per cent not paying Political Levy	Amount paid to Labour Party (incl. related expenses) £	Political Fund Income £	Amount in Political Fund at end of Year £
Society of Graphic & Allied Trades	190,473	140,221 (73.6)	14,441	22,085	52,787
Transport & General Workers Union	1,856,165	NOT STATED	349,267	502,438	241,143
Transport Salaried Staffs Association	74,292	10,377 (14.0)	21,328	22,275	1,908
Union of Construction, Allied Trades & Technicians	278,127	118,127 (42.5)	36,695	32,000	18,728
Union of Post Office Workers	185,000	8,222 (4.4)	47,556	37,000	14,353
Union of Shop, Distributive & Allied Workers	377,302	28,669 (7.5)	89,119	96,262	142,008

\* The NUM did not provide a figure for the total not paying levy in 1975, but the total for 1974 was 14,496 (3.9 per cent). The number paying levy fell by nearly 2,000 between 1974 and 1975. It should also be noted that the total union membership as given to the certification officer includes a number of retired miners.

**The total income of the Labour Party Headquarters**, excluding the income of local Labour Parties, was £2,001,535 in 1974 (when there were two general elections) and £1,487,363 in 1975. The detailed breakdown is as follows:

	1974 £	1975 £
Affiliation fees	826,388	1,243,512
Parliamentary Party	1,931	3,466
Publications (Gross)	210,575	107,833
Sundry Sales and Fees	6,890	8,898
	1,045,784	1,363,709
Investment Income (net of Tax)	24,846	13,136
By-Election Fund annual premiums	8,947	9,267
Donations (credited to Development Fund)	3,958	3,304

	<b>1974</b>	<b>1975</b>
	<b>£</b>	<b>£</b>
General Election Fund:		
Donations and Grants	914,998	1,098
Deposit Insurance Fund		
(Levy payable General Election years)	3,002	5
General Secretary's Appeal to Affiliated Organisations		
(launched June 1975)	—	96,844
	£2,001,535	£1,487,363

Except at General Elections or where there is a special appeal, reliance for funds is normally on affiliation fees payable by Trade Unions, Constituency Labour Parties, Socialist and Co-operative Societies at a fixed per capita rate—in 1974, 15p; in 1975, 17p; and in 1976, 21p. Trade Unions provide around ninety per cent of the total amounts from these affiliation fees:

	<b>1974</b>	<b>1975</b>
	<b>£</b>	<b>£</b>
Trade Unions	738,142	1,117,515
Constituency Labour Parties	82,152	119,467
Socialist and Co-operative Societies	6,094	6,530
	826,388	1,243,512

The total for 1976 is likely to be around £1.34 million, with £1.2 million coming from trade unions.

A recent development may possibly be the first indication that union discontent with the fruits of Socialism is having an effect on the amount of money given to the Labour Party. A meeting of the Finance Committee of the Mineworkers' Union on 14th December 1976 responded to an appeal by Mr Ron Hayward, the Party's General Secretary, who had asked them for help to meet the Party's deficit by Christmas, by voting to give the Party only £500, compared with two large donations of £15,000 and £10,000 in 1975. Mr Gormley, the NUM's president, commented:

“I don't think we can carry the lads much longer along this path of lower living standards, even to help out any political party” (*The Times*, 15th December 1976).

Following the publication of Mr Joe Haines's memoirs (see p. 482), the Press revealed that Sir Harold Wilson's private office had been financed by a trust fund managed by Lord (Wilfred) Brown. Other trustees included Sir Samuel (now Lord) Fisher, Sir Rudy Sternberg (now Lord Plurenden) and a Swiss banker, Mr Arie L. Handler. Lord Brown said:

“We did not want the Labour Party to know about it (the fund) because they would have wanted to get their fingers into it ... If it had gone through Transport House, we could not have been sure it would have got to him. At that time Harold Wilson was having trouble with the National Executive” (*Daily Mail*, 18th February 1977).

The *Daily Mail* quoted an unnamed source as estimating that, at the time, “about 12 people each contributed around £2,000 a year” (ibid.).

## 2. TRADE UNION SPONSORSHIP OF LABOUR MPs

The financial arrangements under which Labour parliamentary candidates are sponsored by unions are governed by the rules laid down by the Party in the Hastings Agreement of 1933 which limits the amount of financial aid a union or individual candidate may give to a constituency party.

Thus, a union may contribute up to 80 per cent of election expenses allowed by law; in many cases the proportion given is less. A union may contribute up to £350 annually for running a constituency in a borough, and £420 in a county. If the party employs a full-time agent, a union may alternatively contribute 60 per cent of his salary in a borough and 65 per cent in a county (Professor Richard Rose, *The Problem of Party Government*, Macmillan, 1974, p. 237).

**Union Pressures on Sponsored MPs.** In the “Register of Members' interests as on 26th May 1976”, which lists those financial interests which MPs themselves have acknowledged, 125 Labour MPs acknowledge sponsorship by a trade union, and 2 more claim not to be sponsored but acknowledge the receipt of sums of money (£200 and £75) for “election expenses” and to the constituency party respectively.

In the immediate post-war period there were several cases of union pressure on Left-wing or Bevanite MPs, just as several large unions supported the “Right-wing” line at the Party Conference. By the late 1960s the pattern had changed with Left-wing unions putting pressure on MPs who supported the Labour Government's incomes policy. Mr Frank Cousins, Minister for Technology after 1964 and also TGWU General Secretary, resigned from the Government and the Commons partly as a result of advice from his union that he should do so. (“TGWU Advises Cousins to Quit Parliament”—article in *Financial Times*, 23rd September 1966).

One TGWU delegate said of sponsored MPs who supported the Government's incomes policy, “You cannot expect us to buy dog licences for dogs that bite us” (*Guardian*, 14th July 1967).

The most serious recent threat from unions to the independence of MPs came from Mr Arthur Scargill, president of the Yorkshire miners, who threatened 5 NUM-sponsored Yorkshire MPs, including Mr Mason, then the Defence Secretary, on account of their pro-EEC views. He said:

“We want to make it clear that we can no longer tolerate a situation where sponsored MPs oppose official union policy. The miners are entitled by virtue of their sponsorship to tell their MPs which way to vote ... (*Daily Telegraph*, 26th June 1975).

On 27th June 1975 the Speaker ruled that a complaint on Mr Scargill's statement and a resolution by the Yorkshire Miners' Council on the same lines should go to the Committee of Privileges (*Hansard*, Col. 885). The Committee's report, published on



22nd October 1975, recommended that no further action should be taken because “the union (i.e. the NUM) has responded without hesitation to a request to nullify and repudiate the resolution of the Yorkshire area Council” (*The Times*, 23rd October 1975).

A statement by Mr Scargill and Mr Jack Leigh, the Yorkshire Area vice-president, issued after the committee's report was published, said: “The Yorkshire area resolution was passed constitutionally, and remains the policy of the NUM Yorkshire area” (*The Times*, 23rd October 1975). No further action has been taken.

### **3. ORGANISATION AND POLICY MAKING**

Union domination of Labour Party finance is paralleled by union domination of the organisation of policy making and policy implementation. The Party constitution, drawn up in 1918 when the Labour Party had fewer MPs than the divided Liberal Party, does not pretend to give the Leader, Cabinet or elected MPs supremacy over policy. Clause VI of the constitution declares: “The work of the Party shall be under the direction and control of the Party Conference”. It makes clear that the National Executive Committee is the trustee for the Party Conference in the 51 weeks of the year when the Conference is not in session.

Given the power of the NEC at all times, and that of the Conference, especially during periods of opposition, it is not surprising that a sharp move to the Left in the union leadership during the 1960s produced distinctly Left-wing policies after 1970.

**The Party Conference.** Each union's vote at the Party Conference is determined by the size of its affiliation fee paid to the Party during the previous year. The unions as a body were entitled to a vote of 5,787,467 at the 1975 Conference, having paid in 1974 total affiliation fees of £738,142. The position in 1976 and the entitled votes of the 12 largest unions were as follows:

<b>Organisations</b>	<b>Entitled Vote</b>
Constituency Parties	673,000
Trade Unions	5,669,000
Socialist and Co-Operative Societies	50,000
Parliamentary Labour Party	—
TGWU (Transport Workers)	1,000,000
AUEW (Engineers)	892,000
GMWU (Municipal Workers)	650,000
NUPE (Public Employees)	400,000
USDAW (Shopworkers)	325,000
EEPTU (Electricians)	260,000
NUM (Mineworkers)	255,000
UPW (Postal Workers)	181,000
NUR (Railwaymen)	161,000
UCATT (Building Workers)	160,000

<i>Organisations</i>	<b>Entitled Vote</b>
ASTMS (Managerial Staffs)	151,000
APEX (Clerical Workers)	102,000

(Source: Transport House)

Thus the five largest unions together had an absolute majority at the 1976 Conference, and it should be noted that the vote of each union is normally wielded as a single unit even when the membership—and the delegates themselves—are divided. In contrast, less than one-ninth of the 1975 Conference vote was contributed by more than 600 constituency parties, each voting separately.

**“Orchestration” of Conference Resolutions.** In fact, the Labour Party's constituency organisations have been dominated by the Left for far longer than the main trade unions. The influence of the militant Left in the constituencies is shown not only by pressures on certain MPs but by preparation of resolutions for the Party Conference. In 1975, of 32 motions on “public ownership” in the booklet of resolutions sent in by unions and constituency parties, at least 20 from all parts of the country referred to the need to nationalise the banks and other financial institutions. As Mr David Wood, political editor of *The Times*, wrote:

“Somebody, or some group, organised a campaign ... For the constituency motions often have a common phrasing as though there was a draft motion in circulation, with an accompaniment of a little tactical advice that the ordering of the clauses and subclauses could be altered to avoid the appearance of orchestration, so long as the important phrases were retained” (21st July 1975).

(See p. 664 for the condition of Labour's constituency parties, and p. 700 for examples of Left-wing resolutions passed at the 1976 Party Conference.)

**The National Executive Committee.** The NEC, elected during the Party Conference, oversees Party organisation, and enforces Party discipline, if necessary by disaffiliating an organisation or expelling an individual. It is to this Committee that MPs like Mr Taverne or Mr Prentice, who lose the support of their local parties, have the right to appeal. It also appoints the Party's General Secretary. It normally meets monthly, and has various sub-committees.

The unions elect twelve of the NEC's 29 members directly, and, since the Treasurer and the five women members are elected by the whole Conference, their election is also effectively dominated by the union bloc votes. The constituency parties—which for long have supported Left-wingers—elect seven representatives, usually MPs, and the Socialist and Co-operative Societies and the Young Socialists each elect one. Seats are reserved for the Leader and the Deputy Leader of the Parliamentary Party.

The members of the NEC, as elected at the 1976 Labour Party Conference, and the votes they received, were as follows:

*Constituency section:* Mr Anthony Wedgwood Benn—527,000; Mr Michael Foot—509,000; Miss Joan Lester—426,000; Mr Eric Heffer—393,000; Mr Frank Allaun—349,000; Mr Ian Mikardo—333,000.

*Women's section:* Mrs Lena Jeger—5,360,000; Mrs Judith Hart—5,236,000; Mrs Shirley Williams—4,715,000; Mrs Renée Short—3,660,000; Miss Joan Maynard—3,450,000.

*Trade Union section:* Mr Tom Bradley—5,586,000; Mr Harold Hickling—5,428,000; Mr Alec Kitson—5,352,000; Mr Russell Tuck—5,153,000; Mr Brian Stanley—4,958,000; Mr John Chalmers—4,935,000; Mr Fred Mulley—4,843,000; Mr Walter Padley—4,841,000; Mr Sam McCluskie—4,759,000; Mr William John—4,711,000; Mr John Forrester—4,288,000; Mr E. Williams—3,830,000.

(Mr Nick Bradley is the Young Socialists' representative, and Mr John Cartwright represents the Co-operative and Socialist societies).

At both the 1975 and 1976 Party Conferences, the Cabinet Minister whose policies and attitudes were so decisively rejected by the British electorate (including many Labour voters) in the EEC referendum, Mr Wedgwood Benn, topped the poll in the elections for the NEC (constituency section), showing how far removed the Labour Conference is from even the mass of Labour voters. In 1975 a growing tension between Left-wing members of the Cabinet and backbench Left-wingers was suggested by the fact that Mr Foot and Mrs Castle were dropped from the Tribune Group's list of recommended candidates. Mr Eric Heffer, a fervent opponent of the EEC and of pay restraint, and formerly Mr Benn's chief assistant in drawing up plans for nationalisation, was Tribune's new hero, and he ousted the Chancellor of the Exchequer from the Executive. This vote was referred to by Mr Roy Jenkins as

“one of the most depressing acts of irresponsible voting at a Party Conference for a long time” (*Financial Times*, 1st October 1975).

Ministers on the NEC customarily do not vote against government policies. On the somewhat tentative assumption that they would abide by this convention *The Economist* of 4th October 1975 estimated that the new NEC would be divided between 15 Left-wingers and 14 “moderates”, giving the Left a majority. On 22nd October 1975 the new Executive voted to reduce the quorum for meetings from 15 to 10 thus making it easier for Left wingers to push through their policies when Ministers are absent—and Mr Benn has frequently chosen absence as the best means of protest.

With Miss Lestor's resignation from the Government in February 1976, the balance on the NEC was tipped further to the Left.

Another humiliation for a moderate Cabinet Minister came in the elections at the 1976 Conference, when Mr Varley, the Industry Secretary, was defeated by the hard-line Tribunate Mr Norman Atkinson for the post of Party Treasurer by 3,523,000 votes to 2,744,000. Mr Atkinson had been defeated by Mr Callaghan for this post in each of the past six years. This further strengthened the Left on the NEC but there were no further significant changes. The order of placing of the defeated candidates for the seven-strong constituency section of NEC representatives was significant, with Mr Dennis Skinner, an extrovert and extremely militant Tribunate, obtaining more votes than three Cabinet Ministers—Mr Shore, Mr Crosland and even the Left-wing Mr Orme (who came thirteenth).

# **(D) THE LEADERSHIP**

## **1. SIR HAROLD WILSON'S RESIGNATION**

On 16th March 1976 Mr Harold Wilson, who was later installed as a Knight of the Order of the Garter, indicated his decision to retire as Prime Minister. He had been leader of the Labour Party for just over 13 years.

As Mr Ian Gilmour, Conservative spokesman on Defence, said at the time of Sir Harold's 13th anniversary as Leader of the Labour Party:

“The charges against Mr Wilson are simple:

1. He has devalued the whole language of politics. In his book, election promises are made only to be broken. Even between elections, truth makes only a fugitive appearance.
2. He has debased the practice of politics. If British democracy is under threat today, it is not because of a handful of mercenaries, as Mr Wilson ludicrously alleges. It is much more a result of his own behaviour as Leader of the Opposition and Prime Minister over thirteen years ...

“It is because of Mr Wilson that Britain is fast becoming a closed shop society, fit only for dockers to live in” (*Winchester*, 13th February 1976).

Examples of how Sir Harold has “devalued” the language of politics can be found in his claim, after the £ had been devalued in 1967, that this “does not mean ... that the £ ... in your pocket or purse or in your bank has been devalued” (TV, 19th November 1967), and by his argument, after property transactions involving persons connected with the Labour Party had been revealed, that there was a “difference between property speculation and land reclamation” (*Hansard*, 4th April 1974, Col. 1441).

The late Richard Crossman was one of Sir Harold's closer colleagues in the 1964–70 Government. In his diaries (recently published by Hamilton and Cape), he describes Sir Harold's techniques of government and party management in the following phrases:

“Still our only possible leader, but he's a tarnished leader ... His india-rubber resilience is linked of course with self-deception ... he's such a tremendous self deceiver. I suppose that self-deception reached its zenith when he appointed himself head of the DEA last autumn, week after week believing in recovery when we were running a £600 million trade deficit” (Crossman Diary, 16th April 1968).

“In his personal relations he still has a strong preference for the second rate and undistinguished ... the endless fixing and arranging which is Harold's daily life” (Crossman Diary, *ibid.*).

In February 1977 the *Daily Mirror* serialised extracts from *The Politics of Power* by Mr Joe Haines (published by Jonathan Cape). Mr Haines was Sir Harold Wilson's

Press Secretary and his book is largely dedicated to exposing the atmosphere of mistrust and tension which appears to have enveloped Sir Harold's "kitchen cabinet". One sentence is expressive:

"Looking back on those days, it is disturbing how much time was spent by everyone—including Harold Wilson—in discussing, forestalling, circumventing or opposing Marcia [i.e. Lady Falkender]" (Quoted in the *Daily Mirror*, 8th February 1977).

## 2. THE LEADERSHIP ELECTION

The constitution of the Labour Party deals with the powers, membership and administration of the NEC and the Party Conference. It does not mention the leadership of the Labour Party, regarded as a matter for the Parliamentary Party. Any Labour MP, if properly nominated, may stand for the first round of the leadership election. Provisions for elimination of candidates and voluntary withdrawals meant that in this election there were three candidates in the second round, and as no one obtained an absolute majority, there was a third ballot. Although Mr Callaghan, formerly Foreign Secretary, led on the second and third ballots, the size of the vote for Mr Foot, the left-wing candidate, and the low vote for Mr Roy Jenkins, former hero of the party's "moderate wing", are clear signs of the direction of opinion in the party. The votes were as follows:

	BALLOTS FOR LABOUR LEADERSHIP, 1976		
	1st (25th March)	2nd (30th March)	3rd (5th April)
FOOT	90	133	137
CALLAGHAN	84	141	176
JENKINS	56 (retired)	—	—
BENN	37 (retired)	—	—
HEALEY	30	38 (eliminated)	—
CROSLAND	17 (eliminated)	—	—

Mr Ian Gilmour commented on the first round of Labour voting:

"The two candidates of the hard left—Foot and Benn—polled 127 votes between them. Foot himself, who in better and more moderate days was virtually drummed out of the Labour Party, scored 90.

"We can get some idea of the massive shift to the Left in the Labour Party in the last few years by comparing the votes yesterday with those for the deputy leadership of the Labour Party in 1970. In that contest, Jenkins won with 133 votes, and Foot trailed far behind with 67 votes—barely half the Jenkins figure. Now it is the Left which polls at the Jenkins level, and the Right of the Labour Party which is streets behind" (Peterborough, 26th March 1976).

**The New Leader.** Mr Callaghan was Chancellor of the Exchequer in the Labour Government from October 1964 to November 1967. He thus presided over the total collapse of the wild hopes, many of them voiced by himself, with which Labour

began that period of office: the launching and the abandonment of the National Plan, and successive bouts of squeeze, freeze and tax increases, which culminated in the devaluation of the pound. When this happened he resigned as Chancellor and moved next door to the Home Office. There, he was able to devote his talents and energies to perhaps more congenial tasks, such as jerrymandering the constituency boundaries in the Labour Party's interest. The following is what two of his colleagues in the 1960s thought of him:

“I remember Callaghan describing to me, way back in the Forties, his own recipe for political success: wait till the trade unions decide their line and follow them.

“Callaghan was appointed as a result of Wilson's fatal tendency to appease rivals and because he was impressed by Callaghan's ability as an articulate extrovert to deliver, with nice rotundity of phrase, well-sounding speeches generally devoid of content” (*George Wigg*, by Lord Wigg, Paymaster General 1964–7, published 1972).

“I went round to Number 11 and there was Callaghan, heavy and gloomy as ever ... He was obviously overawed by the situation and full of self pity ... He was in a terrible state and could not really tell me anything” (Crossman Diary for 23rd November 1964).

“What a contrast between the attitudes of Harold Wilson ... and that of Jim Callaghan as Chancellor! When I said something about Callaghan, he (Wilson) said, ‘Yes, I am having to hold his hand. His nerve isn't very good these days.’” (Crossman Diary, 13th December 1964, relating to the crisis of confidence in the early months of the Labour Government).

“Callaghan hasn't got much nerve left” (Crossman Diary, 9th November 1967).

In his first broadcast after becoming Prime Minister, Mr Callaghan set out his ideals:

“In a free country like ours, as far as possible our Government must be carried on by consent. Now that places upon ministers, and particularly upon myself, a special responsibility to take you into our confidence. To tell you the truth. To explain the facts. Tell the people. Trust the people ... Let us set ourselves some aims. Let us root out injustice and put it right wherever we can ... Let us have honest and fair dealing ... and let us cherish our freedoms in a world where they are being eroded” (*BBC TV*, 5th April 1976).

In the months following this broadcast, the country witnessed not only the forcing through of the Government's Socialist programme by frequent resort to guillotines, but several particular cases of “bending the rules”: the attempt to retain a majority in Commons Standing Committees after losing a majority on the floor of the House (see Chapter 19, p. 470); the attempt to steamroller the hybrid Aircraft and Shipbuilding Nationalisation Bill through Parliament in defiance of the Standing Orders of the House, and the breaking of a pair (see Chapter 19, p. 471); and the breach of the Manifesto pledge on child benefits, over which the Government seems to have been less than frank (see Chapter 17, p. 432).

There has been increasing pressure from the Left in the Labour Party for the constitution to be changed so as to expand the electoral college which elects the Leader. The 1976 annual Conference charged the NEC to examine ways of doing this, but on 15th February 1977 the Parliamentary Labour Party voted in effect—by 97 to 43—in favour of keeping the present system. It is widely believed that if the electoral college were expanded, as suggested for example, by Mr Neil Kinnock, MP for Bedwellty, and a member of the Tribune Group, to enable Parliamentary candidates, constituency Labour Parties and trade unions to participate in the election (*Times*, 16th February 1977), Mr Benn would be likely to succeed Mr Callaghan as Leader of the Labour Party and thus alternative Prime Minister.

**The Deputy Leadership.** This is not normally a post of great intrinsic significance in the Party, but the shift to the Left is shown by the change of personnel over four years. Following Mr Roy Jenkins's resignation in 1972, Mr Edward Short was Deputy Leader, but a vacancy was created by his decision to leave the Commons to take over the Chairmanship at £9,000 p.a. of the State-owned Cable and Wireless Ltd. In the ensuing election on 21st October 1976, Mrs Shirley Williams, the “Jenkinsite” candidate, was defeated by Mr Foot by 166 votes to 128.

## **(E) LABOUR MINISTERS**

### **1. APPOINTMENTS AND RESIGNATIONS**

(See Appendix on p. 700 for lists of Labour Cabinet Ministers since March 1974).

Sir Harold Wilson's first ministerial appointments in February 1974 were clear evidence of his dependence from the outset on his Left wing. Mr Benn was put in charge of the Department of Industry, with responsibility for implementing the nationalisation plans, and in this work he was assisted by Mr Eric Heffer, a member of the Tribune Group, as Minister of State. Mr Michael Foot, another Tribunite, was Secretary of State for Employment, rather than Mr Reginald Prentice (see p. 670), who had been opposition spokesman on employment. Mr Peter Shore, a vehement opponent of the EEC, was appointed to head the Department of Trade. Other Tribunite ministers, apart from Mr Foot and Mr Heffer, were Mr Albert Booth (Employment), Mr Norman Buchan (Agriculture), Mrs Judith Hart (Overseas Development), Mr Hugh Jenkins (Arts), the late Mr Brian O'Malley (Social Services), Mr Stanley Orme (Northern Ireland), and Mr John Silkin (Planning and Local Government). Miss Joan Lester (Education), although not a Tribunite, was a vigorous Left-winger.

Labour Governments invariably find themselves in a position in which, after their Left-wing measures have plunged the country into a more or less severe economic crisis, they are obliged by foreign bankers to take corrective measures (usually tardy and inadequate) which antagonise the Left of the Party, whose policies were responsible for the crisis in the first place. A further complication, however, arises from the need to “keep the Party united”, and appease the Left even while the minimum corrective measures are being taken. Thus more nationalisation surges ahead alongside pay controls and cuts in spending. This pattern applies equally to

Ministers: Left-wing ministers have resigned in protest, but, especially under Mr Callaghan, others have been appointed or promoted to fill the gap.

Following are the main Left-wing resignations:

Mr Buchan, Minister of State for Agriculture, resigned on 17th October 1974—just a week after the October election victory—over policy differences on agriculture and the renegotiation of the Common Agricultural Policy. He was a vigorous opponent of EEC membership.

Mr Heffer, Minister of State for Industry, was dismissed on 9th April 1975 for deliberately speaking against the Government's motion accepting the “renegotiated” terms of entry into the EEC, despite a Cabinet decision that dissenting ministers should not speak in Parliament against the Government's policy.

Mrs Hart, Minister of Overseas Development, resigned in Sir Harold Wilson's reshuffle of 10th June 1975 having refused the offer of the Ministry of Transport.

Miss Lestor, Under-Secretary of State for Foreign and Commonwealth Affairs, resigned on 21st February 1976 over the Government White Paper proposing cuts in Government spending.

Mr Callaghan's **Changes**. The most significant blow to the Left on Mr Callaghan's accession to the Premiership was the removal of Mrs Castle as Secretary of State for Social Services, but Mr Foot was *promoted* to succeed Mr Edward Short as Lord President and Leader of the House of Commons. One Tribunate, Mr Hugh Jenkins, was dismissed, but another, Mr Albert Booth, was *promoted* to be Secretary of State for Employment. Two Tribunites, Mr Huckfield and Mr Barnett, received posts in the Departments of Industry and Environment respectively. Most of the other new appointments were little known, but the Left received further sops in the reshuffle in September 1976 following the departure from the Commons of Mr Jenkins and Mr (now Lord) Peart, with Mr Stanley Orme entering the Cabinet as Minister for Social Security and Mr Bob Cryer, another militant Tribunate, becoming Parliamentary Secretary at the Department of Industry.

After the revolt of Left-wing MPs over the Public Expenditure White Paper on 10th March 1976 (see p. 682), two Parliamentary private secretaries who had abstained, Mr Joe Ashton, PPS to Mr Benn, and Mr Geoffrey Edge, PPS to Mr Fowler at the Department of Education, both Tribunites, were dismissed, but in November 1976 Mr Ashton was appointed an Assistant Government Whip.

Following their voting on 1st February 1977, against an order to bring Britain's tariffs further into line with those of the EEC, Mr Callaghan, on 4th February, dismissed a further three PPS's: Mr Robert Bean, MP for Rochester and Chatham and Mr Bryan Gould, MP for Southampton Test, who were both PPS's to Mr Shore, Secretary of State for the Environment; and Mr Bryan Davies, MP for Enfield North, who was PPS to Mr Joel Barnett, Chief Secretary to the Treasury.

On 27th February 1975 Mr Neil Kinnock resigned as PPS to Mr Michael Foot, then Secretary of State for Employment. Mr Kinnock, along with four other PPS's, had



taken part in the revolt against the increase in the Queen's Civil List allowance, but the Government whips agreed not to take any disciplinary action against them and Mr Kinnock's resignation is believed to be unrelated to the revolt.

Richard Crossman had written eight years previously:

“Somehow we need to have people who stand out above Harold Wilson, and they are Roy (Jenkins) and Barbara (Castle)” (*Diary*, 16th April 1968).

Since Mr Callaghan's accession to power, both these leaders of the Right and Left wings of the Labour Party respectively have departed, the first from British politics, the second only from the Cabinet. The departure of Mr Prentice, the discrediting of Mr Healey as manager of the economy and of Mr Foot as a protector of the liberties of Parliament and the individual, have clearly weakened the Cabinet. Most of the newly-appointed “moderate” ministers like Mr Dell, Mr Ennals and Mr Millan are not well-known. Mr Fred Mulley is slightly better known as the least capable of recent Labour Defence Secretaries in protecting the Defence budget from savage cuts.

## **2. THE ROLE OF MR BENN**

No one epitomises better the swing to the Left in the Labour Party since 1970 than Mr Benn, who became Secretary of State for Industry in March 1974, who drew up the Labour Government's programme for nationalisation during the remainder of that year, and who, with Mr Foot, led the opposition in the Labour Party to Britain's remaining a member of the EEC during the Referendum Campaign in the Summer of 1975. After that campaign (see Chapter 26, p. 609), Sir Harold Wilson reshuffled his Cabinet and moved Mr Benn from the Department of Industry to what was regarded as a less significant post as Secretary of State for Energy. This produced the usual exaggerated protests from Left-wing MPs. Mr Bob Cryer, MP for Keighley and now Parliamentary Secretary for Industry, said: “This is a sad day for the Labour movement”, and Mr Eddie Loyden, MP for Liverpool Garston, said that he was “absolutely disgusted” by the change, adding imaginatively: “The fact is that this indicates that the Labour leadership is under the pressure of the CBI and the rest of big business interests” (*Daily Mirror*, 11th June 1975).

Mr Benn's senior colleagues have contrasting views about him. Referring to his move to the Department of Energy, Sir Harold Wilson, once safely out of office, said that it was “one of the best moves I ever made”, adding that “a minister must be a minister all the time with no other loyalties. Loyalties to the National Executive or to Conference or to anything else are irrelevant” (*Daily Mail*, 23rd October 1976). The late Mr Crosland, apparently passed this comradely judgement on Mr Benn many years previously:

“When Anthony Wedgwood Benn, on graduating, told the Press that his intention was to lose the stigma of the intellectual, Crosland's comment was that in order to lose a stigma one had first to acquire it” (*New Statesman*, 19th November 1976).

On the other hand, Mr Foot, addressing the Durham Miners' Gala, referred to Sir Harold Wilson and Mr Callaghan as “the Prime Minister past and present” and then,

turning towards Mr Benn, with a sweep of the arm added “and future” which “drew a large cheer” while Mr Callaghan “smiled wanly” (*Daily Telegraph*, 19th July 1976).

Mr Foot also said:

“I think Tony Benn ... reconciles his difficulties (i.e. on loyalty to Cabinet policy) with his obligation to the Labour movement as a whole. I think he is a highly valuable member of the Government, who makes a very great contribution to it” (*Daily Mail*, 2nd August 1976).

Although apparently demoted by Sir Harold, Mr Benn was given further responsibilities by Mr Callaghan: he took over from Mr Harold Lever, Chancellor of the Duchy of Lancaster, responsibility for the negotiations with the oil companies over participation in North Sea Oil (see Chapter 9, p. 239).

**His Political Development.** Mr Benn, who in 1960 succeeded his father as the second Viscount Stansgate, was the first peer to benefit from the Conservative Peerage Act (1963), which enabled those succeeding to hereditary peerages to disclaim them for life. He seems to have disclaimed more than his peerage, however, by ensuring that his entry in recent volumes of *Who's Who* contains no hint of his formal education at Westminster School and New College, Oxford, but simply reads “Education: still in progress”.

Mr Benn appears to have moved steadily to the Left over the last decade. For example, while in 1963 he opposed “the Treaty of Rome which entrenches laissez faire as its philosophy and chooses bureaucracy as its administrative method” (*Encounter*, January 1963), he explained to his constituents in Bristol South East in 1970 his reasons then for wishing Britain to join the EEC:

“The world is so small that Britain alone cannot separate itself from world influence nor prevent its destiny being affected by what happens abroad ... Of course we can stay out and stand alone, but we will still find that European, American and Russian decisions will set the framework within which we would have to exercise our formal parliamentary sovereignty” (Letter to Bristol constituents, November 1970).

He further declared at Bristol on 2nd July 1971:

“I can see really significant long-term opportunities for ordinary people in Britain and in the Six if we could persuade the British public to vote for entry.”

However, with the change in the Labour Party's attitude towards the EEC, he changed his own tune, and by the end of 1974 was saying:

“Britain's continuing membership of the Community would mean the end of Britain as a completely self-governing nation and the end of our democratically elected Parliament as the supreme law making body in the United Kingdom” (Letter to Bristol constituents, 29th December 1974).

There has similarly been a change over the years in his attitude on wider economic and political perspectives. In his radical pamphlet, *The New Politics: A Socialist Reconnaissance* (1970), he recognised:

“Any nation could theoretically turn its back on all this and legislate itself into a siege economy from this intricate network of national and international power structures. But, as with the individual drop-out, it could only do so at a price in lower living standards that would not be politically acceptable.”

He soon developed a much greater emphasis on Socialist doctrines and policies. Thus a year later he said:

“We want industry to be in the public sector, to change the power structure of our society” (Labour Party Conference, Brighton, 6th October 1971).

“Socialists have always seen common ownership as a major instrument for changing our society” (*Labour Weekly*, 8th October 1971).

He added:

“We have not yet carved out of public enterprise a wide enough area of management decision which ought properly to be brought within the ambit of the workers themselves” (Brighton, 6th October 1971).

Even in *The New Politics* he was developing his belief in “workers' control”, arguing:

“Workers are not going to be fobbed off with a few shares ... or by a carbon copy of the German system of co-determination.”

Later that year he declared, referring to the ‘work-in’:

“The workers in UCS have done more in ten weeks to advance the cause of industrial democracy than all the blue prints we have worked on over the last 10 years” (Brighton, 6th October 1971).

Mr Benn was also one of the first senior Labour Party spokesmen to threaten the independence of the media. Workers in the media should, he urged,

“remember that they too are members of our working class movement and have a responsibility to see that what is said about us is true” (Labour Party Conference, Blackpool, 6th October 1972).

He also increasingly sympathised with the use of direct action to influence Parliament:

“Change from below, the formulation of demands from the populace to end unacceptable injustice, supported by direct action, has played a far larger part in shaping British democracy than most constitutional lawyers, political commentators, historians or statesmen have ever cared to admit. Direct action in a democratic society is fundamentally an educational exercise ...” (*New Politics*, 1970).

This is reminiscent of his remark on the TUC protest strike on 1st May 1973 (see p. 660).

Referring to Mr Scanlon's union's refusal to recognise the Industrial Relations Act, he declared:

“The engineers are taking their stand on grounds of conscience ... Conscientious objection to the law is not a criminal act. These people are our people and we should take a principled stand, together” (Wells, Somerset, 23rd November 1973).

Over the last six years, Mr Benn has emerged as the most prominent supporter of the decisions of the Labour Party Conference as against those of the Labour Cabinet or Shadow Cabinet:

“Looking back over the past few years, the instincts of Conference have often been shown to be surer than the most measured judgements of the Parliamentary leadership on many key issues, on Vietnam ... industrial relations ... rank and file members can now be seen to have had a pretty good idea of what needed to be done” (*Labour Weekly*, 15th October 1971).

Mr Benn's support for trade union militancy during the Conservative Government of 1970–4 has already been noted (see p. 660). One example of the falsehoods he was peddling in the closing months of that government is the following:

“The (pay) policy is principally designed to hold down wages rather than to check inflation. Inflation is being used as an excuse to destroy free trade union bargaining” (*Hansard*, 7th November 1973, Col. 1015).

**His Record in Office.** In addition to Mr Benn's work inside the Labour Party organisation (see below), he has held the posts of Minister of Technology from July 1966 to June 1970, and was Secretary of State for Industry from March 1974 to June 1975, then moving to head the Department of Energy. The following is the list of the main steps he has taken in office which the Conservatives criticised at the time:

*February 1968.* Mr Benn moved the second reading of the Industrial Expansion Bill, which gave Ministers power to provide assistance for, *inter alia*, schemes of industrial reorganisation. The Conservatives feared this might be used to support “lame ducks”.

*April 1968.* Mr Benn announced that the Government would withdraw from ELDO (European Launcher Development Organisation) which put an end to any hope of developing a European satellite.

*May 1968.* One of the greatest alleged successes of the Labour Government's policies for the so-called “restructuring” of industry was the merger between the Leyland Motor Company and British Motor Holdings to form the British Leyland Motor Company. Rover Cars had earlier merged with the Leyland Motor Company in March 1967 and in August 1966 Jaguar cars had merged with the British Motor Corporation.

*April 1969.* Mr Benn announced Britain's withdrawal from the British-French-German Airbus project.

*June 1974.* Mr Benn agreed to a grant of £1.2 million to the *Scottish Daily News*, run by a workers' co-operative. This project was so unviable that it collapsed six months later.

*July 1974.* Mr Benn made available £4.9 million for the Norton Villiers Triumph Workers' Co-operative at Meriden—another project whose viability was doubtful.

*September 1974.* Mr Benn decided to grant £3.9 million to a similarly unviable Workers' Co-operative at Kirkby Mechanical Engineering.

*December 1974.* Mr Benn's Industry Bill which set up the National Enterprise Board, and provided for planning agreements and compulsory disclosure of company information, received its Second Reading.

*April 1975.* Mr Benn sponsored the nationalisation of British Leyland 1975 which required £1,400 million from the Government.

*May 1975.* Mr Benn announced that the Government was taking a controlling interest in Ferranti.

*12th August 1975.* The All-Party Parliamentary Sub-Committee on the Motor Vehicle Industry said of the Ryder Report on British Leyland, “Ryder and his team thought of money rather as confetti”.

*August 1975.* The Court Line Group went into liquidation, despite earlier assurances from Mr Benn in June, as Secretary of State for Industry, with the result that about 100,000 people lost their summer holidays, about 50,000 were stranded abroad and 65,000 lost deposits on their winter holidays. The Government Report thought that Mr Benn's assurances formed a “subsidiary reason” for intending holidaymakers to continue to make bookings (see Chapter 15, p. 371).

*May 1976.* Almost a year after ceasing to be Secretary of State for Industry, Mr Benn boasted that while in that Department he had nationalised 62 companies.

**The Home Policy Committee.** Shortly before the announcement of his departure from the Industry Department, Mr Benn remarked:

“If I got knocked down by a bus as I left the Café Royal after this lunch, I don't believe anything would be changed one way or the other ... There is a wind of change blowing gale force through British industry ... I am no more than a weather cock showing you which way it is blowing” (*Daily Telegraph*, 11th June 1975).

Mr Benn's use of his position in a key Party post hardly bears out such a modest remark. Proposed by Mr Frank Allaun on 6th January 1975, Mr Benn had been elected unopposed as Chairman of the vital Labour Party Home Policy Committee, second in influence only to the NEC. This was despite a protest from Mr Healey that the nomination of a Cabinet Minister could lead to a conflict of interest (*Financial Times*, 7th January 1975). Mrs Shirley Williams supported Mr Healey's attempt to stop Mr Benn's nomination, but her own nominee, Mr Cartwright, the Co-operatives' representative on the NEC, was absent in the Middle East.

Over the ensuing two years, Mr Benn has been generally careful to refrain from saying anything publicly which could be taken as a breach of Cabinet responsibility (except over the EEC where there was an open “agreement to differ”, and during the Labour leadership election). But the work of the Home Policy Committee clearly reflects his own interests. The sixteen-member Committee also contains the following nine notorious Left-wingers: Mr Foot, Mrs Castle, Mr Allaun, Mrs Judith Hart, Mr Heffer, Miss Joan Lestor, Miss Joan Maynard, Mr Ian Mikardo and Mrs Renée Short.

An example of the activities of the Committee came on 10th March 1975 when it considered a draft Budget produced by the Labour Party's Research Department shortly before Mr Healey was to produce his own Budget. Among the proposals were: “increased taxation on the self-employed, more state controls on industry, and a surcharge on imports” (*Daily Telegraph*, 11th March 1975). In fact, Mrs Shirley Williams, the most prominent moderate on the Committee, persuaded it to treat the document as being “for information only”, and while the paper was circulated to all members of the NEC, no further attempt was made to pursue it. Mr Benn chose to blame the press for this, which had given publicity to the paper on the day of the meeting, and accused newspapers “of trying to make his Committee ineffective” (*Daily Telegraph*, *ibid.*).

Further evidence of Mr Benn's multifarious activities came on 22nd April 1975 when he submitted a confidential paper to the Party's Industrial Policy Sub-Committee proposing that city institutions, including pension funds and insurance companies, should be obliged to place money in investment schemes approved by the Government (*Times*, 24th April 1975).

Following the resignation of Sir Harold Wilson, Mr Benn used his candidature for the Labour Party leadership as an opportunity for setting out a policy different in certain important respects from that being following by the Government. He argued:

“We should restrict imports and invest Government money in our manufacturing industry so as to rebuild it, systematically, and earn a large increase in national income without the balance of payments crisis which has stopped expansion in the past. This is what the TUC advocates in its Economic Review and it is the policy adopted at last year's Labour Party Conference. To make sure the investment takes place and that it meets the needs of the nation, the enterprise and workers, Labour wants ‘planning agreements’ with large companies and nationalised industries” (*Daily Mail*, 20th March 1976).

During 1976 there was a steady stream of militant Left-wing statements from the Home Policy Committee, coupled with Mr Benn's abstention at, or absence from, meetings of the Labour Party's NEC. On 26th February 1976 Mr Benn supported the Left on the NEC in calling for a special Party Conference on unemployment and the economic situation, but other Cabinet Ministers and trade union leaders combined to defeat this motion. On 8th March 1976 the Home Policy Committee considered detailed recommendations from the Party's Research Department to reform the House of Lords and “democratise” the honours system (see Chapter 19, p. 477.) Later in the year, Mr Benn openly forecast the abolition of the Lords:

“When we have a majority we will do it. I think the days of the Lords are quite genuinely numbered” (*The Times*, 13th November 1976).

He added a few days later:

“Anyone from abroad will tell you that it is the class system that really lies at the root of our problems, economic and industrial. The House of Lords symbolises that ...” (*Yorkshire Post*, 22nd November 1976).

On 23rd March 1976, at a joint meeting of the Cabinet and the NEC, he made it clear that he backed the call by the NEC and the TUC for import controls, “even though every other minister who spoke on the issue made it clear that the Government firmly rejected them” (*Daily Telegraph*, 24th March 1976).

On 28th April he abstained in an NEC vote on the Government's spending cuts, and a resolution deploring the Government's White Paper was carried by 11 votes to 9. The following day the Prime Minister implicitly rebuked Mr Benn. When asked by Mr Blaker, a Conservative MP, how Mr Benn could abstain on an issue involving collective responsibility, Mr Callaghan replied:

“The doctrine of collective responsibility includes all ministers, who must be willing to defend the Government's policies at all times” (*Hansard*, 29th April 1976, Col. 554).

After this rebuke, Mr Benn chose to absent himself at future controversial meetings of the NEC. For example, he stayed away from the NEC meeting on 28th July 1976, which endorsed the latest version of the Social Contract (*The Next Three Years*), and went on to carry by 13 votes to 7 a motion attacking the second instalment of spending cuts in 1976. He also stayed away from the NEC meeting on 27th October 1976, which carried by 13 votes to 6 a motion urging constituency Labour Parties to support a mass lobby of Parliament on 17th November against the spending cuts. *The Sun* commented on the arrangement by which Mr Benn kept his Cabinet post so long as he did not openly rebel:

“This is the kind of sham British voters and our foreign creditors find contemptible” (8th November 1976).

Meanwhile, the Home Policy Committee continued its work of agitation. On 12th July 1976 it agreed to circulate to all Labour MPs and trade union leaders a document opposing the Government's plans to cut spending. Mr Healey retaliated by abruptly cancelling a meeting he was to have had with the Committee on 25th July.

On 7th September 1976 Mr Benn introduced a document which named the four banks and seven insurance companies the Labour Party wanted to nationalise (see Chapter 6, p. 164) and which explained in its introduction: “the investment expansion Britain desperately needs is too important to be left to businessmen and financiers alone”. Mr Benn called the plan a “ray of hope” for the problem of investment in industry (*Daily Mail*, 8th September 1976).

On 13th September 1976 the Home Policy Committee put up an emergency resolution for the Labour Party Conference stating that the Conference was “appalled” by the effects of the Government's most recent public spending cuts. During the 30 minute debate on the document “Mr Benn remained silent in the chair” (*Daily Mail*, 14th September 1976), and at the end the majority of Left-wingers present agreed to the resolution “without even going through the formality of a vote”. *The Sun* commented:

“It is astonishing that any Minister can blandly chair a meeting which tries to dictate to Parliament the programme for the next session ... Mr Benn has shown beyond all doubt that his first loyalty is to Labour's fringe. His inevitable departure from the Government should be delayed not a day longer” (15th September 1976).

## **(F) INTERNAL PROBLEMS**

### **1. BACKBENCH REVOLTS**

The most appropriate means of testing the growing disillusionment of the Labour rank and file with the policies forced by events on the Labour Government is to examine the frequency of revolts in the division lobbies. During the 1974–5 session, when the Labour Party had a clear majority over all other parties in the House of Commons and when, as a result of members of the minor parties voting with the Government or abstaining, the Government's survival was not in danger, there were a number of revolts. For example, 54 Labour MPs (including tellers) voted against their Government on defence on 16th December 1974, and 55 Labour MPs revolted on the same issue on 7th May 1975. As many as 91 voted on 26th February 1975 to annul the new Civil List, which provided increases in the funds available to the Royal Household (see p. 675). There were a number of votes against parts of the Prevention of Terrorism (Temporary Provisions) Bill, with 50 and 60 Labour MPs respectively voting in two divisions on 28th November 1974. In all these divisions (except that on 16th December 1974) the Conservatives voted with the Government for sensible policies on internal security, to prevent still larger cuts in defence and to provide adequate funds for the Royal Family.

There were several Left-wing revolts on the Industry Bill in the summer of 1975: 64 Labour MPs voted against the Government on a Tribune Group amendment to facilitate workers' cooperatives on 1st July 1975, 67 Labour MPs voted on another amendment the same night relating to the media, and 56 Labour MPs voted against a Government amendment on 2nd July to provide company information to trade unions on Ministerial order.

The Government's introduction of pay controls in July 1975 also met with resistance from the Left. 37 Labour MPs voted on 22nd July 1975 against a motion to approve the White Paper, *The Attack on Inflation* (Cmnd. 6151). 32 Labour MPs voted against the Government two days later on an amendment to bring forward the date of expiration of the Remuneration, Charges, and Grants Bill, which implemented that policy. A further significant revolt came a few days later on 30th July on the Employment Protection Bill, when 85 Labour MPs voted against the Government in an unsuccessful attempt to extend the protection given to pickets.



The backbench revolt that caused most impact occurred on 10th March 1976 at the end of the debate on the Public Expenditure White Paper, Cmnd. 6393, which set out the first of three instalments of cuts in future Government spending to be announced during 1976 (see p. 680). The Government was actually defeated by 28 votes as a result of 37 Labour MPs abstaining. Among the rebels were five members of the Labour Party's NEC: Miss Lestor and Mr Heffer, both former Ministers, and Mr Mikardo, Mr Allaun and Miss Maynard. Two weeks before this vote Mr Healey had antagonised a number of Left-wingers by saying of the critics of the spending cuts at a TUC/Labour Party Liason committee meeting:

“They must be out of their tiny Chinese minds” (*Daily Telegraph*, 24th February 1976).

He was, *The Times* reported, “believed to have Mrs (Judith) Hart and Miss (Joan) Maynard MP for Sheffield Brightside, in mind” (*The Times*, 24th February 1976).

In the debate, Mr Eric Heffer, probably the most prominent Left-winger outside the Government, said:

“It might not be a bad thing if the Government were to lose this White Paper ... because they would then come back with further projects ... concerning import controls and rigid control of capital outflow” (*Hansard*, 9th March 1976, Col. 348).

Mr Brian Sedgemore, MP for Luton West, was even more vehement:

“Anyone who is looking for a definition of absurdity need look no further than the White Paper. The economics are shabby, the politics are tragic and the philosophy is left unsaid” (*Hansard*, 9th March 1976, Col. 229).

Mr Sedgemore was later appointed PPS to Mr Benn (*Daily Telegraph*, 19th January 1977).

After the defeat, Mr Arthur Latham, then Chairman of the Tribune Group said:

“Our abstention is not against the Government but against one very important aspect of its policy, namely the general economic strategy now being followed” (*The Times*, 11th March 1976).

But, as Mrs Thatcher pointed out:

“The Government has been decisively defeated on a matter which is essential to their economic policy. Such a defeat is unprecedented in modern times” (*ibid.*).

Mr Healey's reactions when the vote was announced were reported by some of the rebels. Mr Tom Litterick, MP for Birmingham, Selly Oak, said:

“If only the public could know the details of the Chancellor's behaviour immediately following that vote, they would be astounded.

“He came across like a drunken oaf. His verbal behaviour was unprintable and obscene in the extreme” (*Sunday Telegraph*, 14th March 1976).

Mr Douglas Hoyle, MP for Nelson and Colne said:

“He showed all the signs of a taproom brawler” (ibid.).

The Government, however, received a vote of confidence the next day, by a majority of 17.

The Left-wing appear to have been a little embarrassed by their defeat of the Government, at least as far as their voting behaviour since has been concerned. Other factors explaining their relative loyalty during 1976 were perhaps the Government's loss of an overall majority in the House and the ensuing close votes on the Aircraft and Shipbuilding Industries Bill, and the significant defeat inflicted on the Government on the Dock Work Regulation Bill on 10th November, when two moderate Labour MPs, Mr Brian Walden and Mr John Mackintosh abstained (see Chapter 8, p. 218). However, 27 Labour MPs voted against the Government on 21st December 1976 after a debate on Mr Healey's third instalment of spending cuts, while about 30 were estimated to have abstained deliberately.

## 2. CONFLICTING PRESSURE GROUPS

Recently, more pressure groups of both the so-called Right wing and the Left wing have been established within the Party, mainly to counter each other's influence. The largely bogus nature of this conflict is perhaps indicated by the fact that the most significant “Right-wing” group should name itself the “Manifesto” group, yet this is the same Manifesto that provoked the following warning from Mr Sydney Bidwell, then Chairman of the Tribune group:

“If Mr Wilson shies away from the commitment to carry through the election programme or delays it to any degree, he will rue the day” (*Morning Star*, 12th October 1974).

**The Tribune Group.** Apart from the Fabian Society, which in practice is a research organisation, the Tribune Group, founded in 1964, is the oldest surviving pressure group in the Party. In fact, it can trace its origins back to the starting of the weekly newspaper *Tribune* in 1937. An article by Mr Ben Pimlott in the *New Statesman* of 7th January 1977 showed the earliest aspirations of *Tribune*, which

“began as a broadsheet for an ill-named and ill-conceived movement called the Unity Campaign which hoped to bring about a united front of Labour, Independent Labour Party and Communists”.

Mr Pimlott quoted Mr Michael Foot, who worked in the *Tribune* office at the time, as saying that the Unity Campaign seemed

“the most ambitious bid made by the British Left throughout the whole period of the Thirties to break the stultifying rigidity of party alignments”.

*Tribune* and the Campaign promoted several demonstrations, which as Mr Pimlott describes, chanted the slogan, “Red front, red front, red united fighting front”.

Prominent members of the Labour Party like Stafford Cripps and Aneurin Bevan made speeches alongside Communists like Harry Pollitt and Willie Gallacher, while Ernest Bevin, Foreign Secretary in the Attlee Government of 1945 regarded these “intellectuals” of the far Left as “people who stab you in the back” (*New Statesman*, 7th January 1977).

The present Tribune Group derives from the Bevanite Group of Labour MPs, and Mr Foot, Mr Ian Mikardo and a few other members were originally Bevanites. Apart from Mr Foot, the only other Cabinet Ministers in the Group are Mr John Silkin, the Minister responsible for the passage of the Community Land Act through Parliament, and Mr Albert Booth, who was similarly responsible for the Dock Work Regulation Act.

The strength of the Tribune Group lies among the back benchers. The Group has increased its influence significantly among the most recently elected MPs. Its membership rose from 50 to 60 in the late 1960s, to 69 before the October 1974 Election, and now stands at 77, or 25 per cent of the Parliamentary Labour Party. Its strength among the new MPs was shown as follows:

10 per cent of MPs elected before 1950

13 per cent of MPs elected between 1950–63

19 per cent of MPs elected between 1964–73

50 per cent of MPs elected in February 1974

60 per cent of MPs elected in October 1974

(*Economist*, 26th April 1975).

## **Members of the Tribune Group in the House of Commons**

F. J. Allaun, J. W. Ashton, R. H. Atkins, N. Atkinson, N. G. Barnett, A. F. Bennett, S. Bidwell, A. E. Booth, N. F. Buchan, J. Callaghan (Middleton & Prestwich), D. Canavan, N. G. Carmichael, Mrs M. Colquhoun, R. J. Cook, G. R. Cryer, A. Davidson, B. Davies, J. J. Dean.

G. Edge, A. T. Evans, I. L. Evans, M. H. Flannery, L. J. Fletcher, J. Fraser, M. M. Foot, J. Garrett, B. T. George, Mrs Judith Hart, E. Heffer, D. Hoyle, L. J. Huckfield, Robert Hughes, R. J. Hughes, Miss M. Jackson, H. G. Jenkins, T. A. Jones.

R. Kelley, R. W. Kerr, N. G. Kinnock, Arthur Latham, J. A. Lamond, J. M. H. Lee, T. Litterick, E. Loyden, J. K. McNamara, M. F. Madden, Dr E. Marshall, Miss Joan

Maynard, J. J. Mendelson, I. Mikardo, Dr M. Miller, A. S. Newens, M. Noble, S. Orme.

R. Parry, T. L. Prescott, Miss Jo Richardson, G. E. Roberts, C. E. Roderick, G. Rodgers, J. W. Rooker, B. C. T. Sedgemore, H. Selby, Mrs R. Short, J. E. Silkin, J. Sillars, J. Silverman, D. E. Skinner, P. C. Snape, T. H. Swain, R. Thomas (Chairman, 1976–7), S. G. Thorne, T. W. Walker, A. Wilson, W. Wilson, Mrs A. Wise, D. Young.

(Source: *Political Companion*, Summer/Autumn 1976).

**The Manifesto Group.** This was set up in December 1974 after a meeting on 2nd December chaired by Dr Dickson Mabon, MP for Greenock, who became its Chairman. On his appointment to ministerial office, he was succeeded by Mr John Horam on 23rd June 1976. Mr Horam has also since been appointed to office, and the chairman is now Mr Sydney Irving, MP for Dartford. Like the Tribune Group, its members are MPs; unlike Tribune, it excludes Ministers. By the end of February 1975 it claimed a membership of 80 MPs. Mr Christopher Price, MP for Lewisham West, wrote of the Group:

“Their broad economic policy has turned out to be not so different from that of the Tribunites—commitment to the National Enterprise Board, the possible use of import controls ... The Manifesto group embraces pros and antis on almost every issue—not only on the NEB and import controls but also on growth, statutory incomes policy, withdrawal from Ulster, the monarchy, nationalised industry subsidies, referenda, the Market ...” (*New Statesman*, 21st March 1975).

On the evening of his election as Leader of the Party, Mr Callaghan said:

“I shall not be willing to accept a situation in which minority groups in the Parliamentary Labour Party manoeuvre in order to foist their views on the Party as a whole.”

However, this appears to have fallen on deaf ears. Dr Dickson Mabon said, “We will dissolve the day after the Tribune Group dissolves” (*The Times*, 6th April 1976).

**The Social Democratic Alliance.** This was set up in June 1975 after the threat to Mr Prentice (see p. 654) developed. It does not include MPs: as Mr Prentice said, “It is a grass roots movement and one which is long overdue”. Its Chairman was Mr Peter Stephenson, the editor of *Socialist Commentary*, but he resigned after internal discord and was succeeded by Mr Roger Fox. It includes GLC and other local councillors, trade unionists and former Parliamentary candidates. Its manifesto stated its desire that,

“the Labour Party should be a practical, humanitarian and reformist party. We must begin quickly to restore stability and be prepared to make sacrifices both ideologically and materially to save our democratic system”.

Reference was also made to “the maintenance of the rule of law as an essential basis of individual freedom” (*The Times*, 16th June 1975).

*The Guardian* (1st October 1975) indicated as one of the SDA's weaknesses the fact that it “cannot count on the guaranteed union and Transport House support which underpinned the Campaign for Democratic Socialism of the late 1950's.” This, perhaps, partly explains why it has hitherto been unable to counter the influence of the extreme Left in so many constituency parties.

During 1976 the Alliance distinguished itself by its vigorous condemnation of official Labour Party links with Iron Curtain countries and Communist publications, and the work of Marxists and Trotskyists within the Party (see p. 691).

## **Other Labour Party Pressure Groups**

**Campaign for Labour Party Democracy.** Although this Left-wing grass-roots organisation was founded by Mr Ron Heisler in 1973, it seems to have received an impetus from the formation of the Social Democratic Alliance and conflicts in various constituencies. Its Annual General Meeting was told that its registered supporters had doubled in one year and the number of affiliated Labour Party organisations had increased nearly five fold (*Morning Star*, 26th November 1975). One favourable factor, according to Mr Heisler, “is the withdrawal of Transport House from local interference” since Mr Ron Hayward became General Secretary (*Times*, 12th August, 1975).

**Campaign for Labour Victory.** This was set up by the so-called “moderates” at a meeting in London on 19th February 1977, and is clearly a further reaction to extreme leftist activity in constituency parties. It is significant that, like the Manifesto Group, its supporters should be so defensive about their aims as to choose a title that emphasises their loyalty to the party which, if it were able to win the next election, would then take the opportunity of implementing the extreme proposals of *Labour's Programme 1976*.

The meeting was attended by Mr William Rodgers, Secretary of State for Transport and a leading Cabinet moderate, about 10 other MPs, and about 100 constituency workers and local councillors. Mr Rodgers said:

“The undeniable fact is that the moderates, democratic socialists, loyalists have been on the defensive. The question is whether the Labour Party is to be increasingly influenced by those who care little for our values and nothing for the survival of the party” (*Guardian*, 21st February 1977).

He also said that the NEC's claim to be representative was “bogus” and condemned it for neglecting the Party's finances, organisation and membership:

“If the NEC put half the time and energy it devotes to public statements into perfecting the means to win elections, we should be infinitely better off ... How can we expect to succeed in by-elections and local elections if the voice of the NEC is constantly raised against our Government?” (ibid.).

These points were also expressed in a resolution that was unanimously approved at the end of the meeting.

### **3. DECLINE OF THE CONSTITUENCY PARTIES**

Since the large unions so dominate Labour's Conference deliberations, NEC elections, policy making and fund raising, it is not surprising that the constituency Labour parties should have reached a state of advanced decay. Constituency Labour parties were not formally set up until 1918, 18 years after the inception of the Labour Representation Committee, and the whole country was not covered until 1932. Even in the early years, Sidney Webb, the architect of the 1918 Party constitution, is reported to have described them as,

“frequently unrepresentative groups of nonentities dominated by fanatics and cranks and extremists” (quoted in “Labour's Local Parties,” by Mr Tom Forester (*New Society*, 25th September 1975).

After reaching a peak of over 1 million in 1952, official membership is now estimated at 691,889—6 per cent of the October 1974 Labour electorate—“by far the lowest ratio of members to electorate in any European social democratic party” (*New Society*, op. cit.). This total is almost certainly exaggerated. Since January 1963 every affiliated constituency party is presumed to have a minimum of 1,000 members, and thus any decline below 1,000 is unrecorded in the official total. Yet the Butler/Pinto-Duschinsky study of the 1970 Election suggested that only 80 local parties really exceeded 1,000. They also estimated that most local parties had between 350 and 500 members, giving on average a total of between 310,000 and 385,000, and not nearly 700,000 as the official figures for 1964–70 claimed. Mr Forrester estimated the actual total at less than 300,000 (*ibid.*).

A succession of Transport House inquiries has done little to improve the situation. These ranged from the review by Sir Harold Wilson in 1955 which described the organisation as “our penny farthing machine” to the Jameson Report (1968) which said that some local parties are dominated by cliques of party workers who

“are not interested in new members, do not want them, would not welcome them and might well prove rather off-putting hosts.”

This was confirmed by Mr Ron Hayward, the Party's General Secretary:

“Some parties don't want new members. They have got a nice little comfortable clique and don't want new faces to upset them” (*Labour Weekly*, 14th April 1972).

### **4. READOPTION CONFLICTS IN LOCAL LABOUR PARTIES**

The weakness of so many of the local Labour parties, the swing to the Left at the Party Conference and in the National Executive—in which the leaders of the Party fully acquiesced and which they occasionally encouraged—and the increasing tendency for new MPs to join the Tribune Group, led to several conflicts between some of the remaining moderate MPs and Left-wing activists in their local parties.

Before the end of 1974 there had been two such readoption conflicts in both of which the militants were successful in getting rid of their MP. Mr Dick Taverne, then MP for Lincoln, was faced with a vote by his Party not to readopt him, partly because of his support for Britain's entry into the EEC. He easily defeated the official Labour candidate in a by-election in March 1973, but was eventually defeated by Miss Margaret Jackson, the official Labour candidate, in October 1974. Mr Eddie Griffiths, former MP for Sheffield Brightside, whose Party resented his criticism of nationalisation and his visit to the home of a then Conservative MP, Mr Ernle Money, was dropped before the October 1974 election. Despite a petition signed by nearly 1,000 Labour supporters in the constituency the NEC rejected his appeal, "as the procedures carried out were strictly in accordance with the Party constitution" (*The Times*, 12th September 1974).

He fought the seat as an independent but was defeated by the official Labour candidate, Miss Joan Maynard, when, for the first time since the war, the Communist Party did not field a candidate. In neither of these cases did the Party leadership intervene to check the militants.

**The Case of Mr Reg Prentice.** Since his clash with Mr Benn over the imprisoned dockers in 1972 (see p. 662), Mr Prentice has been in constant conflict with the militant Left, particularly over their support for the Clay Cross councillors and Shrewsbury pickets. For warning the unions not to "welsh" on the social contract he was described as an "economic illiterate" by Mr Foot, and Sir Harold Wilson commented:

"I do not think we need spend a lot of time on him. I do not intend to ... I do not think it particularly helps to kick people (i.e. union leaders) in the teeth." (*Guardian*, 4th March 1975).

On 20th March 1975, just before Mr Prentice was to face a motion of no confidence from his constituency party (which was deferred), Sir Harold Wilson said of the word "welsh":

"It is an offensive phrase in the first place and it has caused considerable offence in Wales" (*Hansard*, Col. 1848).

After Mr Prentice had been demoted from Secretary of State for Education to Minister for Overseas Development in early June (apparently retaining his Cabinet seat only after pressure from Mr Jenkins) the Newham North-East Executive Committee on 23rd June 1975 voted by 12-8 to ask him to retire at the next election.

Despite a letter of support signed by 160 Labour MPs, Mr Prentice's rejection by his constituency party was upheld both by its General Management Committee and by the National Executive Committee. Sir Harold Wilson, then Prime Minister, made known his personal support for Mr Prentice and this drew the following response from Mr Daniel Murphy, a supporter of Mr Tony Kelly, who had apparently spearheaded the effort to oust Mr Prentice:

“so far as we are concerned, Mr Wilson is completely out of order. He has no authority in this constituency ... Ron Hayward is General Secretary of the Labour Party, Mr Wilson is leader of the Parliamentary Party” (*The Times*, 22nd July 1975).

Mr Prentice's hopes that his supporters would regain control of his constituency party were dashed when, on 8th December 1976, the Left-wing candidates in the General Management Committee elections were returned with greatly increased majorities.

**Other Readoption Conflicts.** Mr Frank Tomney, MP for Hammersmith North, is another moderate Labour MP whose General Management Committee has voted to urge him to retire at the next General Election (by 45 votes to 31). This decision was upheld by the National Executive Committee, and the Labour Conference of 1976 refused to allow him or Mr Prentice a hearing when they attempted to appeal against their dismissal.

Mr Neville Sandelson, MP for Hayes and Harlington, had to face a special meeting of his constituency party to consider a proposal that he should not be readopted. Despite declared support for Mr Sandelson from Mr Callaghan and Mr Foot, the General Management Committee voted by 23 votes to 17 to hold a meeting, which was arranged for 23rd January 1977, to consider whether he should go, and at which, in fact, Mr Sandelson's supporters were able to defeat the move to oust him. The branch of USDAW (the Shopworkers' union) in the constituency changed its position from opposition to Mr Sandelson to support for him because, in the words of its regional organiser:

“We believe that there is a section of the Labour Party in Hayes and Harlington which is attempting to use undemocratic methods to remove the MP” (*Evening Standard*, 3rd December 1976).

A number of other Labour MPs are believed to be threatened by Trotskyist infiltrators (see p. 692). One moderate MP, who did not wish to be named, said:

“It is fair to say that any Labour MP over the age of 60 is now vulnerable. The ultra-Left play a very clever game. In many constituencies they are just ‘sleeping’, waiting for the right moment to move. What is worrying for moderate Labour MPs like myself is the total, unbelievable comatose incompetence of the Labour Party's National Executive who are refusing to do anything about all this. They are unbelievably cowardly” (*Daily Telegraph*, 3rd March 1976).

Apparent support for the constituency militants came from Mr Hugh Jenkins, then Minister for the Arts, who said:

“It is too difficult—not too easy—for a party to get rid of its MPs ... Of course he (the Party activist) has more rights” (*Morning Star*, 25th August 1975).

## **5. ADOPTION OF LEFT-WING CANDIDATES**

A pattern has recently emerged by which a number of Labour constituency parties, often in marginal seats which the Labour Party might hope to win, have adopted Left-



wing candidates, and this pattern has become particularly clear in the type of candidate adopted in the more recent by-elections. Three Left-wingers were adopted in the Summer of 1976 for seats in the London area, held by the Conservatives with fewer than 2,000 vote majorities—Hornsey, Hampstead and Kensington. Mr Douglas Eden, a moderate member of the Hornsey Labour Party General Management Committee, complained about the adoption as prospective candidate of Mr Ted Knight, who was expelled from the Labour Party in the 1950s for his extreme views and re-admitted in 1970, and who is a self-proclaimed Marxist. Mr Knight “favours nationalisation of banks, is opposed to public expenditure cuts and the wages policy, and wants to withdraw troops from Northern Ireland” (*Daily Telegraph*, 23rd July 1976).

Mr Eden, who has worked with Dr Stephen Haseler in setting up the Social Democratic Alliance (see p. 685) to fight extremists in the Labour Party, said in his letter to Mr Underhill, Labour's National Agent:

“I have since learned that local Labour Party members in Hampstead and Kensington are raising similar objections with the national executive committee over the selection of Marxist candidates by the constituency parties. If they now endorse candidates like Ted Knight, they will have taken a positive step to encourage the growth of Marxism in the Labour Party, and will have assisted it on its way towards becoming the dominant philosophy of the Party” (*Daily Telegraph*, 23rd July 1976).

The new candidate for Kensington, Mrs Ann Holmes, “is believed to be the first Labour candidate to have agreed, if elected, to act in Parliament on the instructions of her constituency party” (*Daily Telegraph*, 23rd July 1976).

The Labour MP who was elected in the Thurrock by-election, Dr Oonagh Macdonald, was sponsored for the seat by Mr Benn and has advised the Labour Party on nationalisation. The three by-elections at Cambridge, Workington and Walsall North were all contested for Labour by Left-wing candidates and all three were defeated, despite the fact that the two latter were formerly safe Labour seats. Mr David Winnick, the candidate in Walsall North, worked for *Tribune* before entering Parliament in 1966. Mr Campbell-Savours, the candidate in Workington, split the local party since he was narrowly preferred to a local man, and after his defeat chose *Tribune* as a vehicle for explaining why he had lost. Mr Martin Smith, the candidate in Cambridge, abruptly withdrew his invitation to the Home Secretary to speak at a rally on 1st December, following the Home Secretary's decision to deport Mr Philip Agee, the former employee of the Central Intelligence Agency. Another Labour candidate, Mr Brian Wilson (Ross and Cromarty), threatened to resign if the Government carried out the deportation of Mr Agee.

As Dr Stephen Haseler said:

“It is virtually impossible nowadays for anyone who holds openly to the policies and philosophy which sustained the Labourism of Clement Attlee, the revisionism of Hugh Gaitskell or the liberalism of Roy Jenkins to get selected as a Labour candidate. Consequently, each new intake of Labour MPs swells the ranks of the Tribune Group to the point when Michael Foot can come within an ace of the Premiership of Britain” (*Daily Telegraph*, 19th November 1976).

## 6. LINKS WITH THE COMMUNISTS

The Social Democratic Alliance has recently published evidence of the involvement of 33 Labour MPs with Communist and other ultra-Left organisations. This involvement varies between those who have had direct contact with Communist and Trotskyite parties and organisations in Britain or abroad, and those who have contributed articles to the *Morning Star* and to another, lesser known, Communist publication, *Labour Monthly*. Mr Douglas Eden, National Organiser of the SDA, said:

“We are satisfied that we have documented evidence that each one of the MPs on our list has been involved, at least once, in acting against the interests of Labour Party democracy” (*Daily Telegraph*, 18th November 1976).

The list includes the following:

Miss Joan Maynard (Sheffield, Brightside), Mr Norman Atkinson (Haringey, Tottenham), Mr Sidney Bidwell (Ealing, Southall), Mrs Renee Short (Wolverhampton, NE), Mrs Judith Hart (Lanark), Mr Russell Kerr (Hounslow, Feltham and Heston).

Mr Frank Allaun (Salford, E), Miss Jo Richardson (Barking), Mr Douglas Hoyle (Nelson and Colne), Mr Stan Newens (Harlow), Mr Roy Hughes (Newport), Mr Eric Heffer (Walton), Mrs Audrey Wise (Coventry, SW), Mr Julius Silverman (Erdington), Mrs Lena Jeger (Camden, Holborn and St Pancras South), Mr Dennis Skinner (Bolsover), Mrs Millie Miller (Redbridge, Ilford N), Mr Neil Kinnock (Bedwellty), Mr Harry Selby (Govan), Mr John Mendelson (Penistone).

Mr William Wilson (Coventry, SE), Mr Tom Swain (Derbyshire, NE), Mr Tom Litterick (Birmingham, Selly Oak), Mr James Lamond (Oldham, E), Mr Richard Kelley (Don Valley), Mr Dan Jones (Burnley), Mr Alec Jones (Rhondda), Mr Eddie Loyden (Garston), Mr Ian Mikardo (Tower Hamlets, Bethnal Green and Bow), Mr Michael Foot (Ebbw Vale), Mr Stan Orme (Salford W) and Mr Tony Wedgwood Benn (Bristol SE).

*Daily Telegraph*, 18th November 1976).

The above list is, apparently, in descending order of involvement. Among Miss Maynard's reported activities are her support of a meeting called in April 1970 by the British Peace Committee, then proscribed by the Labour Party as a Communist-controlled organisation; an article written by her in February 1971 in *World Trade Union Movement*, the official organ of the Communist-controlled World Federation of Trade Unions, proscribed by the Labour Party at the time; a speech at a Conference in April 1971 organised by the Communist-controlled National Assembly of Women, which was also proscribed; and in 1973 being an official guest representing the Labour Party at the Communist World Youth Festival in East Berlin.

Mr Norman Atkinson, the second name on the list, and now Labour Party Treasurer, attended a rally at Barking in July 1970 organised by the *Morning Star*, which he told:

“We have got to recognise our responsibilities and find the resources for the Morning Star” (quoted in *Daily Telegraph*, 18th November 1976).

The same year he addressed a conference organised by the Communist-controlled Liaison Committee for the Defence of Trade Unions, and attended the 50th anniversary celebrations of *Labour Monthly* in June 1971, along with Mrs Renée Short.

Mr Sydney Bidwell, who was in 1974–5 Chairman of the Tribune Group, addressed a rally on 12th March 1972 at Wembley organised by the Trotskyite Socialist Labour League “and spoke glowingly of the works of Engels, Marx and Lenin” (*Daily Telegraph*, 18th November 1976). He said of the *Morning Star*: “I look forward each morning to the paper” (*Morning Star*, 12th May 1972).

Mrs Renée Short is noted by the SDA as active in promoting East-West Trade, and in November 1971 she attended the 54th anniversary celebration in London of the Russian Revolution.

Mrs Judith Hart attended the 44th anniversary celebrations of the *Morning Star* at the Royal Festival Hall on 3rd March 1974. She was at the time a Front-bench spokesman about to be appointed Minister for Overseas Development.

Mr Russell Kerr attended the 40th anniversary rally of the *Morning Star* when he was Chairman of the Tribune Group and was later quoted as saying it was “required reading for any Socialist worth his salt” (*Morning Star*, 2nd March 1970).

The SDA also attacked links with the Soviet bloc of certain senior union leaders some of whom are closely associated with the Labour Government. Its document stated:

“Mr (Jack) Jones only a few weeks ago went to the Soviet Union and praised a Russian trade union movement that does not exist. He said of the Russian colony of Latvia that ‘people are well contented’. These remarks are not the words of a democrat. They are instead the propaganda of a sympathiser with the Soviet regime” (*The Sun*, 17th November 1976).

The document also criticised Mr Clive Jenkins, General Secretary of ASTMS, for saying that the British people should “nourish” and “extend” TUC relations with the Soviet Union (*The Times*, 11th March 1975), and Mr David Basnett, General Secretary of the GMWU, for writing for the *Morning Star*. The document added:

“Len Murray, who should take a leading role in defending free trade unionism, has disgraced himself by playing host to the KGB murderer Alexander Shelepin and to the Russian Communist Party's chief of subversion in the West, Boris Ponomarev” (*The Sun*, 17th November 1976).

The SDA severely criticised the visits to Britain in March 1975 of Mr Shelepin, the former KGB officer in charge of the bogus Soviet Trade Union Movement as a guest of the TUC, and in October 1976 of Mr Ponomarev, as the guest of the Labour Party's NEC. Dr Haseler wrote:

“The essential problem with many of those in the Labour movement, some of them in very high positions, who choose to associate themselves with organs of the Communist Party (indeed, many of them actually call for financial assistance for its newspaper) is that they can see no cut-off point between democratic left-wing politics and totalitarian left-wing politics. It is the old idiocy of believing that there ‘are no enemies to the left’” (*The Guardian*, 4th December 1976).

There are two examples of contacts in reverse—the visits by Mr Ron Hayward to Iron Curtain countries, both of which were reported with some satisfaction in the *Morning Star*. On 3rd March 1975 Mr Hayward had a two hour talk with Herr Erich Honecker, First Secretary of the East German Communist Party. Mr Hayward described this as “very friendly” and covering a wide range of subjects “including the raising of living standards all over the world”. He told a press conference:

“I see Mr Honecker as a man of wisdom and experience, very proud of the GDR and with every right to be proud ... Here in the GDR I have seen energetic, happy people—people with full shopping bags”.

Mr Hayward said that he came to the GDR

“with the full authority of the national executive of the Labour Party, to form a basis on which to build firm friendship between the Labour and the Socialist Unity (East German Communist) Parties” (*Morning Star*, 4th March 1975).

In October 1976 Mr Hayward visited the Polish Communist Party in Warsaw and described the talks he had there as “friendly, interesting and frank”, and the hospitality he had received as “immense” (*Morning Star*, 11th October 1976).

## **7. GROWTH OF INFLUENCE OF MARXISTS AND TROTSKYISTS**

In the closing weeks of 1976 increased publicity was given to the effective penetration of sections of the Labour Party by Left-wing extremists who were not necessarily orthodox Communists but more often adhered to the views of Stalin's great rival in the Soviet Communist movement, Leon Trotsky. Only the slightest safeguards exist within the Labour Party to prohibit this from happening. All that is expected from those wishing to join the Party is that they should first sign a declaration that they do not belong to any other political organisation, and it is believed that Trotskyists and Maoists and other extremists would have little scruple in giving this assurance.

Hitherto it had been believed that this penetration was limited to the ranks of the Young Socialists (see p. 694) and a limited number of constituency parties with readoption conflicts, like Newham North-East. However, following the expression of fears by Mr Edward Lyons, MP for Bradford West, that Trotskyists might threaten his position, Mr Thomas Torney, Labour MP for Bradford South, said he estimated from discussions with colleagues at the Commons, most of whom were reluctant to speak of their fears publicly, that about a dozen Labour MPs whose cases had not been publicised were threatened by militants in their constituencies. A dozen others were finding themselves subjected to occasional hostile motions passed by activists at

poorly attended meetings and, in addition, there were between 50 and 100 constituencies where supporters of the Trotskyist newspaper *Militant*, or similar groups, were “a bit of a nuisance” (*The Times*, 1st December 1976). Mr Torney thought that these did not threaten him because he was a left-of-centre MP. “But if I was suddenly to become Right-wing they could become a threat ... I would just as soon not have them. The Communists are more trustworthy” (*The Times*, 1st December 1976).

A report in the *Daily Mail* on 3rd December 1976 singled out three centres of trouble: London, South Yorkshire and Mersey-side. MPs mentioned as facing activist threats, apart from those with actual readoption conflicts, were, in London, Mr Jock Stallard (St Pancras North), Mr Ernest Perry (Battersea South), Mr William Molloy (Ealing North); and elsewhere, Mr Bob Bean (Rochester and Chatham), Mr Ben Ford (Bradford North), Mr Walter Harrison (Wakefield), Mr Stanley Cohen (Leeds South East), Mr Pat Duffy (Sheffield Attercliffe), Mr Ken Lomas (Huddersfield West), Mr Richard Crawshaw (Liverpool Toxteth), Sir Arthur Irvine (Liverpool Edge Hill), Mr Eric Ogden (Liverpool West Derby) and Mr Simon Mahon (Bootle).

Sir Harold Wilson and Mr Callaghan had already drawn attention to these dangers at the 1975 and 1976 Party Conferences respectively. On 3rd December 1976, Mr Callaghan said at an annual dinner in Mr Healey's constituency (Leeds East):

“There are too many of these people who have infiltrated this Party already. Get them out!” (*The Times*, 6th December 1976).

Sir Harold Wilson took the matter up the following day:

“A man or woman who has received the endorsement of the electorate is, morally and democratically, no longer an office-holder to be dismissed by an unrepresentative caucus, still less by the calculated actions of what we in Yorkshire call ‘comers in’” (*Sunday Telegraph*, 5th December 1976).

Sir Harold proposed three major changes in party rules to combat these threats:

1. An MP's position as Labour candidate should be ended only as a result of a vote by all members of the constituency party. This would bring Labour Party rules in line with those of the Conservative Party, where an MP facing a challenge from his constituency officials has the right of appeal to the party membership as a whole.
2. No one would be eligible for membership of the general management committee unless he had been on the electoral register for two years. This would stop what Sir Harold called “bed-sitter infiltrators.”
3. The National Executive should change its rules on the right of an MP to appeal against being dropped. (*Sunday Telegraph*, 5th December 1976).

Mrs Sally Oppenheim, Conservative spokesman on Prices and Consumer Affairs, wrote in an open letter to Sir Harold:

“You ignore the fact that the activities you criticise began, proliferated and intensified under your leadership of the Labour Party and that the people of whom you complain

are not confined to bedsitters in the twilight area of Labour constituencies, but exist in considerable numbers within the Parliamentary Labour Party itself” (*Daily Telegraph*, 6th December 1976).

A dissenting note from within the Cabinet came from Mr Benn, who argued at Bristol that a belief in Marxism was not, and never had been, regarded as a disqualification to membership of the Labour Party. Referring to those who admitted being influenced by Marx or Trotsky, he added:

“An inquisition set up to root out such people would not stop there. Voices would soon be raised to carry it further” (*Daily Telegraph*, 11th December 1976).

The attitude of the Trotskyists themselves was explicitly set out by Mr P. Taaffe, the Editor of *Militant*, in a letter to *The Times*:

“There has been ‘infiltration’ into the Labour Party by Tories and Liberals and agents of the CIA, who have masqueraded as socialists. The fact that the rank and file are beginning to repudiate these people by exercising their democratic rights has sent them, and you, into paroxysms of fury ... The explanation for your scare campaign is that the rank and file of the Labour movement, as a result of the crisis of British and world capitalism, have begun to move towards the left, and increasing numbers are embracing the ideas of Marxism. What frightens you and the class you represent is that the Labour Party rank and file should have the temerity seriously to wish to implement Clause IV, part 4, of Labour's constitution which calls for the nationalisation of the commanding heights of the economy. ‘Militant’ has concretised this part of Labour's Programme with its demand for the taking over of 200 or so monopolies which control 80–85 per cent of the economy, with the compensation to the shareholders on the basis of proven need, under democratic workers' control and management” (*The Times*, 7th December 1976).

A reading of *Labour's Programme 1976* (see page 697), suggests that Mr Taaffe and his associates are pushing at an open door.

## **8. THE YOUNG SOCIALISTS**

Although estimated to number only around 10,000, these are as embarrassing and dangerous to the Labour Party as their counterparts are to the Liberal Party.

A report to the NEC in November 1975, by Mr Underhill, the Labour Party's national agent, said that the Trotskyists had set up an organisation with a full-time staff to control the Young Socialists. His report quoted from a document said to set out the infiltrators' plans. Referring to the Young Socialists, this document stated:

“We have made big gains in the last period. The control of the Young Socialists nationally and in most regions, next year probably all, is an enormous weapon in our hands nationally and internationally.

“The other work of the Young Socialists must be as a spearhead ... carrying the idea of Marxism into the wards and constituencies, trade union branches and shop stewards committees.

“We must dig roots in the wards and constituencies as we have in the Young Socialists. Many are still shells dominated by politically dead old men and women.

“The Young Socialist branches where we have support are already a springboard for work in the wards and general management committees. We must draw the Young Socialists into the work in the constituency parties.

“When we have firm control of the National Organisation of Labour Students which should be the next objective we can use the Young Socialists and NOLS in tandem in the waging of campaigns” (*Daily Telegraph*, 10th November 1975).

After a delay of over a year, the NEC voted, at its meeting on 26th January, for a sub-committee of five “to examine documents in the National Agent's possession and recommend whether any action is desirable” (*The Times*, 27th January 1977). This suggestion came from Mr Foot, who confessed that, having vetoed further action a year previously, he thought now that perhaps the NEC “ought to have looked at the document”. The decision came after an exchange between Mr Callaghan, who said he had five Trotskyists in his own constituency Labour Party, and Mr Benn, who said of Trotskyist disruptive activities: “Well, it doesn't take place in mine. I have a number of members in the Militant tendency [i.e. Trotskyists] and they have been very helpful” (ibid.).

It is therefore not surprising that at their conference in March 1975 the Young Socialists called for the nationalisation of land and the major food companies; that in July 1975 they welcomed the dislodging of Mr Prentice and called for a further move to dislodge a further dozen MPs; and that at their conference in April 1976 they agreed to a proposal to press for schools and colleges to be controlled by the trade union movement.

## **9. THE APPOINTMENT OF MR ANDY BEVAN**

Clear evidence of the extraordinarily ambiguous attitude of sections of the Labour Party towards the growing Trotskyist influence has been shown in the appointment of Mr Andy Bevan, an avowed Trotskyist, as its National Youth Officer. On 20th September 1976, Mr Bevan was selected by the Staff Negotiations Committee of the Party over the heads of six highly qualified party agents who had applied for the post. The Young Socialists' representative on the NEC, Mr Nick Bradley, had not voted, yet the voting was 2 to 1 in favour of Mr Bevan, with the decisive vote that of Mr Ron Hayward, General Secretary of the Party. This exacerbated tension which already existed between Mr Hayward and the National Union of Labour Organisers, who represent the Transport House staff. In the months prior to this meeting, the representatives of NULO on the Staff Liaison Committee had refused to attend unless Mr Hayward gave an undertaking that proceedings would either be tape-recorded or noted down verbatim.

As Youth Organiser, Mr Bevan would be privy to secret information the Labour Party used to plan campaigns and develop policy. An unnamed Labour Party Agent said:

“Mr Bevan belongs to a group that is using the Party to further certain political ideas. He would be in a position to let the extreme Left-wing know that there was a weak constituency party” (*Daily Express*, 25th November 1976).

The Prime Minister asked Mr Hayward to postpone confirmation of the appointment to allow for more discussion, and this was agreed at an NEC meeting on 23rd November. During the period of “discussion”, Mr Bevan further exacerbated tension by attacking the Government's policy in Northern Ireland and condemning the Northern Ireland peace movement:

“It is going to take a movement of the working classes to force British imperialism to withdraw the troops. That means a social revolution or something very close to it on the British mainland. It (the peace movement) has been taken over by reactionary and religious bigots” (*Daily Telegraph*, 29th November 1976).

He also said:

“Since Mr Callaghan's intervention, I know of at least twenty four constituency parties who have passed resolutions in my favour” (*Daily Express*, 27th November 1976).

Mr Bevan is also on record as having said:

“We proudly describe ourselves as Marxists, and what we mean by that is that we stand on the traditions of Marx and Engels, Lenin and Trotsky” (quoted in the *Sunday Times*, 28th November 1976).

He wrote in the Young Socialist Journal, *Left*, in May 1976:

“If Capitalism is in a mess, put an end to it! Join us ... in fighting to arm the working class movement with a programme based on taking over 200 or so huge firms, banks and insurance companies which really rule Britain” (quoted in the *Sunday Times*, 28th November 1976).

This echoed the Trotskyist programme as outlined by the Editor of *Militant* (see p. 692), and was not dissimilar to *Labour's Programme 1976*.

Mr Benn issued a statement to the NEC defending the appointment of Mr Bevan. Transport House refused to circulate this to the press, but *The Guardian* obtained a copy and published it on 13th December. Mr Benn wrote:

“Any decision to cancel his appointment on the grounds of his Marxist convictions would have profound implications for the whole nature and make-up of the Labour Party ... For the indisputable historical fact is that Marxism has, from the earliest days, always been openly accepted by the Party as one of many sources of inspiration within our movement”.



He quoted a respectable moderate colleague in support:

“In a letter published in *Tribune* Tony Crosland wrote as follows: ‘We conceive the function of *Tribune* to be the expression in popular form, and to as large a public as possible, of the views of the Left and Marxist wing of social democracy in this country. Its policy must be that of those who believe that the present leadership of the Labour Party is not sufficiently Socialist ...’”.

At its meeting on 15th December 1976, the NEC voted by 15 to 12 to confirm the appointment of Mr Bevan. Four Cabinet Ministers present, including Mr Foot, voted against, but Mr Benn voted in favour.

*The Times* commented that this was rather like “appointing Mr Philby to run the Secret Service when actually knowing that he is a spy” (16th December 1976).

Mr Callaghan **Declines Responsibility**. Asked by **Mrs Thatcher** whether he agreed with, or rejected, Mr Benn's view that the influence of Marxists was welcome in the Labour Party, clearly embarrassed by the reference, Mr Callaghan replied:

“I do not propose, in this House, to answer any questions about the National Executive Committee of the Labour Party ... I have no responsibility for any of these matters” (*Hansard*, 14th December 1976, Col. 1183).

When Mr Callaghan was further asked in the Commons about Mr Bevan, by Mr Renton, Conservative MP for Mid-Sussex, he replied:

“I have no responsibility to the Hon. Member for Mid-Sussex, either as Prime Minister or as First Lord of the Treasury, for these matters which concern the Labour Party—none at all” (*Hansard*, 16th December 1976, Col. 1725).

On 8th February 1977 **Mrs Thatcher** again asked Mr Callaghan three times to condemn the support of the Marxists in the Labour Party. As she later said:

“I confess that I was not greatly surprised when he refused to answer. If he welcomed the Marxists he would, he knew, deeply offend the great majority of the electorate. If he condemned them he would, he knew, deeply offend those elements in the Labour Party who keep his government in power. So, in the negative spirit characteristic of his political career, he did neither” (Southampton, 11th February 1977).

NULO's opposition caused a delay in Mr Bevan's starting work at Transport House. At a meeting of the NEC on 19th January 1977, however, a resolution was carried by 18 votes to nil stating that Mr Bevan's appointment was irrevocable and asking him to return to work, which he did that same afternoon.

Three days later, Mrs Shirley Williams, in an article in *The Guardian* on “Trotskyism and Democracy”, wrote:

“No question is more important for the Left than the compatibility of individual freedom with Socialism ... Modern Trotskyism's vision of Socialism has nothing to do with the British Labour Party's vision ... Modern Trotskyism, like the Trotskyism

of Trotsky himself, holds liberty and democracy in total contempt ... Freedom and democracy must never be taken for granted. In a world where they are being challenged and sometimes destroyed, it is for us in the Labour Party to defend them” (22nd January 1977).

## (G) LABOUR PARTY POLICY

Clause V of the Labour Party Constitution, which lays down the relative powers of the various parts of the party organisation, provides that:

- i. No proposal shall be included in the Party Programme unless it has been passed by a two-thirds majority at the Party Conference on a card vote;
- ii. From among the proposals so passed for the programme, the National Executive Committee and the Parliamentary Committee of the Labour Party [i.e. the Shadow Cabinet] shall together choose which to put into an Election Manifesto.

The National Executive Committee and the Shadow Cabinet (in government the Cabinet) thus each have a veto on any proposal being inserted, but the last sentence of Clause V states that these two committees together

“shall also define the attitudes of the Party to the principal issues raised by the election which are not covered by the manifesto.”

(See pp. 679–682 on the work of Mr Benn and the Party's Home Policy Committee.)

### 1. “LABOUR'S PROGRAMME FOR BRITAIN 1976”

This was compiled by a large number of Labour policy groups and committees, and was published on 27th May 1976. Mr Callaghan said it represented “The total sum of all their hopes” (12th May 1976).

At a time when the Labour Party poses more of a threat to Britain's freedom and economic survival than ever before, the publication of *Labour's Programme 1976*, its endorsement by the 1976 Labour Party Conference, and the failure of any Labour leaders to disavow its proposals, represent a significant success for the Left-wing of the Labour Party and make it all the more difficult for the present Government to move towards saner policies. The Programme is identical in many respects with the British Communist Party Programme, published in the *Morning Star* on 1st November 1975. Both call for nationalisation of industrial firms and financial institutions, import controls, a wealth tax and cuts in defence spending. *Labour's Programme* is even more threatening to Britain's role in NATO and to the success of the private sector of British industry than the programme of the Italian Communist Party during the recent elections there.

**The nationalisation proposals** of the Programme are scattered over a number of pages and sections, but they add up to the following shopping list:

“All Land”.

Banks and Insurance companies.

“All genuine ports and port functions”.

British Caledonian Airways.

Burmah Oil, including such “subsidiaries as Castrol, Halfords and Rawlplug”.

Parts of: Road haulage, construction, building materials, plant hire, food manufacturing, brewing, fishing, forestry, “timber-based industry”, pharmaceuticals, mining equipment and telecommunications equipment.

32 unspecified sectors of industry “which are of particular importance” where “a significant public stake” should be taken over.

The take-over of the Aircraft and Shipbuilding Industries should “provide considerable scope for further expansion” into “subsidiary companies” and “related activities”.

Any “medium-sized firm based in Scotland and Wales” required by the Scottish or Welsh Development Agencies.

Any “important sector of the UK economy” not at present under UK control.

**Planning agreements** with industry would cease to be voluntary: “immediate priority should be given to concluding them with the top 30 companies by the end of this year (1976) and with the top 100 by the end of 1978”. The Government would also be able to issue directives to companies on “a wide range of individual matters”, and “to put in an Official Trustee to assume temporary control of any company which fails to meet its responsibilities ...”

**Spending, Taxation and Unemployment.** On the National Executive Committee's own estimate, and after allowing for cuts of £1,000 million in defence spending and £760 million in tax relief on company cars and mortgages, the proposals in the Programme would cost an extra £3,920 million a year by 1980 at 1975 prices. Labour did not specify what the implications for tax might be. But if all this were financed by raising income tax, the standard rate would go up by nearly 11p in the £. If the cost were divided equally between income tax and VAT, income tax would go up by over 5p in the £ and VAT to 15 per cent. This would mean that a man on average earnings (£3,500 p.a.) with a wife and two children under 11, would pay £3·84 tax per week *more* if the standard rate went up by 11p and £1·75 tax if the standard rate went up by 5p.

These figures are minimum estimates. They assume that the specified cuts in spending would take place, and they do not include the cost of increased nationalisation (apart from the increased funds to be made available to the NEB for that and related purposes), as the proposals are themselves unspecified and the cost would depend on the compensation paid.

It is impossible to estimate the effects of the Programme on unemployment, but the threat of its implementation would be a more substantial blow to industrial confidence than anything yet achieved by the combined efforts of Mr Healey and Mr Benn, and the shift of resources from the productive private sector into public sector consumption in various forms (including perhaps inevitable losses, after a period, in the nationalised firms) would seem to make a substantial rise in unemployment inevitable.

**Bureaucracy.** The Programme does not specify the increase in bureaucracy arising from its proposals. It does, however, propose a comprehensive planning network, with a National Planning Commission, linked to a Cabinet committee, and plans for an Investment Bank; an Agricultural Land Commission; new regional authorities with unspecified but clearly substantial powers; a new authority to “supervise the various self-regulating bodies now dealing with the financial and security markets”; a strengthened Construction Industry Manpower Board with “adequate powers for manpower planning”; a Public Procurement Agency to supervise public sector contracts; a Co-operative Development Agency to encourage “workers' co-operatives”; a Foreign Exchange Control Committee to control inward and outward investments; a possible new agency to control technology; an energy forum with a secretariat and research unit, and substantially increased powers for the Price Commission, Manpower Services Commission, Forestry Commission, the office of Fair Trading, and consumer advice centres.

**Import Controls.** While only selective, the Programme proposes that these should be introduced not only where sectors of industry are threatened by dumping and unfair competition, but where there has been “lack of past investment, outdated equipment, poor management and comparative inefficiency”—a blanket prescription. The Programme notes blandly that these “could lead to a slight increase in the cost of living ...”

**Workers Co-operatives.** The Programme gives its seal of approval to such unviable ventures as the Meriden and the *Scottish Daily News Workers' Co-operatives* (see Chapter 6, p. 155), and proposes that those wishing to establish similar schemes should be provided with all the assistance they need, including consultants, training, and finance, through a co-operative development agency.

**Housing.** The document proposes a £1,000 million programme of public sector house building, which will significantly increase the level of housing subsidies. Mortgage tax relief for home buyers would be cut by £160 million, by limiting it to those paying the standard rate of tax (see Chapter 13, p. 313). This would make existing home owners reluctant to move to larger houses with a reduction in the number of houses available to first-time buyers. The Programme also states that Labour would give “a somewhat lower priority” to local authority mortgage lending than to the municipalisation programme, which should be increased, using requisition or compulsory leasing powers where necessary.

**Education.** The Programme attacks examinations, and threatens interference by the Government in what is taught in schools, while the proposal for “democratic control of the education system” might enable Left-wing groups to interfere with the day to day running of schools.

**Local Government.** The Programme proposes that local authorities should be given powers enabling them “to undertake a range of industrial and commercial activities”. If these businesses and shops made a loss, the rate payers, including local private traders, would have to carry the cost. The Programme also states that government should encourage the work of direct labour departments, which should be given “powers to build council houses for other local authorities, to build for private contractors and to contract for repair and maintenance work in the private sector” (see Chapter 20, p. 512).

**Defence spending** should be cut by at least £1,000 million a year at 1974 prices. This would involve savage cuts in two of the three services (see Chapter 25, p. 600).

**Foreign Affairs.** Where Labour's policy-makers disapprove of a country's politics or social system, they call for restrictions on British investments and trade. While criticisms of the foreign policy and internal repression of Communist countries are almost non-existent, the Programme singles out for condemnation Britain's connections not only with South Africa, Rhodesia and Spain, but also a range of non-Communist countries from Brazil, Argentina, Uruguay, Chile and Bolivia to Saudi Arabia, Iran, Indonesia and even Hong Kong.

## **2. LABOUR PARTY CONFERENCE RESOLUTIONS**

The following resolutions, complementary and in certain respects supplementary to *Labour's Programme*, were *passed* at the 1976 Labour Conference in Blackpool:

- a. A resolution supporting those Labour Councils which had refused to implement public spending cuts imposed by the Government, and calling upon other Labour groups to follow their example.
- b. A resolution proposed by Mr Hugh Scanlon demanding Government control of the outflow of capital, more money for the NEB, selective import controls, an import deposit scheme and an extension of nationalisation.
- c. A resolution opposing direct elections to the European Parliament, which was carried on a show of hands, while one urging the Party to prepare urgently for these elections was rejected.
- d. A motion calling for the repeal of the 1968 and 1971 Immigration Acts, which was carried by an overwhelming majority.
- e. A resolution demanding legislation to prevent the sale of council houses.
- f. A resolution to end all prescription, ophthalmic and dental charges, which also called for nationalisation of the pharmaceutical industry.
- g. A resolution to approve the plans for the nationalisation of the big four clearing banks, a merchant bank and seven leading insurance companies, which was carried by 3,314,000 votes to 526,000.
- h. The same resolution also pressed for a stake to be taken in important firms through the NEB, the export of investment funds to be curbed, compulsory planning agreements to be imposed on large companies and multinationals, and selective short-term import controls.
- i. A resolution calling for higher pensions and a reduction in the retirement age to 60, which was carried, despite a warning from Mr Joel Barnett, Chief

Secretary to the Treasury, that these would cost £5,000 million or 10p on income tax and 10 per cent on national insurance contributions.

- j. The Conference also endorsed *Labour's Programme 1976*, which was carried by 5,883,000 votes against a mere 122,000.

## **APPENDIX**

# **THE LABOUR CABINET SINCE 1974**

### **1. Labour Cabinet as of 6th March 1974**

PRIME MINISTER—Mr Harold Wilson

LORD PRESIDENT OF THE COUNCIL AND LEADER OF THE HOUSE OF COMMONS—Mr Edward Short

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS—Mr James Callaghan

LORD CHANCELLOR—Sir Frederick Elwyn Jones (Lord Elwyn-Jones)

SECRETARY OF STATE FOR THE HOME DEPARTMENT—Mr Roy Jenkins

CHANCELLOR OF THE EXCHEQUER—Mr Denis Healey

SECRETARY OF STATE FOR THE ENVIRONMENT—Mr Anthony Crosland

SECRETARY OF STATE FOR EMPLOYMENT—Mr Michael Foot

SECRETARY OF STATE FOR ENERGY—Mr Eric Varley

SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION—Mrs Shirley Williams

SECRETARY OF STATE FOR SOCIAL SERVICES—Mrs Barbara Castle

SECRETARY OF STATE FOR INDUSTRY—Mr Anthony Wedgwood Benn

SECRETARY OF STATE FOR TRADE AND PRESIDENT OF THE BOARD OF TRADE—Mr Peter Shore

SECRETARY OF STATE FOR DEFENCE—Mr Roy Mason

SECRETARY OF STATE FOR EDUCATION AND SCIENCE—Mr Reginald Prentice

SECRETARY OF STATE FOR SCOTLAND—Mr William Ross

SECRETARY OF STATE FOR WALES—Mr John Morris

SECRETARY OF STATE FOR NORTHERN IRELAND—Mr Merlyn Rees

MINISTER OF AGRICULTURE AND FISHERIES—Mr Frederick Peart

CHANCELLOR OF THE DUCHY OF LANCASTER—Mr Harold Lever

LORD PRIVY SEAL—Lord Shepherd

## **2. Changes in Cabinet Posts 1974–77**

PRIME MINISTER—

Mr Harold Wilson, 4th March 1974–5th April 1976

Mr James Callaghan 5th April 1976–

LORD PRESIDENT OF THE COUNCIL AND LEADER OF THE HOUSE OF COMMONS

Mr Edward Short, 5th April 1974–8th April 1976

Mr Michael Foot, 8th April 1976–

LORD PRIVY SEAL

Lord Shepherd, 6th March 1974–10th September 1976

Lord Peart, 10th September 1976–

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

Mr James Callaghan, 5th March 1974–5th April 1976

Mr Anthony Crosland, 8th April 1976–19th February 1977

Dr David Owen, 21st February 1977–

SECRETARY OF STATE FOR THE HOME DEPARTMENT

Mr Roy Jenkins, 5th March 1974–10th September 1976

Mr Merlyn Rees, 10th September 1976–

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Mr Frederick Peart, 5th March 1974–10th September 1976

Mr John Silkin, 10th September 1976–

SECRETARY OF STATE FOR DEFENCE

Mr Roy Mason, 5th March 1974–10th September 1976

Mr Frederick Mulley, 10th September 1976–

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

Mr Reginald Prentice, 5th March 1974–10th June 1975

Mr Frederick Mulley, 10th June 1975–10th September 1976

Mrs Shirley Williams (also PMG), 10th September 1976–

SECRETARY OF STATE FOR EMPLOYMENT

Mr Michael Foot, 5th March 1974–8th April 1976

Mr Albert Booth, 8th April 1976–

SECRETARY OF STATE FOR ENERGY

Mr Eric Varley, 5th March 1974–10th June 1975

Mr Anthony Wedgwood Benn, 10th June 1975–

SECRETARY OF STATE FOR THE ENVIRONMENT

Mr Anthony Crosland, 5th March 1974–8th April 1976

Mr Peter Shore, 8th April 1976–

MINISTER FOR PLANNING AND LOCAL GOVERNMENT

Mr John Silkin, 7th March 1974–10th September 1976

*Ceased to be a Cabinet Post 10th September 1976*

SECRETARY OF STATE FOR HEALTH AND SOCIAL SECURITY

Mrs Barbara Castle, 5th March 1974–8th April 1976

Mr David Ennals, 8th April 1976–

MINISTER FOR SOCIAL SECURITY

*New Post (previously covered by DHSS)*



Mr Stanley Orme, 10th September 1976–

SECRETARY OF STATE FOR INDUSTRY

Mr Anthony Wedgwood Benn, 5th March 1974–10th June 1975

Mr Eric Varley, 10th June 1975–

SECRETARY OF STATE FOR NORTHERN IRELAND

Mr Merlyn Rees, 5th March 1974–10th September 1976

Mr Roy Mason, 10th September 1976–

SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION

Mrs Shirley Williams (also Paymaster General), 5th March 1974–10th September 1976

Mr Roy Hattersley, 10th September 1976–

SECRETARY OF STATE FOR SCOTLAND

Mr William Ross, 5th March 1974–8th April 1976

Mr Bruce Millan, 8th April 1976–

SECRETARY OF STATE FOR TRADE

Mr Peter Shore, 5th March 1974–8th April 1976

Mr Edmund Dell, 8th April 1976–

SECRETARY OF STATE FOR TRANSPORT

*New Post (previously covered by Environment)*

Mr William Rodgers, 10th September 1976–

MINISTER FOR OVERSEAS DEVELOPMENT

*Post not previously in Cabinet*

Mr Reginald Prentice, 10th June 1975–21st December 1976

*Post ceased to be in Cabinet 21st December 1976*

MINISTER OF POSTS AND TELECOMMUNICATIONS

Mr Anthony Wedgwood Benn, 7th April 1974–29th April 1974

*Post held until dissolution of Ministry*

PARLIAMENTARY SECRETARY TO TREASURY (CHIEF WHIP)

*Not previously in Cabinet*

Mr Robert Mellish, 26th July 1974–8th April 1976

*Ceased to be in Cabinet 8th April 1976*

PAYMASTER GENERAL

*Office became Cabinet Post 8th April 1976*

Mrs Shirley Williams, 8th April 1976–

### **3. Labour Cabinet at end-February 1977**

PRIME MINISTER

Mr James Callaghan

LORD PRESIDENT OF THE COUNCIL AND LEADER OF THE HOUSE OF COMMONS—Mr Michael Foot

LORD CHANCELLOR—Lord Elwyn-Jones

CHANCELLOR OF THE EXCHEQUER—Mr Denis Healey

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS—  
Dr David Owen

SECRETARY OF STATE FOR THE HOME DEPARTMENT—Mr Merlyn Rees

SECRETARY OF STATE FOR EDUCATION AND SCIENCE AND PAYMASTER  
GENERAL—Mrs Shirley Williams

SECRETARY OF STATE FOR ENERGY—Mr Anthony Wedgwood Benn

SECRETARY OF STATE FOR INDUSTRY—Mr Eric Varley

SECRETARY OF STATE FOR THE ENVIRONMENT—Mr Peter Shore

SECRETARY OF STATE FOR NORTHERN IRELAND—Mr Roy Mason

SECRETARY OF STATE FOR SCOTLAND—Mr Bruce Millan

SECRETARY OF STATE FOR WALES—Mr John Morris

SECRETARY OF STATE FOR DEFENCE—Mr Frederick Mulley

SECRETARY OF STATE FOR EMPLOYMENT—Mr Albert Booth

SECRETARY OF STATE FOR SOCIAL SERVICES—Mr David Ennals

SECRETARY OF STATE FOR TRADE—Mr Edmund Dell

LORD PRIVY SEAL—Lord Peart

MINISTER OF AGRICULTURE, FISHERIES AND FOOD—Mr John Silkin

SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION—Mr  
Roy Hattersley

SECRETARY OF STATE FOR TRANSPORT—Mr William Rodgers

MINISTER FOR SOCIAL SECURITY—Mr Stanley Orme

CHANCELLOR OF THE DUCHY OF LANCASTER—Mr Harold Lever

CHIEF SECRETARY OF THE TREASURY—Mr Joel Barnett

## 29. LIBERAL PARTY

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### (A) ELECTORAL DECLINE

In the February 1974 General Election the Liberals obtained their highest percentage vote since 1929: 6,063,000 votes or 19.3 per cent of the United Kingdom total. This followed five by-election gains in 1972–3: Rochdale, Sutton & Cheam, Ripon, Isle of Ely and Berwick-on-Tweed. Since reaching that peak the Liberals have suffered a sharp decline in electoral support. In October 1974, despite fielding 102 more candidates than in February, their vote fell by over 700,000 to 5,348,000. They lost 130 deposits compared with only 23 in February.

Since the October election the Liberals have lost their deposits in eight out of eleven by-elections (see p. 751–3). Their total vote in these by-elections was just over 39,000, compared with over 78,000 in the same seats in the October election.

Several reasons may be adduced for the Liberal decline.

1. The problem of identity encountered by any party which has not formed a government for well over 50 years; does not clearly represent any particular section of the community; and shows (at best) an ambiguity as to its principles and political alignment.
2. The problems relating to the leadership.
3. A lack of clearly defined policies.
4. Support in Parliament for a number of unpopular policies of the present Labour Government.
5. The antics of the Young Liberals.

### (B) PROBLEM OF IDENTITY

The basic Liberal dilemma was expressed by the man who was probably the Party's most popular leader since Lloyd George, Mr Jo Grimond, who wrote in *The Liberal Challenge* (Hollis and Carter, 1963):

“Many people called themselves Liberals because they felt a vague urge to do good without taking any precise steps to do it. Others became Liberals merely out of dissatisfaction with the other parties”.

Mr Grimond wrote at a time when the Liberal vote was rapidly increasing in by-elections, and was to increase in the two General Elections of 1964 and 1966—largely, it might be argued, as a result of the two factors he cited. This revival, however, was speedily terminated in the by-elections of 1966–70 and the General Election of the latter year, and the more recent revival in 1972–4 appears to have been proved to be short-lived. As Mr Geoffrey Smith wrote in *The Times*:

“There is the depressing reflection for the Liberals that they are usually not much more responsible for their own dawns than the crowing of the cock is the cause of the sun rising. They can only respond to circumstances that others create”. (*The Times*, 20th September 1976).

Back in 1963 Mr Grimond expressed the basic purpose of the Liberal Party:

“Liberals must be like the men who, leaping from one log to another, prod and push timber down a river. They cannot wholly control the river but they ride the current towards a destination they have chosen. To do so needs boldness and a readiness to be exhilarated by change. Liberals have many specific reforms which we want to see carried out at once. We can claim to have been early on the ball, consistent and right about many major, but not always popular issues—Defence, Europe, Industrial Relations, for instance.... We believe that Britain should march towards the gun-fire” (*The Liberal Challenge*).

**The Liberal voting record** over the years shows the Liberal Party, in practice, to be strikingly opportunist and pusillanimous: gunfire normally ensures a rapid Liberal retreat rather than a vigorous advance. The general rule has been for the Liberals to concentrate their votes in Parliament against whatever government is in power, although the list on p. 710 shows significant exceptions to this rule in 1974–6. For example, in the 337 official divisions of the 1971–2 Session, 354 individual Liberal votes were recorded for the Conservative Government and 557 against that Government. In the 224 official divisions in 1972–3, the figures were 144 for and 698 against. Although the Liberals generally supported the Conservative Government's efforts to join the EEC, on the other two issues specifically mentioned by Mr Grimond as requiring major reform, the Liberals have consistently voted for cuts in defence spending, and voted against the Third Reading of the Conservative Government's Industrial Relations Bill on 24th March 1971. They also voted against the Second Reading of the Conservative Immigration Act on 8th March 1971 and against the second reading of the Conservative Housing Finance Bill on 15th November 1971.

**Confusion over Aims.** More recent statements by Liberal leaders have further shown the essential confusion as to where the Party stands. Mr Thorpe wrote in 1974:

“You can help unite Britain by voting for “moderation” (*News of the World*, 17th February 1974).

“The country is now desperately in need of moderate leadership” (*Yorkshire Post*, 26th February 1974).

Yet he later spoke of “a clear, radical alternative” (*Times*, 3rd July 1974) and claimed:

“The Liberal Party stands on the side of radical reform and the redistribution of wealth” (*Liberal News*, 17th September 1974).

The October 1974 Liberal Manifesto declared that a strong Liberal Party in Parliament could

“create conditions for a broad based radical alliance”.

*The Times* explained that this “envisages a realignment of the Left” (18th September 1974).

Similar ‘radical’ claims were made shortly after he entered Parliament by the present Liberal leader, Mr David Steel. He wrote that Sir Harold Wilson's earlier record as Prime Minister

“has convinced us that we are not just a party of the Left, but *the* Party of the Left” (*New Statesman*, 11th August 1967).

He later added:

“Our party is now the only opposition left to Conservatism in Britain” (*Financial Times*, 23rd September 1967).

**Coalition.** Shortly after the February 1974 election results became known, with the Conservatives having more votes than Labour but short of an overall majority in Parliament, Mr Heath offered Mr Thorpe

“a coalition arrangement under which you, as leader of the Liberal Party, would be offered a seat in the Cabinet, with ministerial appointments for some other members of your party” (Text of Mr Heath's letter to Mr Thorpe, *Times*, 5th March 1974).

Mr Heath emphasised that both Conservative and Liberal Parties were committed to similar policies on a number of major issues, notably the continuation of Britain's membership of the EEC, and opposition to nationalisation.

Mr Thorpe found that his colleagues would not accept this offer and it was refused. But in the following months the Liberals strangely began to give the clear impression that they would support a coalition. Mr Steel, then Liberal Chief Whip, said:

“In our crisis we surely need a much more broadly based government” (Party Political Broadcast, 25th June 1974).

Mr John Pardoe, then, as now, Liberal spokesman on economic affairs, said:

“The British people want a coalition. They are right to want it” (*Liberal News*, 9th July 1974).

However, just before the October election campaign started Mr Thorpe suddenly became more negative:

“If they (the electors) think that by voting Liberal they will produce a Liberal/Tory coalition, I think they would be wrong to vote on that assumption” (*Daily Telegraph*, 18th September 1974).

Since the October 1974 election the Liberal position has remained equally confused. As Mr Steel declared to the 1976 Liberal Assembly:

“I want the Liberal Party to be the fulcrum and centre of the next election argument, not something peripheral to it. If that is to happen we must not give the impression of being afraid to soil our hands with the responsibilities of sharing power. We must be bold enough to deploy the coalition case positively” (*The Times*, 20th September 1976).

However, he proposed to secure an undertaking from whichever major party was placed in the position of seeking Liberal support that proportional representation would be introduced for parliamentary elections. He had earlier stated that the Liberal party would be committing “political suicide” if it joined a coalition without a guarantee of electoral change (*The Times*, 17th September 1976). (Certain arguments deployed by the opponents of electoral change are listed in Chapter 19, p. 462 and it may be noted that the Liberal party has pressed for proportional representation only since it was displaced as a major party by the rising Labour Party in the early 1920s.)

Two months later, Mr Cyril Smith produced a more eccentric version of the coalition idea at a dinner in Rochdale. He, in effect, called for the burial—or reburial—of the Liberal Party in favour of a new British Centre Party. His colleagues in the Liberal Party should, he said, join to “launch a new Party, together with Right-wing Labour politicians and Left-wing Conservatives” (*The Times*, 27th November 1976). Mr Smith claimed he had found “tremendous support” for this call (*Daily Telegraph*, 29th November), but Mr Grimond said that the idea of forming an all-Party national government was “foolish” (*The Times*, 27th November 1976).

## **(C) THE LEADERSHIP**

The electoral decline of the Liberal Party since February 1974, and other events, produced increasing criticism by Liberals of Mr Thorpe as party leader. This was greatly exacerbated by the publication on 29th January 1976 of the Department of Trade Inspector's Report on London and County Securities, the collapse of which in December 1973 precipitated what the *Financial Times* called “the worst financial crisis the country has faced in modern times” (20th January 1976). The Report concluded that Mr Thorpe and his colleagues,

“did not sufficiently recognise that directors should behave as reasonably conscientious persons, aware of their responsibilities to investors and the fact that investors are rightly relying on them” (*Financial Times*, 30th January 1976).

Of Mr Thorpe's position, the Report stated:

“No doubt this helped create confidence in such banks on the part of would-be depositors.”

These criticisms escalated into a considerable campaign against the Liberal leader by his party colleagues. After the poor Liberal performances in three by-elections in early March 1976, Mr John Pardoe stated:

“I think that Jeremy should certainly consider going within the foreseeable future on political grounds” (*The Times*, 9th March 1976).

When asked whether he would be a candidate for the leadership, Mr Pardoe continued:

“Yes, undoubtedly ... there is no reason for me to beat about the bush on this. I have made it clear that I wish to succeed Jeremy Thorpe ... My criticisms of his style of leadership and content of his leadership started a long time before these by-election results” (*The Times*, 9th March 1976).

Other Liberal MPs attacked Mr Thorpe. Mr Emlyn Hooson, MP for Montgomery, spoke of the “tarnished image of Thorpe” in an interview on 7th March 1976 (quoted in *Western Mail*, 8th March 1976), and later, on Mr Thorpe's proposal to submit himself for re-election in the Autumn, he stated:

“I think it may be difficult for Mr Thorpe to buy time until September” (*The Times*, 8th March 1976).

Mr Thorpe eventually resigned on 11th May 1976.

**The Leadership Election.** On Mr Thorpe's resignation, the Liberal MPs agreed that Mr Grimond should officiate as acting Leader until an election under a new procedure, which the Party had been devising, could be held. This new procedure was agreed at a special Assembly at Manchester on 12th June 1976. Under it, each affiliated constituency association was entitled to 10 votes, 10 further votes if it was affiliated for the previous year and one further vote for each 500 votes cast for the Liberal candidate in that constituency at the previous election. Each constituency association held a secret ballot of all its members, and allocated the vote to which it was entitled in the national leadership election in proportion to the preference shown to each candidate. Only a Liberal MP could stand, proposed by five MPs or “one-fifth of the total number of Liberal members, whichever figure is the lesser”. In the event of more than two valid nominations, the election would take place under the alternative vote system, to ensure a proportional result.

Mr David Steel, then Liberal spokesman for “special projects”, and Mr John Pardoe, were the two contestants in the Liberal leadership election. Despite the absence of any clear policy differences between the two men, the leadership campaign was not characterised by unity and harmony. Mr Pardoe in particular produced some remarkable attacks on Mr Steel's style of politics. After declaring that, “People will vote for a bastard if they think that the bastard proves to be effective—I intend to prove that I am the most effective bastard around” (16th June 1976, quoted from *Guardian*, 22nd June 1976), he said that he would give a new, exciting, adventurous, daring, dangerous, “and perhaps a little reckless” twist to the Liberal approach, adding:



“Just stick around until we have given traffic cop Steel the slip, and I will take you on the most exciting political motor race you have ever seen” (*Sunday Express*, 20th June 1976).

He also accused Mr Steel of “dangerous complacency” and of uttering a “half truth” about the state of the Liberal Party (*Sunday Mirror*, 20th June 1976).

Mr Steel replied to Mr Pardoe's attacks by stating:

“I do not see myself as a Kamikaze pilot doing great damage to the enemy but destroying myself and the Party—or indeed a racing motorist ... I cannot think of any particular cause John (Pardoe) has been associated with on the Left” (16th June 1976, quoted in *Guardian*, 24th June 1976).

He said later:

“I believe the Party's toughness will be judged not by a slide into populism, not by the loudness of the noises that come from us, not by the number of public relations firms we are able to hire and not by the crudity of our language ... I do not approve of John's style of attack. I think it is surprising because he is legitimately advised by consultants” (*Daily Telegraph*, 21st June 1976).

At one point in the campaign, Mr Pardoe declared:

“I have never been so ashamed of this Party as I am now. Things have been done in this campaign by people who I thought were my friends and colleagues, which would never have been done by Conservatives or Socialists in any election campaign”.

He added that Mr Steel had conducted

“a carefully orchestrated character assassination with the help of the press ... they get their information from people who I thought were Liberals and friends of mine” (*Daily Mail*, 28th June 1976).

Mr Steel was the victor in the election, polling 12,541 of the total number of votes to which constituency associations were entitled, to Mr Pardoe's 7,032.

Mr Cyril Smith, however, was extremely dissatisfied by Mr Pardoe's defeat. He had supported Mr Pardoe because, as he said, the Liberals needed “a bit of bloody razzmatazz” (*Guardian*, 21st June 1976)—a point seized upon by Mr Steel in his criticisms of Mr Pardoe. Mr Smith stated:

“I will not accept any post under him (Mr Steel)” (*Daily Mirror*, 8th July 1976). He earlier said of him: “You could not make a bang if you had a firework in each hand” (*Daily Mirror*, 8th July 1976).

But Mr Smith later accepted the post of spokesman on the Social Services under Mr Steel's leadership.

## (D) LACK OF CLEAR POLICIES

Evidence of a more general confusion in the Liberal attitude to current problems can be found in conflicting views in the Party over coalition (see p. 705). Further evidence comes from a study of their voting record in Parliament (see p. 710). In view of their recent change of leadership and the constantly changing economic situation in this country, a definitive and up-to-date statement of their policy can only be studied when an election manifesto or similar document is available.

In at least two major areas, the Liberals have displayed opportunism and inconsistency. On public spending, Mr Pardoe first said:

“It is essential that he (the Chancellor) should be ready with quick acting devices for cutting public expenditure in case of need” (*Hansard*, 8th April, 1976, Col. 692).

He had earlier said:

“Unless a commitment to cut expenditure is a specific commitment it is not meaningful” (*Hansard*, 9th March 1976, Col. 326).

Yet three months later he asked:

“Will the Chancellor accept that all who are not totally overcome by Party political passion will welcome his determination not to indulge in panic and immediate cuts of public expenditure? Does he realise that such cuts would be totally phoney and could not be implemented by any government?” (*Hansard*, 7th June 1976, Col. 916).

The Liberals had earlier shown a similar inconsistency over inflation generally. Having voted for Stages 1 and 2 of the Conservative counter-inflation policy in 1972–73, they voted against Stage 3 in the Autumn of 1973, not because it was too restrictive on payrises, but because, they claimed, it was too inflationary. Mr Pardoe argued that the policy lacked teeth. On Stage 2, which was accepted in practice by most unions, he said:

“The primary reason why it has not been effective is the Government's totally inadequate enforcement procedures” (*Hansard*, 17th October 1973, Col. 258).

He claimed that the miners should easily be able to “find their way through the huge and multitudinous holes in Stage 3” (*Hansard*, 15th November 1973, Col. 730). Two months later, Mr Thorpe said that the miners should be given more money by the Government on the grounds that Stage 3 “is not worth dying for” (Newmarket, 26th January 1974). The Liberals pressed this inflationary line during the 1974 election campaign.

In both 1974 elections the Liberals favoured a tax on “people who cause inflation” who would be made to “pay through the nose”, as set out in the pamphlet, *We Must Conquer Inflation* (September 1974). This tax would be levied on the profits of firms who raised prices beyond a certain norm, and on the employees' national insurance

contributions where pay rose beyond the norm. Yet Mr Pardoe admitted difficulties in administering such a tax:

“It would be complicated, newfangled and somewhat bureaucratic” (*Daily Telegraph*, 9th September 1974).

Not surprisingly, in view of this comment, little has been heard of this Liberal policy since the October election, and the 1976 Liberal Assembly rejected the idea of a permanent prices and incomes policy (see below).

**The 1976 Liberal Assembly.** Much of the Liberal approach as contained in Mr Steel's speech to the Assembly is similar to Conservative policy. As *The Times* commented:

“The Steel Liberals will campaign against excessive bureaucracy, the corporate state and waste in both public and private expenditure. They want guaranteed minimum earnings and a comprehensive scheme of tax credits in their attack on poverty. They would ‘alter the burden of taxation to reward individual effort’ by cutting taxes on incomes and increasing VAT. They want greater worker participation and wider profit sharing. They will proclaim the doctrine that “small is beautiful” in all fields. They will “lead the fightback against collectivism and statism”, while at the same time banging “the drum of fraternity” (20th September 1976).

However, the Liberal voting record during the period of Conservative Government and since February 1974 (see p. 710) does not suggest a determined commitment to campaign for all these causes. The possibility, clearly left open by Mr Steel, that the Liberals might wish to form a coalition with Labour would also indicate a certain irresolution.

Other debates and statements at the conference showed the Party to be largely confused and undecided. For example, while a resolution was carried “condemning unemployment as a social evil and committing a Liberal Government to adopt a strategy of full employment based on the right to work” (*The Times*, 18th September 1976), no clear indication was given as to how this might be achieved, and the delegates deleted from the resolution by a large majority a paragraph reaffirming what had hitherto been central to its economic policy, namely its intention to sustain

“a firm prices and incomes policy for the remainder of the decade using statutory powers if necessary” (*The Times*, 18th September 1976).

Mr Pardoe condemned a statement by a delegate that this decision was a reversal for the Parliamentary Liberal Party:

“Since when has it been the major purpose of this party to defeat a major section of itself?” (*The Times*, 18th September 1976).

A resolution on housing, which Conservatives would regard as eminently sensible, since it pressed for subsidies to go not to types of housing on an across-the-board-basis but to individuals according to their need, was referred back to the Party's housing panel and to a special commission at the 1977 Assembly. Mr William Pitt, a

delegate from Croydon North West, who proposed the reference back, which was carried, “said the party had an incomplete and incoherent housing policy” (*The Times*, 16th September 1976).

The Assembly also called for the repeal of the Immigration Act 1971, and unrestricted right of entry to those eligible to hold UK passports and to dependants and fiancé(e)s of those already settled in the UK.

The Party's confused attitude to the British economic and social system was expressed by its president-elect, Mr Basil Goldstone, who told the Assembly:

“We must destroy a system that is based on selfishness and materialism, on jealousy and on prejudice, based on conventions that have long since ceased to be valid” (*The Times*, 18th September 1976).

Mr Grimond was dissatisfied with the results of the Assembly. Referring to the need for “a great shout of warning”, he wrote:

“No such shout came from Llandudno. Shouts are short, sharp and agonised. Conference resolutions are long, qualified and dank. Further, they were not even popular. Two of the longest motions were rejected and the motion on unemployment led to a scrappy discussion. Conferences nowadays are as much a platform for appeals to the public as an internal party get-together. Who among the public remembers these resolutions?” ...

“After listening to the debate on unemployment I can see a danger that Liberals lose to the Tories their claim to have new and sensible ideas and are left saying “Me too” to a Socialist conventional wisdom which is failing”.

He added:

“The salient need of this country—to produce more and much more efficiently—hardly figured on the agenda” (*Sunday Times*, 19th September 1976).

Referring to Mr Steel's commitment to coalition, Mr Grimond remarked: “Clearly we cannot go into battle shouting just “coalition”. Coalition for what?”

## **(E) SUPPORT FOR LABOUR**

The Liberals were largely responsible for putting Labour into power in March 1974, as they were in the case of two previous minority Labour Governments in 1924 and 1929. Since March 1974, the Liberals have voted with the Labour Government on a wide variety of issues. In particular, on 9th June 1976, all 13 Liberal MPs failed to vote at all on the Conservative motion, “that this House has no confidence in Her Majesty's Government.” As **Mrs Thatcher** said:

“By abstaining the Liberals endorsed more nationalisation, the Dock Work Regulation Bill, the attack on Parliamentary democracy, the closed shop, high taxation, perpetual borrowing, higher unemployment, record inflation and falling living standards. The

Liberals have given the green light to more months—perhaps more years—of doctrinaire Socialism” (Aberystwyth, 12th June 1976).

Among other occasions since March 1974 on which Liberals have actually voted with Labour are the following:

**(a) Industrial Relations, Trade Unions and Press Freedom**

*For* the Second Reading of the Trade Union and Labour Relations Bill to repeal the Conservative Industrial Relations Act (7th May 1974; all 13 Liberals voting).

*Against* a Conservative amendment to the Employment Protection Bill to provide that the right to guaranteed payments from employers to employees laid off as a result of a strike should not apply when the strike occurred in a nationalised industry (5th August 1975; 9 Liberals voting).

*Against* a Conservative amendment to the Trade Union and Labour Relations (Amendment) Bill to preserve the freedom of the press (21st January 1976; all thirteen Liberals voting).

*Against* a Conservative Private Member's Bill to provide for public supervision of annual trade union elections. (9th June 1976; 10 Liberals voting; the Government defeated the motion by only 4 votes).

**(b) Taxation**

*Against* a Conservative amendment to the Finance Bill 1974 to restore £5,000 in place of £4,500 as the threshold from which higher rates of income tax apply. (16th May 1974; 6 Liberals voting).

*For* the introduction of the Development Land Tax (25th February 1976; 7 Liberals voting).

*Against* a Conservative amendment which would have stopped the Land Tax Bill receiving a Second Reading (18th March 1976; 6 Liberals voting).

**(c) Housing**

*For* the Second Reading of the Housing Rents and Subsidies Bill which abolished fair rents (18th November 1974; 11 Liberals voting).

*For* Clause 5 of the Remuneration, Charges and Grants Bill, which provided for increased rent subsidies (24th July 1975; 3 Liberals voting).

*Against* the Second Reading of a Conservative clause to allow the sale of New Town houses to tenants (16th June 1976; 10 Liberals voting).

*Against* a Conservative motion to “facilitate the sale of council houses” (30th June 1976; 8 Liberals voting: the Bill was defeated by 8 votes).

**(d) Local Government**

*Against* a Conservative motion protesting at the Government's policy on rates (20th November 1974; 11 Liberals voting).

*Against* a Conservative motion to omit Clause 6 of the Greater London Council (General Powers) Bill which promoted Direct Labour activities of the GLC (3rd March 1976; 5 Liberals voting).

*Against* a Conservative motion to encourage the newly elected district councils in England and Wales to obtain maximum value for money in local services, sell council houses to tenants, and strictly limit municipal trading and direct labour activities by councils. (28th April 1976; 7 Liberals voting).

**(e) Nationalisation**

*Against* a Conservative amendment to the Industry Bill to ensure that members of the National Enterprise Board had qualifications or experience in industry, commerce etc (1st July 1975; 7 Liberals voting).

*For* the Second Reading and the money resolution of the Post Office (Banking Services) Bill, which allows State-run Giro to compete unfairly with the joint stock banks (20th January 1976; 11 and 10 Liberals voting respectively).

*For* the Third Reading of the Post Office (Banking Services) Bill (25th February 1976; 6 Liberals voting).

**(f) Education**

*Against* a Conservative amendment to the Queen's Speech regretting the proposal for an Education Bill to compel all secondary schools to go comprehensive (24th November 1975; 6 Liberals voting).

*For* the Second Reading of that Education Bill (4th February 1976; 10 Liberals voting for but 2 voting against).

*For* the Government in five divisions on the report stage of the Education Bill (8th June, 1976; between 7 and 11 Liberals voting).

*Against* a Conservative motion to have an emergency debate on Mr Mulley's action in Tameside (14th June 1976; 5 Liberals voting—see also Chapter 16, p. 386).

*Against* the Conservative supported Lords amendment to the Education Bill which allowed schools to select pupils, even though this should only partly be on grounds of ability. (9th November 1976; 12 Liberals voting).

**(g) Defence**

*Against* a Conservative motion criticising the Government's defence policy (16th December 1974; 9 Liberals voting).

*For* cuts in the RAF and Navy (24th June and 9th July 1975; 6 and 8 Liberals voting respectively).

*Against* a Conservative motion condemning the Government for reducing British defence for the third time in a year (1st April 1976; 5 Liberals voting).

**(h) Health Service**

*Against* a Conservative motion that the abolition of pay-beds in NHS hospitals would be against the interests of all concerned. (5th May 1975; 6 Liberals voting: however, they later voted against the Government's pay-beds legislation).

*Against* a Conservative amendment to the Health Services Bill to provide that anyone whose income fell appreciably as a result of the application of the Bill should be compensated. (12th October, 1976, 7 Liberals voting).

**(i) Miscellaneous**

Three divisions on the Report Stage of the Prevention of Terrorism (Temporary Provisions) Bill (28th January 1976; between 7 and 12 Liberals voted with the Tribune Group against both the Government and the Conservatives).

*For* the Second Reading of the Rent (Agriculture) Bill, which abolished the tied cottage system (4th May 1976; 8 Liberals voting—see also Chapter 12, p. 289).

*For* the Third Reading of the Police Bill, which has been strongly criticised by the police (7th June 1976; 10 Liberals voting).

*For* a Left-wing Private Member's motion (by Mr Skinner) to abolish the House of Lords (16th June 1976; 7 Liberals voted with Mr Skinner, 2 opposed him).

*Against* a number of Lords' amendments, backed by the Conservatives, to the Race Relations Bill (Liberals consistently voting with the Government on 27th October 1976).

*Against* Conservative Lords' amendments to the Rent Agriculture Bill to exclude livestock farming and forestry from the scope of the Bill (17th November 1976; 10 Liberals voting on each).

*For* the Second Reading of the Government's Scotland and Wales Bill to set up assemblies in Scotland and Wales with a powerful executive in Scotland (16th December 1976, all 13 Liberals voting).

## **(F) MILITANCY AND THE YOUNG LIBERALS**

The Liberal Party has a record in recent years of support for demonstrations and other activities which might involve public disorder, e.g., Mr Peter Hain's campaign in 1970

against the South African cricket tour, and threats against juggernaut lorries. A statement by the National Officers of the Young Liberals declared:

“We do not reject illegal means of direct action where other methods have failed ... Indeed we have considerable experience of this kind of action often with success” (*The Times*, 27th August 1973).

This attitude has recently been reiterated by none other than the then Liberal Party's Foreign Affairs spokesman, Mr Russell Johnston, who, referring to the Party's campaign for electoral change, said:

“I, as a law-abiding person, believe that we should think seriously about civil disobedience about a case which is so demonstrably right ... Block the streets about it if you like ... I am prepared to do that” (*The Times*, 18th September 1975).

Recent statements by the Young Liberals and their newspaper, the *Liberator*, show that they at least have not changed. After the Liberal Assembly in September 1975 had passed a motion pressing for an end to arms sales, the *Liberator* stated that ending the arms trade was a priority and that “Liberals must join in the CAAT (Campaign against the Arms Trade) picket (outside the offices of the Defence Sales Organisation) with their full range of street theatre and dramatic publicity. Companies which peddle arms must be exposed. Prime among these is EMI ... they must be picketed, and their Chairman ... inundated with mock weapons” (November 1975).

The *Liberator* has frequently criticised Liberal MPs and councillors. It claimed that:

“The record of MPs on squatting and anti-terrorist laws is deplorable ... In Liverpool, success has brought a takeover by moderates (but) the Party is too useful for money, publicity and as a recruiting agent for it to be valuable (i.e. for the Young Liberals) to leave it now” (December 1975).

The next issue attacked Liberal MPs for sanctioning the detention and expulsion of people under the Prevention of Terrorism Act. The Young Liberals appeared to be allying themselves with “the main Parliamentary opposition to this Bill (which) comes from the Tribune Group who see it as an attempt to strengthen the hand of the establishment during the economic crisis” (January 1976).

Hostility was also shown by the Young Liberals to the Party's desire to seek an alliance in the European Parliament with the French Independent Republicans, the party of President Giscard D'Estaing. At a Conference of European Liberal and Democratic Parties in Stuttgart in April 1976, where a decision on this link was postponed, Mr Jeremy Thorpe threatened to expel the Young Liberals from the hall and they were eventually only allowed to stay provided they removed badges attacking the Giscardiens (*Liberator*, April 1976).

At the 1976 Liberal Assembly the Young Liberals failed in their attempt to prevent Mr Steel from committing the Party to coalition, and commented in a statement on their meeting with him: “It was regarded by most YLs as a pathetic performance” (*The Times*, 17th September 1976).



They succeeded, however, in persuading the Assembly to support the resolution on immigration (see p. 709). On the subject of direct elections to the European Parliament, the Young Liberals demanded disruption of such elections, perhaps involving the kidnapping of returning officers and the destruction of ballot papers, if the Government refused to hold them on the basis of proportional representation. Mr Stephen Atack, Chairman of the Young Liberals, said that in such a situation they wanted the party to boycott the elections and cause “disruption, using any means possible bar violence towards people” (*The Times*, 15th September 1976).

Mr Peter Hain, the most prominent Young Liberal of recent years, now seems to profess total disillusionment with the Party. He said he saw no sign of it seizing the “golden opportunity” of filling the vacuum created by a Labour Party which he considered to be increasingly adopting “the Right-wing posture of an establishment party”. He added:

“Liberal radicals have to ask themselves, as I have been doing recently, how much longer we can go on while the leadership is selling out on every major issue”.

“I am upset at the anti-trade union attitude among Liberals and a Right-wing economic view ... recently propagated by (Liberal) MPs” (*Observer*, 21st November 1976).

He later added that he would stay in the Liberal Party “for the moment”, but would not seek re-election as President of the Young Liberals (*Daily Telegraph*, 22nd November 1976).

## 30. OTHER POLITICAL ORGANISATIONS

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|---------------------------------------|-----|
| (A) Communist Party                   | 714 |
| (B) The Trotskyist Left               | 717 |
| (C) National Front and National Party | 719 |

### (A) COMMUNIST PARTY

#### 1. ORGANISATION

The Communist Party remains the largest and most important body committed to the overthrow of the existing political and economic system. Because of its tactics and methods of operation in industry and the trade unions, its importance is far greater than its membership or electoral activity implies. Despite the fact that Communists have been defeated in recent union elections by moderates, their threat to the industrial and political fabric of society still remains.

**Membership.** The Communist Party's membership was given as 29,943 at the biennial Party Congress held in November 1975, compared with 43,000 in 1945 and

27,000 in 1956. At the Congress the Party's national executive reported that over 1,400 people had left the party since the end of 1973. On 12th February 1976 it was announced that Mr Jimmy Reid, a former Communist Party Parliamentary Candidate and a serving Executive member, had resigned from the Party.

Student membership is about 1,500 and membership of the Young Communist League is around 3,000.

**Leadership.** As from the beginning of 1976, the Party's principal office holders are:

Chairman, Mr Mick McGahey; General Secretary, Mr Gordon McLennan; Assistant General Secretary, Mr Reuben Falber; National Organiser, Mr Dave Cook; Industrial Organiser, Mr Bert Ramelson; Press and Publicity Chief, Mr George Matthews; Head of International Department, Mr Jack Woddis; Head of Women's Department, Ms Jean Styles; Head of Education Department, Ms Betty Matthews; National Treasurer, Mr Dennis Ellwand; National Election Agent, Mr Malcolm Cowle.

**Finances and the "Morning Star".** The Party's finances, and especially those of its newspaper, the *Morning Star*, are mysterious. The daily print-run is about 41,000 but it was reported in the *Sunday Telegraph* of 15th February 1976 that at least 14,000 are sold daily to Russia and other countries behind the Iron Curtain. This block sale, the report says, is worth an estimated £250,000 a year, a foreign subsidy that has become vital for the newspaper's survival. Even with this subsidy it still faces annual deficits of thousands of pounds. The *Morning Star's* dependence on the East was shown in 1968 when, having lost many readers at the time of the Russian invasion of Czechoslovakia, it then criticised the Russians, who promptly retaliated by cutting their order to 10,000 copies.

In March and April 1976 there was a Party Appeal for the paper, with a target of £60,000: the fund raised just over £58,000.

**Electoral Activity.** The Communist Party has fought every General Election since 1922 but has never made much impact. It won two seats in 1922, one in 1924, one in 1935 and two in 1945; since 1950 it has been unrepresented in Parliament, nor has it had much success in local elections. The Party's maximum vote was in 1945, when 21 candidates polled just over 100,000 votes between them. In October 1974 the Party fielded 29 candidates who between them polled 17,426 votes.

## 2. CONSTITUTIONAL OR REVOLUTIONARY?

There are conflicting views within the Communist Party as to whether it should pursue its aims by constitutional or revolutionary means. Mr Gordon McLennan, the General Secretary, commenting on the political situation, said at the Congress in November 1975:

"Our Congress meets in a political situation dominated by capitalist crisis ... Mass democratic action by millions of men and women, particularly in industry, is essential to decide this great issue in favour of the working people ... The combination of forces fighting for the preservation of capitalism must be met by greater power—the

full power of a united working-class movement” (*Morning Star*, 17th November 1975).

Mr Dave Cook, the Communist Party's National Organiser, told Communists in July 1975:

“The central battle which faces the Communist Party among the working class is to win the recognition that trade union militancy is not enough—that out of militant strength must be developed the understanding of the need for socialist revolution” (*East-West Digest*, July 1975).

By late 1973 and during the February 1974 General Election it was clear that the Communist Party's overriding aim was to bring down the Conservative Government. For example, Mr Mick McGahey, Vice-President of the National Union of Mineworkers, said, “we shall, therefore, break Phase Three (of the prices and incomes policy) and we shall do all we can to bring the Government down”.

Mr Jimmy Reid, in his letter of resignation from the Party in February 1976 criticised ideological differences and referred to a “growing disenchantment” with some lines of action and decisions. He added:

“This has created a dangerous situation. There is a threat to democracy in Britain from the extreme Right in British politics and the Left is partially disarmed in averting this challenge because our credentials are somewhat suspect” (*Daily Telegraph*, 12th February 1976).

### **3. PARTY POLICY**

The Communist Party's programme to counter the economic crisis was summed up by the *Morning Star* as:

“An immediate price-freeze; expand the economy and end unemployment; increase wages, pensions and benefits; impose import controls and stop capital exports abroad; sell overseas portfolio investments and cut interest rates; introduce a wealth tax and an increased tax on profits ... the taking-over of big firms and financial institutions; increased investment in manufacturing industry; the halving of military expenditure, and the expansion of trade, especially with Socialist countries and the Third World” (*Morning Star*, 1st November 1975).

These proposals are similar to those in Labour's *Programme for Britain 1976*.

On 1st February 1977 the Communist Party produced a new draft programme for discussion “by the party and the Labour and progressive movement” in the period up to the 35th National Congress to be held in November 1977. This programme, *The British Road to Socialism*, set out the following underlying analysis, very similar to that of the increasingly dominant Left-wing of the Labour Party:

“First, that the big problems we face today have their roots in the capitalist system, and can only be finally resolved by socialism.

“Second, that to achieve socialism the working class and its allies must take political power out of the hands of the capitalist class.

“Third, that this socialist revolution can be carried through in Britain ... by a combination of mass struggles outside Parliament, and the election of a parliamentary majority and government determined to implement a socialist programme.

“Fourth, that the forces exist in Britain which can put Britain on a new course, and that the need is to unite them in a broad democratic alliance embracing the great majority of the people.

“Fifth, that the winning of political power by the working class and its allies will not be a single act, but a process of struggle, in which the next important stage is the winning of a Labour Government which will carry out a left policy to tackle the crisis and bring about far-reaching democratic changes in society, opening up the road to socialism ...”

The attitude of the Communists to the Labour Party is especially instructive:

“Socialism can only be won and built on the basis of Labour-Communist unity. In this political process ... the Labour Party and the whole Labour movement would increasingly turn to the left and socialism. The Communist Party could grow in numbers, influence and in Parliament and local representation and increasingly play a leading, though not exclusive, role. Still closer bonds of unity would develop between the two parties (Ibid.)”

## 4. INFILTRATION

**Infiltration of the Labour Party.** For some years the Communists have attempted to infiltrate and subvert the Labour Party. Communist spokesmen have made no secret of what they are trying to do, nor of their belief that they have been partially successful. Mr Bert Ramelson, Industrial Organiser of the Party is reported as having said:

“We have more influence on the Labour movement than at any time in the life of our Party ... The Communist Party can float an idea early in the year and it can become official Labour policy by the Autumn” (Quoted in *New Society*, 17th January 1974).

Mr Gordon McLennan, General Secretary, said at a meeting of the Central London Fabian Society on May 5th 1976:

“A considerable degree of common ground exists between Communist and left Labour proposals on the measures necessary to tackle Britain's crisis ... What is urgently needed is greater unity in discussion and action of all those who support such policies” (*Morning Star*, 6th May 1976).

**The Social Democratic Alliance** (see Chapter 28, p. 685), in a document entitled *East Wind over Blackpool*, stated:

“There seems to be much evidence to justify the fear that there are some on the NEC who do have friendly feelings towards the East European dictatorships, and that there are also a number who do have more in common with the British Communist Party than is consistent with the democratic and anti-Communist traditions of either Gaitskell or Bevan” (*Sunday Times*, 28th September 1975).

Lord Chalfont, a former Labour minister who resigned from the Labour Party in 1974, commented in a House of Lords debate on subversion:

“I regard it as at least questionable that several members of the other House should not only speak in glowing terms of the *Morning Star*, the official newspaper of the Communist Party, but that they should also contribute to it” (*Hansard* (Lords), 26th February 1975, Col. 834).

(See Chapter 28, p. 690).

**Infiltration of the Trade Unions.** Apart from the policy of ‘entryism’ into the Labour Party, the Communist Party is active in the trade union movement, with some members holding high offices such as the Vice-Presidency of the NUM (Mr Mick McGahey) and the General Secretaryship of the Technical and Supervisory Staffs (TASS) section of the AUEW (Mr Ken Gill). They also have influence beyond their apparent strength because many union ‘militants’, while not members of the Party, have the support of Communists and vote with them.

## **(B) THE TROTSKYIST LEFT**

In recent years there has been a marked growth in extreme Left-wing groups subscribing to a variety of Marxist creeds, differing from the orthodox Communists in rejecting the Soviet Union's policies, although they too wish to overthrow Western society. These groups pride themselves on being further to the Left than the Communist Party, which they denigrate as being too moderate and old-fashioned.

The dislike is mutual. A Communist Party Congress resolution in 1973 referred to “the bankruptcy of ultra leftism, which, by counterposing the rank and file against the so-called official action and seeing it as an alternative, not only hinders the struggle but also plays into the hands of the right wing and creates disunity”.

There is no doubt that within the past few years these extreme groups have been gaining support on the shop-floor at the expense of the Communist Party. Most of these groups have small memberships but, on certain specific issues and in certain areas, they wield influence far beyond what their numbers would suggest.

**International Socialist (IS) Group.** In terms of industrial activity, the IS group is as important as the Communist Party. Of the groups on the extreme Left it is the strongest, although it has recently suffered from internal dissension and splits. Its membership is about 3,000. Its weekly newspaper is *Socialist Worker* and its prominent spokesman is Mr Tony Cliff. The IS largely operates through organisations such as the **Rank and File** movement and the **Right to Work Campaign**.

In August 1975 *Socialist Worker* contained a brief programme of Trotskyist ideas, a third of which concerned shop-floor militancy and ended with the sentence:

“We are for the building of a mass Workers' Revolutionary Party organised in the work places which can lead the working class to power, and for the building of a revolutionary Socialist International” (*Socialist Worker*, 2nd August 1975).

The following are two examples of the activities of the IS:

- a. Mr Stanley Gretton, General Secretary of the Bakers' Union, collapsed and died on 17th June 1975. According to a report in the *Daily Telegraph* this was because “International Socialists and left-wing extremists kept up a constant flow of poison-pen letters and vicious telephone calls for 18 months to Mr Gretton” (19th June 1975).
- b. The IS admitted responsibility for the disruption on 11th September 1975 of a meeting addressed by Mr Reg Prentice and Mr Roy Jenkins in support of the former's bid to remain as Labour candidate for Newham North-East.

**The International-Communist League (I-CL)** was formed from **Workers Power** and **Workers Fight**, two breakaway groups from the IS. Its main aim is ‘entryism’ into the Labour Party, which means members joining the local branches of constituency Labour parties in order to move the Labour Party and its policies to the Left. (See Chapter 28, p. 692). This often involves working to remove moderate Labour MPs such as Mr Prentice. The I-CL's weekly newspaper is called *Worker's Action*.

**Workers League** was set up by an opposition group within the IS, called **IS Opposition**. It claims 150 members.

**The Revolutionary Communist Group** is an IS breakaway with 90 members based mainly in Bristol.

**The Workers' Revolutionary Party (WRP)** is led by Mr Michael Banda and its membership is about 1,000. Its newspaper, *Workers' Press*, ceased publication in February 1976 owing to financial difficulties, but a new paper called *Newsline* has appeared since May 1976.

Mr Reg. Parsons, a former member of the WRP and a senior shop steward at British Leyland's Cowley works, was interviewed on BBC TV and exposed the industrial disruption there:

“I myself led one of the longest strikes in British Leyland, Oxford and have led many strikes. They are all designed to bring disruption and unnecessary suffering and losses because the philosophy of the WRP is that we cannot survive unless there is a revolution, or some destructive base to build a revolution on. So the situation is very clear indeed that within Cowley Assembly Oxford there is a beehive of anarchists and extremists; they work underground, they work on top of the ground; consequently the name of the ‘Mole’ developed, and the repercussions on ordinary working people and their families have been terrible over the years” (*BBC 1 Tonight*, 6th January 1976).

Mr Gerald Healy, until recently leader of the WRP, addressed a conference in November 1975 saying:

“We are training ourselves for one purpose and one purpose only—to fix the ruling class and fix them forever. And you will not do this unless you have learned to hate the ruling class with every fibre of your being.”

Probably the best-known member of the WRP is Miss Vanessa Redgrave, who stood as a Parliamentary candidate in Mr Prentice's seat in both 1974 elections, getting less than 2 per cent of the poll in each case.

**Workers Socialist League** is a breakaway group from the WRP and is led by Mr Alan Thornett (the Cowley ‘Mole’—see above).

**International Marxist Group (IMG)** with a membership of about 1,000 is led by Mr Bob Pennington and Mr Tariq Ali and believes in workers' control and common ownership. Although well-known, the IMG is not very significant. It played a prominent role in the ‘direct action’ campaign against private medicine and cuts in the NHS. Often at the forefront of violent demonstrations, the IMG was present at the Grosvenor Square riots in 1968 and at Red Lion Square in 1974 when a student was killed and many policemen and demonstrators injured. In the report on the violence, the IMG were blamed for deliberately and viciously attacking the police. The IMG fielded three candidates in the 1974 February election.

**Big Flame** is an IMG breakaway group of about 100 members based in Liverpool.

**Revolutionary Marxist Current** is another IMG breakaway of 100 members based on Merseyside.

**Militant** is the fortnightly newspaper of the ‘Militant Tendency’ and describes itself as ‘The Marxist Paper for Labour and Youth’. The ‘Militant Tendency's’ purpose is to fight for more Left-wing policies in the Labour Party (see Chapter 28, p. 692).

**The Communist Party of Great Britain (Marxist-Leninist)** is a Maoist group on the extreme left. It has a membership of 300 and adheres to the views of the late Mao Tse Tung. Its leader is Mr Reg Birch, an executive member of the AUEW, and its newspaper, *The Worker*.

**The Socialist Party of Great Britain** is a small group of Marxist theorists, founded early this century, which aims to secure a Marxist society through constitutional means. It has a monthly journal called *Socialist Standard*, and holds discussion meetings fairly regularly in different parts of London. It is strongly critical of the revolutionary Marxist groups.

The various Trotskyist and Marxist groups are weakened by the failure of their creed to attract a significant following, and by continual arguments about their various nuances of ideology. They can, however, exert a damaging effect at significant points, for example in a number of Labour constituency parties (see p. 716), and in individual industrial disputes, notably at the British Leyland plant at Cowley, where there has been disruptive activity by Mr Alan Thornett (see above), who is currently a candidate

for the succession to Mr Jack Jones as General Secretary of the TGWU—Britain's largest trade union.

## (C) NATIONAL FRONT AND NATIONAL PARTY

The National Front is the largest and most important of the parties on the extreme Right of British politics. It was founded in 1967, with the merging of a number of smaller, and similarly extreme, groups. Its activity has frequently been interrupted by internal disputes, but since 1974 it has become the subject of considerable public attention.

At the end of 1975 the Front split over what appeared to be largely a personal and organisational difference between Mr John Tyndall, then a former Front Chairman, and Mr John Kingsley Read, the leader of a self-styled “populist” faction, who was unhappy about Mr Tyndall's past connections with Mr Colin Jordan's National Socialist Movement which, in its aims and methods, was even more extreme than the Front. About a hundred Front members left with Mr Kingsley Read and, in December 1975, they formed the rival National Party, with policies almost indistinguishable from those of the Front. The split was not accomplished without a long and bitter wrangle, involving “One membership file raid (frustrated), changed locks on the Croydon headquarters, round the clock guards inside and now a counter headquarters set up by the Tyndallites in an East London antique shop” (*Guardian*, 24th November 1975).

**Policy.** Although the National Front professes policies on most current issues, both its publications and the speeches of its leaders show that it is almost entirely a one-issue movement, obsessed with racial questions. The Front calls for the compulsory repatriation of all coloured immigrants:

“The National Front advocates a total ban on any further non-white immigration into Britain, and the launching of a phased plan of repatriation for all coloured immigrants and their descendents already here. This programme will be put into operation with the greatest possible humanity, but we do not suppose that it can be effected without some hardship to a portion of the people concerned” (*Election Manifesto*, October 1974).

The only other issue on which the Front has been significantly active is the EEC: it is vehemently opposed to British membership.

Its economic policy is, in its own words,

“... a revolution against the whole liberal economic philosophy that has governed old party thinking for the last hundred years. We urge first of all that a progressively declining import quota is put on all foreign manufactured goods, while at the same time home industries are built up to fill the gap—to the point where, barring a few small speciality items, the whole of the home market for manufactured goods will be supplied from British factories” (*Election Manifesto*, October 1974).



Remarks by the respective leaders of the National Front and the National Party show their attitudes to both coloured people and to democracy:

Mr John Tyndall, Chairman of the Front, said:

“The sheer physical ugliness of the type singles it out as a poor specimen, not just of the British race, but of any race” (*Spearhead*, February 1976).

“I'd have elections only every eight or ten years” (*Observer*, 4th July 1976).

“Dictatorships are often the best thing for many countries” (*Ibid*).

Mr John Kingsley Read, Chairman of the National Party, has been reported as saying:

“I am proud of being a racialist and imperialist” (*Hackney Gazette*, 8th October 1975).

On the murder of a young Asian at Southall in June 1976, he is reported to have remarked:

“One down, one million to go” (*Daily Telegraph*, 22nd June 1976).

**Membership.** The membership figures for the various bodies which coalesced to form the National Front in 1967 suggest a membership in that year of about 4,000. Accurate membership figures for more recent years have been kept a closely guarded secret, although various organisations which claim to have infiltrated the Front say that its membership was of the order of 10,000 in 1975, and this was probably not greatly decreased by the secession of the group which formed the National Party. These members are organised into about 150 branches or groups of activists.

The National Party organisation is considerably smaller, probably consisting of fewer than 2,000 members, although this figure must be uncertain in the absence of published figures.

**Leaders.** The current ‘Leader’ of the National Front is Mr John Tyndall, a former associate of Mr Colin Jordan, who was leader of the National Socialist Movement. The National Party is headed by Mr John Kingsley Read, who was elected to Blackburn District Council in May 1976.

**Publications.** The National Front's main publication is a magazine called *Spearhead*, the name of Mr Tyndall's former para-military organisation. *Britain First* is the official organ of the National Party. In addition, both produce less substantial propaganda sheets such as the National Party's ‘National News’.

**Finances.** The National Front claims the support of many wealthy, but unnamed, people, although it professes that most of its money comes from donations by ordinary members at public meetings. The details of the income of these two parties cannot be ascertained further, in the absence of any figures released by either.

**Electoral Activity.** Neither party has won any seats or saved its deposit at any General Election or by-election, except for Mr Martin Webster, who gained 16 per

cent of the vote at West Bromwich in a by-election in 1973. The National Party has not yet participated in a General Election. The results for the National Front in the past three General Elections show in fact no appreciable increase in the average vote per seat:

National Front			
<i>Election</i>	<i>No. of Candidates</i>	<i>Total Vote</i>	<i>Average per seat</i>
June 1970	10	11,449	1,145
February 1974	54	76,825	1,422
October 1974	90	113,579	1,262

In the seats which they contested in October 1974 the National Front candidates gained an average of just over three per cent of the poll, although the percentage of the total poll was much smaller (0.39 per cent).

Dr David Butler and Mr Denis Kavanagh, in *The British General Election of October 1974* (Macmillan, 1975), showed that, while the National Front vote rose by 0.3 per cent in seats contested by both the Front and the Liberals in February and October 1974, it *fell* from 6.1 per cent to 4.3 per cent in seven seats where the Liberals stood in October but not in February. This would suggest that a number of electors regarded the Liberals and the National Front as alternative possible recipients of their protest votes.

In parliamentary by-elections the Front has not improved its performance over the past six years. The average percentage polled by the Front (including the National Party's vote where appropriate) in eight by-elections held between October 1974 and December 1976 was 4.2 per cent, compared with an average of 8.6 per cent in five by-elections contested in the period June 1970 to October 1974. It should be stated, however, that the Front has contested every by-election except two since October 1974.

In the 1971 local elections the National Front put forward 78 candidates, who made relatively little impact, and the number fell to 27 in 1972. In 1975 they put up 69 local election candidates, of whom five secured more than 10 per cent of the votes. In May 1976, however, 80 of the National Front's 176 local election candidates gained more than 10 per cent. The National Party secured the election of two of its candidates to Blackburn Council, but one of these was found to have been ineligible to stand on account of a previous suspended prison sentence for a motoring offence, and the National Party lost the seat in the ensuing by-election. The National Party has otherwise made little impact.

In the 1976 local elections the Front won no seats, but gained some 18 per cent of the total vote in Leicester, where it contested every seat.

**Methods.** During the early years of the National Front "it was necessary to kick our way into the headlines", according to Mr Webster. Not only did it attempt to break up meetings by Left-wing groups, but also sermons by the Archbishop of Canterbury. Political meetings, film shows and theatre performances were also disrupted. The Front uses its membership for demonstrations and marches, as well as canvassing and

fund-raising. During the Rotherham and Thurrock by-election campaigns in 1976, for example, it created an impression of formidable power bases by importing coach-loads of supporters from all over Britain for publicity marches. The publicity which the Front derives from such marches is partly due to the violent behaviour of those who attempt to disrupt them.

In an attempt to gain the support of trade unionists, the Front has set up a National Front Trade Union Association,

“to secure for the National Front a foothold in the trade unions, to promote National Front elections to office and combat the Left” (*Spearhead*, May 1974).

## **APPENDIX I**

# **CONSERVATIVE PARTY ORGANISATION AND FINANCE**

## **(A) ORGANISATION**

At first sight the Conservative Party Organisation may appear complex. It is the oldest political party and has developed over many years. There is no single written document stating the constitution of the Party but basically its structure is simple, being composed of three major elements:—

- i. The Parliamentary Party, consisting of the MPs and Peers who take the Conservative and Unionist Whip.
- ii. The mass membership, of which the constituency associations are the basic units, these associations being federated into a body now known as the National Union of Conservative and Unionist Associations (National Union).
- iii. The Party Headquarters, with its Central Office and Area Offices servicing the machinery of Party organisation in England and Wales; together with the Conservative Research Department and the Conservative Political Centre.

## **Northern Ireland and Scotland**

There is a separate Ulster Unionist Organisation in Northern Ireland and a separate Scottish Organisation. The latter has its own Central Office in Edinburgh and its own equivalent of the National Union—the Scottish Conservative and Unionist Association (SCUA). Both the ‘Official’ Unionists in Ulster and the Scottish Conservatives are represented on the Central Council of the National Union. In addition several Scottish constituencies are affiliated to the National Union, so that there is representation at the Party Conferences from Scotland and Northern Ireland. The Scottish Conservatives have their own Chairman, Deputy- and Vice-Chairman of the Party in Scotland, appointed by the Leader. The central representative body of the Ulster Unionists is the Ulster Unionist Council.

## **The Leader**

The pivot of the Party, holding these various elements together, is its Leader. Leader of the Parliamentary Party as well as of the Party Organisation, she stands at the apex of the entire structure, constitutionally the repository of great power. She formulates Party policy. She forms the Cabinet when the Party is in office and she appoints the Leader's Consultative Committee, commonly known as the "Shadow Cabinet", when the Party is in opposition. The Leader makes the key appointments in the Parliamentary Party (e.g., Chief Whip) and in the Party Organisation (e.g., Chairman, Deputy Chairmen, Vice Chairmen, Chairman of Research Department and Party Treasurers). But in practice the Leader's power is exercised under the continuing influence of Party thinking and views. The Party's structure ensures that she is constantly apprised of the resolutions, conclusions and opinions of the various organs of the Party. The structure provides a continuous channel of communication from individual Party members and MPs through constituency, area and national levels to the Leader of the Party.

The Leader is elected in the first place by the Conservative MPs in the House of Commons. The procedure, laid down in 1965 and modified in 1974, provides that if there is more than one nomination, balloting on a system of preferential voting shall be held. The Leader elected by the Parliamentary Party in the Commons is then presented for election to a special meeting representing the Party as a whole. This meeting, including Peers, MPs and candidates and members of the National Union Executive Committee, is jointly organised by the Chief Whip and the National Union.

## **Parliamentary Party**

The Parliamentary Party is organised by the Whips who mobilise its voting strength in the lobbies and keep in constant touch with the state of opinion among back-bench members. The Chief Whip attends the Cabinet or Shadow Cabinet in order to ensure that the views of the Parliamentary Party can be heard. MPs serve on other Party bodies—Area Councils, National Advisory Committees—so that there are close links with the two other elements of the Party. The Parliamentary Party has a number of specialist Committees (usually serviced by the Conservative Research Department) which deal with such subjects as trade, industry, agriculture, housing or foreign affairs. Interested back-bench MPs attend these Committees and all may attend the weekly meetings of the Conservative Private Members Committee. The latter is universally known as the '1922 Committee' because it was brought into existence by a group of back-bench MPs first elected in 1922, after the downfall of the Coalition Government. Conservative members of the House of Lords have a similar Committee known as the Independent Unionist Peers.

**European Parliament.** The European Conservative Group in the European Parliament is serviced by a secretariat with offices in Luxembourg, Brussels and London.

## **Constituency Associations and the Areas**

The basic unit of the Conservative Party is the local Constituency Association. The local Association is autonomous within the constituency. It chooses the candidate, seeks to get him into Parliament by organising the voters and works for the return of Conservative councillors in local government. It is the basis of Party political activity, political education and political fund-raising. The Association is directed by elected officers. Its chief executive officer is the Constituency Agent, who is election agent and guide to the local MP or candidate and organiser-at-large for the constituency. Usually he is secretary of the Association.

There are eleven provincial Areas (of which Wales is one) in England and Wales. In each there is an Area Council which includes MPs or candidates, officers and other representatives from the constituencies, together with Area Central Office officials and the local agents. There are Area advisory committees: the Area's main function is to convey the constituencies' views to the national organisation and vice versa.

## **The National Union**

Founded in 1867, the National Union's membership consists basically of people elected by the Constituency Associations and Area Councils of England and Wales. It provides a two-way channel of communication between the Parliamentary Party, the Leader and the rank-and-file members in the constituencies. Its governing body, the Central Council, has representatives from most other elements of the Party (e.g. MPs, Young Conservatives, Candidates, Conservative Clubs, Scottish Conservatives). Among other tasks the National Union organises the two-day Central Council Conference in the Spring and the annual Party Conference each October. The latter is attended by some 4,500 constituency representatives, MPs and others. The National Union officers are not nominated by the Leader but elected annually by the Central Council, which is the governing body of the National Union. Within the National Union are the Party's National Advisory Committees, representing special interests within the Party. Examples are the Women's NAC, the Young Conservative NAC and the Local Government NAC.

## **Party Headquarters**

This is basically the professional cadre of the Party. The senior element is Conservative Central Office for which the Chairman of the Party Organisation has overall responsibility. Central Office in its present form dates back to 1870, having been founded by Disraeli, and indeed is technically still responsible directly to the Leader of the Party. Its major elements are:

- i. Organisation Department, responsible for the Party's organisation throughout the country, including the provision of speakers and the training of Agents.
- ii. Publicity (Communications) Department, responsible for relations with the Press and other media; publicity promotions and publications; and broadcast presentations, including television training.
- iii. Administrative Department.
- iv. Community Affairs Department, consisting of five Sections which indicate its scope. They are Trades Unions; Education and Students; Young Conservatives; Community Groups; and Small Businesses.

Other Headquarters organisations, for most of which an advisory or supervisory committee exists, include the International Office; the Local Government Department; the Candidates Department; the Association of Conservative Clubs; and the Conservative Political Centre. The latter fosters political discussion, organises discussion groups and courses; and publishes many Party pamphlets.

*Conservative Research Department*, founded in 1929, housed separately from Central Office, provides much of the factual material for the Party's publicity material and produces reference works, including the *Campaign Guide*, the fortnightly *Politics Today* and the occasional *Old Queen Street Papers*. It services the Party's Advisory Committee on Policy and other policy groups and it briefs the Parliamentary Party (including the Shadow Cabinet when in Opposition) on issues that come before Parliament. It is also responsible for the Party's Reference Library.

*The Advisory Committee on Policy* is a broad-based body representative of the Parliamentary Party in both Houses and of the general membership (via the National Union), charged with advising the Party on particular aspects of policy. It considers the reports of Party policy groups and the results of CPC discussion groups and (when in office) trends in Departmental policies. Its Chairman and Deputy Chairmen are appointed by the Leader of the Party.

## **Supporting Organisations**

There are a number of Conservative bodies which group together Party supporters on a vocational basis or because they wish to foster a particular attitude within the Party. Among the oldest is the Primrose League, founded in 1883 to support the Constitution and Disraelian principles of Tory democracy. Some others may be mentioned. Vocational groups include the Society of Conservative Lawyers, the Conservative Medical Society and the Federation of Conservative Students. The Bow Group attracts young men and women interested in carrying out research on policy matters. Two other unofficial groups which support collective attitudes, though of opposite trends, are the Monday Club and the Tory Reform Group.

## **(B) FINANCE**

The Party Treasurers at Central Office are assisted by the Board of Finance which includes the Area Treasurers.

Details of Party central accounts are given opposite. It will be seen that apart from a small investment income and a State grant towards the cost of servicing the Parliamentary Party *when in Opposition* (see Chapter 19, p. 466), the Party is wholly dependent for its central income on voluntary donations and contributions from constituencies.

In recent years the Party has been severely hit by inflation and by two General Elections occurring in 1974. This resulted in a deficit of nearly £1,300,000 in the financial year 1974/75.

Severe reductions in expenditure were made in the following year while constituencies doubled their contributions to central funds. Central income increased from a little over £1,600,000 to just under £1,900,000 and for 1975/76 a small surplus replaced the previous year's deficit.

Constituencies raise their own income totalling around £4,500,000 through voluntary efforts of committed supporters. A survey of these sources was made for the Houghton Committee (see Chapter 19, p. 467).

The Committee reported that in 1974, whereas local Labour Parties raised 19% of their income from institutional donations (e.g., Trade Unions), Conservative Associations derived only about 6% of their income from company donations.

**CONSERVATIVE AND UNIONIST PARTY: INCOME AND EXPENDITURE  
ACCOUNT OF THE CENTRAL FUNDS  
YEAR ENDED 31ST MARCH 1976**

<b>1974&amp;slash;75</b>	<b>Income</b>	<b>1975&amp;slash;76</b>
1,212,978	Donations (Net)	1,136,737
298,725	Constituency Contributions	574,219
	158,799 Investment Income and Interest	59,466
	84,451 Less: Tax	30,969
74,348		28,497
37,500	State Grant Towards Providing Parliamentary Services inside the Palace of Westminster	150,000
£1,623,551		£1,889,453
	<b>Expenditure</b>	
172,842	Party Headquarters	156,656
	Expenditure on Areas and Constituencies:—	
431,877	Eleven Area Services and Organisations	435,890
138,999	Assisting & Organising Field Activities	114,470
171,094	Direct Assistance to Constituencies	61,018
21,106	Miscellaneous Services for Constituencies	16,273
41,312	Training Agents	37,096
72,556	Agents' Central Employment Board	92,278
876,944		757,025
930,577	Publicity, Press Relations and Broadcasting	153,896
25,944	Conservative Political Centre	22,412
31,088	International	25,742
336,939	Research	302,256
92,119	Parliamentary Services	85,966
24,425	National Union	28,121
54,444	Swinton Conservative College	37,393
360,101	General Administrative Expenditure	305,016
2,905,423	Total Expenditure	1,874,483

CONSERVATIVE AND UNIONIST PARTY: INCOME AND EXPENDITURE  
ACCOUNT OF THE CENTRAL FUNDS  
YEAR ENDED 31ST MARCH 1976

1974/slash;75	Income	1975/slash;76
1,623,551	Income as Above	1,889,453
(£1,281,872)	Excess of Income Over Expenditure For Year (Excess of Expenditure Over Income for Year)	£14,970

## APPENDIX II

### LABOUR QUOTATIONS

“The Labour Party is ready with the policies essential to rescue the nation from the most serious political and economic crisis since 1945” (**Labour's February 1974 Election Manifesto**).

“It is indeed our intention to:

Bring about a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families” (**Labour's February 1974 Election Manifesto**).

“There is no meeting point between us and those with quite different philosophies” (**Labour's October 1974 Election Manifesto**).

#### 1. MR CALLAGHAN: SOME EARLIER STATEMENTS

“Never let me hear anyone say again that a Socialist State cannot provide outlets for those with initiative. The rewards given to ability in the U.S.S.R. at all levels are far greater than those given to the employed in capitalist Britain. I have seen it and it works” (Article in *Reynolds News*, 17th March 1946).

“I have not the slightest doubt that the economic measures and the Socialist measures which one will find in the countries of Eastern Europe, will become increasingly powerful against the unco-ordinated, planless society in which the West is living at present” (*Hansard*, 15th December 1960, Col. 679).

“I think we are round the corner or at least turning the corner ... from now on we can look forward to an improvement and that will reflect on everybody” (Cardiff, 7th June 1965).

“We have had a tremendous battle over the last 12 months. We have to some extent come through it. Sterling is safe—that battle is won” (Labour Party Conference, Blackpool, 30th September 1965).



“I would sum up the period from 1966 to 1970 by putting it this way: 1966 will be the Year of Attack; 1967 will be the Year of Advance; 1968–70 will be the Years of Achievement” (Hull, 24th January 1966).

“We are now emerging from the valley of gloom and can begin to see the outline of the landscape we shall be travelling through the next 3 years. It will be new country” (*Hansard*, 11th April 1967, Col. 991).

“Those who advocate devaluation are calling for a reduction in the wage levels and the real wage standards of every member of the working class of this country ... devaluation is not the way out of Britain's difficulties” (*Hansard*, 24th July 1967, Col. 101).

*Devaluation was announced on 18th November 1967.*

“We should be aiming in the latter part of the 1960s for a 5 per cent and then a 6 per cent growth rate” (*Hansard*, 20th July 1964, Col. 75).

“An expansion rate of 4 per cent will not be sufficient to enable us to overcome the backlog of rates, housing and schools, and if we expand no faster than this, it will take us a generation to modernise Britain” (Cardiff, 11th July 1965).

“I am not out to soak people” (BBC TV, 6th April 1965).

“I hate putting up taxes” (BBC, 20th May 1965).

(Just before the March 1966 election)

“I do not foresee the need for severe increases in taxation” (*Hansard*, 1st March 1966, Col 1116).

*SET was introduced in May 1966, and further tax increases in July 1966.*

“Let me summarise the social contract. First, we declare the right to work. Then we aim to control inflation” (Labour Party Conference, Blackpool, 2nd October 1972).

“We need a Labour Government to create a new moral and social climate. Labour has devised a new role and a new status for the worker in industry” (Manchester, 24th February 1974).

“It is a good start to an election when a government goes to the country and is able to say ‘we have kept faith with you’ ... the Labour Government has got a splendid record since February, one of which I am proud” (BBC 1, 23rd September 1974).

“We have got the best policies for dealing with the current situation” (*Election Call*, BBC, 8th October 1974).

## **2. MR CALLAGHAN: SETTING LABOUR'S AIMS**

“Let us set ourselves some aims. Let's root out injustice and put it right wherever we can” (Ministerial Broadcast, 5th April 1976).

“... in a free country like ours as far as possible our Government must be carried on by consent. Now that places upon Ministers, and particularly upon myself, a special responsibility to take you into our confidence. To tell you the truth. To explain the facts. Tell the people. Consult the people. Trust the people” (Ministerial Broadcast, 5th April 1976).

“... I pledge my efforts not only to re-establish our country's fortunes, but to uphold those values and freedoms we all care about” (Ministerial Broadcast, 5th April, 1976).

“Labour in Government is about purpose, about principles, about creating a country with a sense of values that is generally appealing” (Blackpool, 25th April 1976).

### **3. LABOUR HYPOCRISY**

#### **on Unemployment**

Sir Harold Wilson:

“... the total failure of this Government to accept the responsibility which in the war was accepted by the Coalition Government as binding on all post-war Governments—the responsibility of asserting the right to work. (Mr Heath) has got to answer for his responsibility for a million unemployed” (*Hansard*, 2nd November 1971, Col. 28).

“... There is still no acceptance of Ministerial, still less Prime Ministerial, responsibility for this achievement (i.e. unemployment) ... we shall get the same excuses and alibis, this usual craven attribution of vicarious responsibility to every individual and institution in this land except the man who is responsible” (*Hansard*, 24th January 1972, Col. 998).

“Last Friday he (Mr Heath) left these shores, the first dole queue millionaire to cross the Channel since Neville Chamberlain” (*Hansard*, 24th January 1972, Col. 999).

“In the dole queue there is no freedom; there are no differentiations. For them the universal leveller is the denial of freedom to work” (*Hansard*, 24th January 1972, Col. 1001).

“I have made clear ... that we accept the full right to work and will frame our policies on that basis” (*Hansard*, 24th January 1972, Col. 1016).

Mr Healey:

“Unemployment in Britain today is by far the biggest single cause of avoidable human misery and suffering. It is also the biggest single cause of social inequality” (*Hansard*, 20th April 1972, Col. 796).

## On Prices

Sir Harold Wilson:

“There are 100 reasons for voting this Government out. But, first and foremost, it is prices.” ... (Manchester, 15th February 1974).

“The remorseless accelerating rise in prices is a menace which, unless checked, will destroy the fabric of our society. It is eating away at the savings, the security and the future of ordinary families. It feeds on itself and terrifies ordinary families” (Preston, 20th February 1974).

“We have got to tackle the question of prices rising faster and faster each year, because as prices rise so do industrial costs and that makes it harder for us to export abroad and keep imports down” (Croydon, 25th February 1974).

Mr Healey:

“... the Chancellor must halt inflation, and be seen to be halting it, because if he does not do so the £ will sink right down to the ocean bed and Britain will become the Brazil of Europe” (*Hansard*, 29th June 1972, Co. 1726).

Mrs Shirley Williams:

“The Government has financed much of its public expenditure by borrowing, creating inflation at one remove” (Hemel Hempstead, 18th January 1974).

“If you elect us we will do everything in our power to prevent food jumping in price, and other prices, in the way that happened between 1970 and 1974” (*BBC Television*, 14th February 1974).

## On Interest Rates, Debt, and Sterling

Mr Healey:

“At present we face punitive interest rates. Some Hon. Members do not fully recognise that with interest rates—particularly for some of the smaller companies—running 12 per cent to 14 per cent ... it is impossible for a small company to borrow with any chance of repaying both its interest and capital as a result of its investment” (*Hansard*, 7th March 1973, Col. 441).

Mr Callaghan:

“Never before has this country endured such a high rate of inflation with, at the same time, such a frightening balance of payments deficit. In addition we are borrowing huge sums of money from other countries at a record rate and at high rates of interest, and piling up for ourselves an alarming amount of overseas debt” (Warley, 23rd November 1973).

Sir Harold Wilson:

“Small wonder that the floating £ of which they (the Conservatives) were so proud has sunk beneath the waves” (Hemel Hempstead, 18th January 1974).

## **On Arab Money**

Mr Healey:

“The fact is that our only friends in the world today are those we made by grovelling, namely the French Government and the Arab Governments” (*Hansard*, 19th December 1973, Col. 1353).

(Mr Heath was) “begging the Arabs for baksheesh ...” (*Hansard*, 6th February 1974, Col. 1243).

## **4. LABOUR AND THE LAW**

Mr Benn:

“Direct action in a democratic society is fundamentally an educational exercise ...” (*The New Politics*, 1970).

“Britain is the only colony in the British Empire and it is up to us now to liberate ourselves” (Labour Party Conference, Blackpool, 2nd October 1972).

“Conscientious objection to the law is not a criminal act. These people are our people and we should take a principled stand together” (Wells, Somerset, 23rd November 1973).

Mr Edward Short (**now Lord Glenamara of Glenridding**):

“It is not our job to go about telling everybody to obey the law” (*Sunday Times*, 25th November 1973).

## **5. ELECTORAL DECEPTION**

Sir Harold Wilson:

“Price rises in the shops are slowing down ... all those results point in the same direction—to a significant reduction in the speed of price increases” (Bury, 26th September 1974).

“Unemployment ... is beginning to fall; the balance of payments show a substantial improvement; the pace of inflation and price rises is moderating ... but now we are being inundated with gloom and doom from the Conservative leadership” (Press Conference, 9th October 1974).

“We are determined not to resort to unemployment as an economic instrument” (Huyton, 19th September 1974).

“We totally reject the use of unemployment as a weapon against inflation” (Peterborough, 29th September 1974).

“We are top of the league in the fight against inflation” (*Daily Telegraph*, 2nd October 1974).

“The Labour Government is determined not to meet this crisis with all the defeatist and cruel weapons of the past—with slump and recession, with compulsion, with, worst of all, unemployment” (BBC Radio 4, 8th October 1974).

“I have seen authoritative estimates that (some Conservative) policies ... could mean a million and a half people out of work ... how do they expect to get on better than the Labour Government with trade unions—which is what they currently boast they can do—if they were to put up to a million and half people out of work”.

“There can be no national unity based on putting the working people of Britain out of a job. No social justice on the dole” (Preston, 2nd October 1974).

“We won't have our own people unemployed” (Preston, 2nd October 1974).

“The decision not to vote, not to bother, is a vote for the unemployment that I fear Conservative policies can only bring in their train” (Birmingham, 6th October 1974).

Mrs Shirley Williams:

“All one can say about inflation is that it is beginning to move downwards” (BBC Radio, 20th September 1974).

“There is no evidence at all of price increases stored up in the pipeline” (Press Conference, 7th October 1974).

Mr Healey:

“Inflation ... is currently running at 8.4 per cent” (Press Conference, 23rd September 1974).

“We have in fact succeeded in doing very well on our own this year—I have cut the inflation rate I inherited by half (and) cut the deficit of our balance of payments by half” (*Panorama*, BBC 1, 23rd September 1974).

“I don't believe myself it's necessary for the people as a whole to have their living standards lowered in order to conquer inflation” (*Election Call*, Radio 4, 26th September 1974).

“If the Social Contract is maintained we can get inflation down close to 10 per cent by the end of next year and into single figures the year after” (Witham, 24th September 1974).

“I am certain we can get through the whole of next year with well under a million unemployed” (*People and Politics*, ITV, 26th September 1974).

Mr Foot:

“I certainly agree that it would be quite wrong to think that you should accept heavy unemployment to deal with the balance of payments problem” (Radio 4, *Election Call*, 21st February 1974).

Mr Reg Prentice:

“If the Conservatives remain in office we may well have a million unemployed again” (Kings Lynn, 21st February 1974).

Mrs Castle:

“Under Labour the (Health) Service will be inflation proofed” (Press Statement, 8th October 1974).

“Every commitment we make in Labour's manifesto—our new inflation-proof pension plan, the disability benefits and mobility allowance, the new child credits and the rest—has been carefully costed in the light of Government studies and experience” (Oxford, 20th September 1974).

Mr Robert Mellish, then Government Chief Whip:

“There has to be many, many more houses built” (Election Broadcast 3rd October 1974).

## **6. THE SOCIAL CONTRACT**

Sir Harold Wilson:

“The Social Contract (is) the only way in which this country can overcome the grave economic crisis facing us. There is no other way” (Oxford, 7th October 1974).

“The Social Contract is our answer—in the short term, the medium term and the long term to the problems of a modern industrialised society” (Bury, 26th September 1974).

“... the boldest experiment in civilised government that Britain has ever seen” (Cardigan, 28th September 1974, *Times*, 30th September 1974).

Mr Callaghan:

“It is the Social Contract or nothing (which) stands between the nation and ever higher prices and heavier unemployment” (BBC TV, 17th July 1974).

“You say, what will happen if it breaks down? I'll tell you what I think will happen ... I fear we would slide either into Anarchy on the one hand, or Fascism or a form of it, on the other” (*Election Call*, BBC Radio 4, 8th October 1974).

Mr Benn:

“The Social Contract is not to keep wages down ... It is a broad commitment we have entered into to do an awful lot of things” (*Election Call*, Radio 4, 4th October 1974).

Mr Foot:

“That Social Contract is designed to rebuild the strength and the unity between the industrial and the political side of our Labour movement so that we can establish our common purposes” (News, Radio 4, 28th September 1974).

Mr Healey:

“I'm assuming that there'll be a good deal of slippage ... as the odd group of workers gets an agreement above the norm” (*People and Politics*, ITV, 26th September 1974).

“... the Social Contract was not a contract between the Government and the property speculators, or the get rich quick people ... in the city of London, or the people who are skiving on Social Security. But it is with a great majority of the British people, who are useful” (*Election Call*, BBC, 26th September 1974).

“It is far better that more people should be in work, even if that means accepting lower wages on average, than that those lucky enough to keep their jobs should scoop the pool while millions are living on the dole. That is what the Social Contract is all about” (Leeds, 10th January 1975).

“So what happens to wages is the key to controlling inflation in the coming year” (Durham, 1st June 1974).

“... in the conditions of last year the inflation caused by excessively large wage and salary increases raised public expenditure in money terms much more than public sector receipts, and the public sector deficit rose sharply. ... The rate of inflation for many months has been determined primarily by the increase in wages and salaries. ... Pay has been running about 8 per cent or 9 per cent ahead of prices. I do not believe that anyone would claim that the TUC guidelines were intended to permit this result” (*Hansard*, 15th April 1975, Cols. 279–81).

## **7. NATIONALISATION AND INDUSTRIAL CONFIDENCE**

Mr Healey:

“We are all agreed on a massive extension of public ownership” (York, 2nd June 1973).

Mr Benn:

“We are not interested in ownership just for the sake of ownership. We are concerned with the power that ownership carries with it to shape our future” (London, 6th June 1973).

“Workers are not going to be fobbed off with a few shares ... or by a carbon copy of the German system of co-determination” (Southampton, 25th May 1971).

“We want industry to be in the public sector, to change the power structure of our society” (Labour Party Conference, Brighton, 6th October 1971).

Mr Short (now Lord Glenamara):

“(Mr Benn's) proposals have been described in his speeches. We do not want to wriggle out of these things. They are an essential part of our policy and after the next election we shall implement those policies' (*Hansard*, 25th June 1974, Col. 1202).

Mr Healey:

“I see no reason why the mass of British industry should find itself short of money this coming year” (*Hansard*, 1st April 1974, Col. 1007).

“The Government is determined that the investment plans of industry shall not be frustrated by lack of finance” (CBI Annual Dinner, 14th May 1974).

“There's a collapse of business confidence in Britain ...” (*People and Politics*, ITV, 26th September 1974).

“Whether you like it or not 7 out of 10 workers work in the private sector and thousands of private companies are so short of cash that they are already beginning to lay off workers and are threatened with bankruptcy even though they have full order books” (Labour Party Conference, 29th November 1974).

Mr Benn:

“What I am saying is that the acquisition of assets by public ownership is not financed by increased taxation. Yes, I am saying that very clearly” (*Election Call*, Radio 4, 4th October 1974).

Sir Harold Wilson:

“The National Enterprise Board is the biggest leap forward in economic thinking as well as economic policy since the war” (Labour Party Conference, 28th November 1974).

Mr Edmund Dell, now Secretary of State for Trade:



“My concern with the National Enterprise Board suggestion is simply that it is a bad idea. It derives from a vision of a monopolistic society, ruled by technocrats” (*Observer*, 10th June 1973).

Mr Roy Jenkins:

“I think it (the NEB) could do a lot of good. But if it operated in a way to be damaging to a healthy private sector, it would be self-defeating. It must supplement and not replace private sector investment” (*Sunday Express*, 9th March 1975).

Mr Foot:

“... the crisis afflicting this country, along with other countries of the Western world, is a crisis of capitalism. It is a crisis of the dominant economic system that prevails in all those countries” (*Hansard*, 20th January 1976, Col. 1126).

Mr Healey:

“(The) steady contraction in our manufacturing industry is the main reason for our disappointing economic performance since the war. This contraction must be halted and reversed. But we cannot reverse the trend if we plan to take more resources into the public services” (*The Times*, 26th February 1976).

Mr Foot:

“... I want to see the balance of the economy that depends on the public sector become stronger: I think it's going to happen in some form anyhow if we're going to be able to protect the employment of our people” (*Weekend World*, ITV, 4th April 1976).

“I'm not in favour of any secret plan for taking over people's industries. I'm in favour of what H. G. Wells called “The Open Conspiracy” (*Weekend World*, ITV, 4th April 1976).

“... I believe that there are many activities that can be left to private enterprise. Of course, those activities will need to be profitable. So I can't condemn the profit in those industries and I don't think anybody who thinks about it would seek to do so” (*Weekend World*, ITV, 4th April 1976).

Mr Callaghan:

“The willingness of industry to invest in new plant and machinery requires not only that we overcome inflation but that industry is left with sufficient funds and sufficient confidence to make the new investment. When I say that they must have sufficient funds, I mean that they must be able to earn a surplus, which is a euphemism for saying that they must make a profit. And whether you call it surplus or profit it is necessary whether we live in a Socialist economy, a mixed economy or a capitalist economy. If industry cannot generate sufficient funds to buy its new plant and machinery then you will not get the investment and we shall continue to go downhill.

These are elementary facts of life, well-known to every trade unionist” (Labour Party Conference, Blackpool, 28th September 1976).

Mr Benn:

“Well I think for many people you see, public ownership is a way of safeguarding their jobs and creating new jobs. That's why there's wide support for extension of public ownership. (*News at Ten*, ITV, 30th September 1974).

**The late Mr Anthony Crosland:**

“Nationalisation ... does not in itself engender greater equality, more jobs in the regions, higher investment or industrial democracy. The public knows this perfectly well, and so do the workers who have suffered from pit closures, steel redundancies and the run-down of the railways. It is idiotic to try to bamboozle them” (Rotherham, 9th June 1973).

**“Labour's Programme, 1976”**

“In the past, economic planning in the national interest has been frustrated by the inability to control the economic processes in private hands. It is now plainly evident that private and public interest do not always coincide. Only direct control, through ownership, of a substantial and vital sector of growth industries will allow a Labour Government to achieve our essential aims”.

## **8. GOVERNMENT SPENDING**

Mr Roy Jenkins:

“I do not think that you can push public expenditure significantly above 60 per cent and maintain the values of a plural society with adequate freedom of choice” (*Times*, 24th January 1976).

Mr Foot:

“I don't believe there's any kind of magic figure of public expenditure if you go over it you injure the plural society, or anything of that sort ...” (*Weekend World*, ITV, 4th April 1976).

“It is no good saying to me in this Labour Government that we are opposed to public expenditure because in fact this Labour Government during these past two and a half years ... increased public expenditure proportionately more than any previous government we have had in our history” (NALGO Conference, Eastbourne, 8th June 1976).

Mr Callaghan:

“We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting Government spending, I tell you in all

candour that that option no longer exists” (Labour Party Conference, Blackpool, 28th September 1976).

“Over the last three years whilst our domestic product has risen by 2 per cent, the increase in our public expenditure—including central and local government—has been 18 per cent. We have bridged the gap by higher taxation, by borrowing from abroad and worst of all, by printing money” (Labour Party Conference, Blackpool, 28th September 1976).

Mr Healey:

“We've done a great deal here to correct what I would agree was an excessive amount of public expenditure over the past three years” (BBC Radio 4, 21st October 1976).

Mr Callaghan:

“Over the next three years ... I think that public expenditure has got to come down as a proportion of the gross domestic product” (*Panorama*, BBC TV, 25th October 1976).

### **“Labour's Programme 1976”**

“Many of our proposals require lengthy legislation or make heavy demands on resources and the public purse” (p. 9).

## **9. BORROWING**

Mr Healey:

“I have planned a drastic cut in the public sector borrowing requirement” (CBI Annual Dinner, 14th May 1974).

“I do not believe that the size of the public sector borrowing requirement was behind the recent pressure on sterling. It was more the inflation rate in Britain compared with other countries” (*Hansard*, 1st May 1975, Col. 715).

Mr Edmund Dell:

“We are confronting the fact that letters of intent are not the only way in which a country's economy may come under international supervision. A similar effect can result from any decision by a country to become dependent for its standard of living on foreign borrowing, especially when that decision is combined with failure to control a high rate of inflation” (*Hansard*, 17th April 1975, Col. 690).

Mr Healey:

“... there is still a gap of 20% between what we are spending and what we are getting in revenue. We are having to borrow £1 for every £4 we spend” (*The Times*, 26th February 1976).

“... we have to borrow to cover this deficit and the interest on this borrowing will amount to an extra £3,000 million in 1978&slash;9, ... *We cannot go on living on tick like this*” (*Times*, 26th February 1976).

Mr Callaghan:

“We are only keeping up our standards by borrowing and this cannot go on indefinitely” (Ministerial Broadcast, 5th April 1976).

“We have lived for too long on borrowed time, borrowed money and even borrowed ideas ... For too long this country has trodden the primrose path and borrowed money from abroad—it still goes on—instead of grappling with the fundamental problems of British industry” (Labour Party Conference, Blackpool, 28th September 1976).

Mr Healey:

“We'll need a good deal of our oil royalty revenue for some years to pay off the external debts we've accumulated” (*Barron's Magazine*, 27th September 1976).

## **10. TAX AND INCENTIVES**

Mr Healey:

“We shall increase income tax on the better off, so that we can help the hundreds of thousands of families now tangled helplessly in the poverty trap by raising the tax threshold and introducing reduced rates of tax for those at the bottom of the ladder. I warn you, there are going to be howls of anguish from the 80,000 rich people, people who are rich enough to pay over 75 per cent on their last slice of income” (Labour Party Conference, Blackpool, 1st October 1973).

“I think there is one major problem of which I'm deeply conscious, and that is the incentive problem for middle management” (*Weekend World*, ITV, 4th January 1976).

“... I think that trade unionists, like anybody else in the country, are very worried about the high level of taxation ...” (Party Political Broadcast, 25th February 1976).

“... 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 contributions taking 51p to 55p out of every extra pound he earned. I just do not believe that taxation at this rate would be compatible with the sort of moderation we must have in pay claims if we are to get inflation down. It would corrode the will to work and seriously weaken the incentive for people to acquire the skills which industry desperately needs” (PLP Meeting at the House of Commons, 25th February 1976).

“... somehow or other one's got to wrench the country around and make hard work a virtue and not a penance” (*Panorama*, BBC, 22nd March 1976).

Mr Callaghan:

“Nor can we continue indefinitely with the compression of differentials, nor allow the pay grievances of middle management to go unheeded” (Dorchester Hotel, 18th May 1976).

Mr Healey:

“I think the rates of income tax are too high at every level of earnings, from the poorest paid to the highest paid” (BBC Radio 4, 21st October 1976).

“I agree that the level of direct taxation does discourage enterprise” (BBC Radio 4, 21st October 1976).

### **“Labour's Programme, 1976”**

“A great deal remains to be done to bring in more income tax revenue from those who can afford to pay” (p. 15).

## **11. LABOUR FORECASTING**

### **“Labour's Programme, 1976”:**

“The challenge before us is not to forecast the future but to change it” (p. 22).

## **Inflation**

Mr Healey:

“On prices, I believe that we can still achieve our target of under 10 per cent next winter” (*Hansard*, 6th April 1976, Col. 281).

“I would not care to give a precise definition because I could be proved wrong again, but I would say it could be about 12 per cent by the end of this year, and about 7 per cent by the end of next year” (BBC TV, 16th June 1976).

“The Prime Minister and I have made it clear that we are unlikely to reach our original target of under 10 per cent by the end of the year. It may be delayed until the spring” (*Hansard*, 17th June 1976, Col. 723).

“We will not get into single figures now until late winter or early spring” (Speech to Press Association, 30th June 1976).

Mr Callaghan:

“What the Chancellor has proposed is the *best* combination of pay increases and tax reductions which added together will enable the inflation rate to be halved” (Blackpool, 25th April 1976).

“If you can grin and bear it for 12 months more then by the end of 1977 the inflation rate will be where that of our major competitors is now, at 6, 7 or 8%” (Bournemouth, 24th May 1976).

“Now, with our North Sea oil coming ashore in increasing quantities, our inflation rate falling, our exports increasing and plans for new plant and machinery coming forward we have a real chance for national recovery” (Letter to the Labour candidate at the Thurrock By-election, 9th July 1976).

## Unemployment

Mr Foot:

“If present trends persist the calculation is that unemployment will be something under 1.2 million, seasonally adjusted, at the end of the year, and that it will then begin to level off” (*Hansard*, 28th October 1975, Col. 1271).

Mr Callaghan:

“I regard the present level of unemployment as intolerable and unacceptable, and I am glad that the House now recognises that we have reached a turning point both for the economy and unemployment” (*Hansard*, 25th March 1976, Col. 627).

Mr Healey:

“I believe we are going to get unemployment down faster than any other country” (Scarborough, 10th May 1976).

“On current prospects I would expect unemployment to start falling before the end of the year” (*Hansard*, 22nd July 1976, Col. 2010).

“The measures (July expenditure cuts) will not begin to affect unemployment until the middle of 1977, when the peak of unemployment will be far behind us” (*Hansard*, 2nd August 1976, Col. 1234).

Mr Callaghan:

“Unlike 1973–4, the indicators today are all pointing in the right direction. We have got to move along that path. [*HON MEMBERS*: ‘What about unemployment?’] Yes, even in regard to unemployment this is true” (*Hansard*, 11th October 1976, Col. 162).

Mr Albert Booth, Secretary of State for Employment:

When asked about fears that unemployment might reach 2 million or more, he replied:

“I am not going to totally pooh-pooh [*sic*] any figures” (*Sun*, 5th February 1977).

## Euphoria or Realism?

Mr Healey:

“By the end of next year, we really shall be on our way to that so-called economic miracle we need” (Ministerial broadcast on the Budget, 6th April 1976).

“If we can keep our heads—and our nerve—the long-awaited economic miracle is in our grasp. Britain can achieve in the Seventies what Germany and France achieved in the Fifties and Sixties” (*Sunday Telegraph*, 4th July 1976).

(The new 4.5 per cent pay agreement) “could bring Britain home and dry within the next eighteen months” (Nottingham, 2nd May 1976).

Mr Callaghan:

“We live in too troubled a world to be able in a matter of months or even of a couple of years to enter the promised land” (Labour Party Conference, Blackpool, 28th September 1976).

“Our people are not children. They know the score, and especially that no short cuts, no gimmicks, no six month miracles will cure our difficulties” (*News of the World*, 10th October 1976).

## 12. STANDARD OF LIVING

Mr Healey:

“I don't believe myself, it's necessary for the people as a whole to have their living standards lowered in order to conquer inflation. But I do think that as a whole, we've got to accept no increase for a year or two to come yet” (BBC Radio 4, *Election Call*, 26th September 1974).

“Meanwhile, (until 1976) we must accept a period in which living standards cannot rise and *could even fall*. We shall have to be fitter. We certainly shall not be fatter. We shall have a leaner and more efficient economy” (*Hansard*, 18th December 1974, Col. 1632).

Mr Callaghan:

“I do not think that this would be the right moment to cut people's standard of life in terms of private consumption any further” (*Hansard*, 1st July 1976, Col. 650).

“Let me say that of course there has been a fall in people's standard of life. And it has fallen this year and will fall again next year” (*Panorama*, BBC TV, 25th October 1976).

## 13. THE FALL IN STERLING

Mr Healey:

“... countries which have managed their economy sensibly, like Germany under a Socialist Government, have managed to increase the value of their currency” (*Election Call*, 12th February 1974).

Mr Callaghan:

“It is our judgement—I believe it is the judgement of central bankers generally—that sterling at present is undervalued” (*Hansard*, 25th May 1976, Col. 267).

Mr Healey:

“There is no economic justification for the fall (in sterling) which has taken place in recent weeks” (*Hansard*, 7th June 1976, Col. 912).

(Sterling's fall was due to the fact that) “men on the money market have just woken up to the fact that we have a severely distorted economy” (*ITV News at Ten*, 29th September 1976).

“... the overwhelming majority of ordinary working men and women, are fed up with being paid in confetti, they wanted to be paid in pounds that kept their value, and they are prepared to make sacrifices in order to move towards this situation” (*Weekend World*, ITV, 4th January 1976).

Mr Callaghan:

“The recent depreciation in the Sterling exchange rate. ... has brought us disadvantages, not least through the higher prices we pay for imported commodities, raw materials and semi-manufactures” (Dorchester Hotel, 18th May 1976).

## **14. MR HEALEY'S EXCUSES**

“Single-digit inflation will come later than we hoped. Commodity prices rose earlier and more sharply than we expected, largely because the speed of the economic upturn worldwide has been greater than we'd anticipated. Also, the depreciation of sterling has gone further than we'd foreseen... And the drought has put up food prices” (*Barron's Magazine* interview, 27th September 1976).

“Like other countries we are still emerging from the deepest international recession since the war, and, as has become more and more widely recognised, there is an international dimension to curing unemployment” (*Hansard*, 11th October 1976, Col. 38).

“I think, to be fair, [sterling's fall] is because a lot of the private institutions abroad ... have thought that we weren't moving fast enough towards our objective and therefore didn't feel it worthwhile buying pounds in the quantity they were selling them” (BBC Radio 4, 21st October 1976).

“Some special factors played their part [in the stagnation of output and falling exports]. The summer weather and changes in holiday patterns affected production in



some industries, and the installation of North Sea equipment during the summer kept up import volumes” (*Hansard*, 30th November 1976, Col. 706).

“No Government can produce an economic miracle. An economic miracle depends on people on the shop floor, in the board room, in the sales office, working a bit harder and more efficiently than they have worked in the past” (BBC TV, 15th December 1976).

## **The Truth**

“With hindsight, I must confess the Government themselves did not then [1974] recognise the full scale of the task which faced them” (*Hansard*, 11th October 1976, Col. 52).

“I think it's fair to say that inflation went up much more after the November (i.e. October 1974) election than I or anybody else expected, because the trade unions didn't at that time observe the social contract as they'd defined it earlier in the year ... I think it's fair to say that wage inflation was the main reason for the runaway inflation in the months that followed the November 1974 election ...” (BBC Radio 4, 21st October 1976).

“It has never been my nature, I regret to admit to the House, to turn the other cheek” (*Hansard*, 18th December 1974, Col. 1620).

## **15. THE SIEGE ECONOMY**

Mr Foot:

“I certainly think that a Labour Government will have to have effective powers to control the outflow of capital ...” (*Election Call*, 21st February 1974).

Mr Callaghan:

“But the policies of the 1960s would not be successful today. No more would general import controls. They would benefit some home industries but only at the expense of the livelihood of everyone working on exports. We should be robbing Peter to pay Paul” (Woolwich, 30th January 1976).

Mr Benn:

“Any nation could theoretically turn its back on all this and legislate itself into a siege economy from this intricate network of national and international power structures. But, as with the individual drop-out it could only do so at a price in lower living standards that would not be politically acceptable” (*The New Politics*, 1970).

## **16. TRADE UNIONS**

Mr Foot:

“Well I think what we've got through in the Department of Employment has been pretty good ... put into it the best trade union legislation which I think now exists in the world, so I think that's worth doing” (*Panorama*, BBC 1, 22nd March 1976).

“... it's impossible to write the history of freedom in this country without telling how trade unions have contributed to it ...” (*Weekend World*, ITV, 4th April 1976).

Mr Roy Jenkins:

“The Government should consult with the unions and unions are and should be an important power in our national life. But they should not usurp the functions of Government. They should certainly not be asked to tell the Government what to do” (*Sunday Express*, 9th March 1975).

## **17. A TRADE UNION LEADER'S VIEW**

Mr Jack Jones:

“A government which is prepared to tackle the problem of prices in the shops, rents and housing costs and put up pensions will certainly get the co-operation of the trade union movement and there will be moderation” (*Evening Standard*, 1st March 1974).

“For the first time we seem to have men in government who understand ordinary shop-floor workers. Michael Foot exemplifies this spirit” (*Evening Standard*, 28th January 1976).

“I don't think general tax cuts can be justified. If there is any money to spare, it should go on job creation and further support for the National Enterprise Board. Instead of giving them £1,000 million over five years, give them authority to spend that figure this year” (*Evening Standard*, 28th January 1976).

“This government has got a human point of view” (*Daily Telegraph*, 26th February 1976).

## **18. PRESS FREEDOM**

Mr Foot:

“I think that the unrestrained exercise of trade union power in the newspaper industry could strangle that industry. That would be a tragedy, not only for the people who would lose their jobs but also for the community at large” (*Hansard*, 3rd December, 1974, Col. 1380).

*(Mr Foot was responsible for forcing through Parliament the Trade Union and Labour Relations (Amendment) Act, using the Parliament Act to override the House of Lords veto. The Act was generally believed to threaten the freedom of the Press.)*

Mr Benn:

“... Some of the problems of control of the mass media would be easier to solve if such a radical change as the one implied by workers control could be made to work constructively in the press, radio, and television” (*The New Politics*, 1970).

Mr Albert Booth:

“When newspaper editors met Mr Foot last Tuesday (19th November 1974), Albert Booth, Mr Foot's Minister of State, agreed with them that news was important—but then so was sewage” (*Sunday Times* report, 24th November 1974).

Sir Harold Wilson:

“Cohorts of distinguished journalists have been combing obscure parts of the country with a mandate to find anything true or fabricated to use against the Labour Party” (Portsmouth, 20th September 1974).

“I get a little nauseated, perhaps, when I hear the phrase ‘freedom of the press’ used as freely as it is, knowing that a large part of our proprietorial press is not free at all” (*Hansard*, 5th December 1974, Col. 1936).

Mr Callaghan:

“The freedom of the Press depends on accurate reporting and printing and the capacity to print everything that is put, provided that it is accurate ... Freedom of the Press apparently means, as I have had occasion to find out in the not-too-distant past, freedom to print inaccurate and totally false information ...” (*Hansard*, 13th January 1977, Cols. 1637–8).

## **19. MR FOOT'S BELIEFS**

“I've been on the left of the Party since I joined it about 1934 and I haven't seen much reason for altering” (*Panorama*, BBC, 22nd March 1976).

“I have always been a strong libertarian both inside the Labour Party and outside” (*Panorama*, BBC, 22nd March 1976).

“... that strong liberal tradition that does run through British history and is of great advantage to the people of this country and it is certainly something that I cherish and I believe all real socialists cherish” (*Weekend World*, ITV, 4th April 1976).

“... what I want to seek to do over a period of course is to establish a Socialist society ...” (*Panorama*, BBC, 22nd March 1976).

## **20. LABOUR AND THE INDIVIDUAL**

**“Labour's Programme, 1976”:**

“There is growing danger in this age of bureaucracy that the rights and freedoms of citizens will be infringed by the large and powerful organisations with which we have

increasing contact. We believe there is a need to tip the scales away from public and private concentrations of power back in favour of the individual” (p. 88).

## **21. THE LEFT AND DEFENCE**

Miss Jo Richardson (Labour MP for Barking):

“My personal view is that a genuine threat comes from NATO, and that in reality NATO is being used to prevent social change. We in this country should not be associated with that. ... The possibly anti-democratic nature of NATO should be watched. I believe that the Common Market is an economic counterpart of NATO, supporting the same reactionary forces. That is one reason why I am opposed to it” (*Hansard*, 18th December 1974, Cols. 1261–2).

Mr John Lee (Labour MP for Birmingham, Handsworth):

“The fact is that NATO's bluff was called long ago. It no longer serves any useful purpose for any of us to pretend that it serves a useful function” (*Ibid*, Col. 1267).

Mr Frank Allaun (Labour MP for Salford East):

“I do not believe that there is any need for either (conventional or nuclear forces) ... I do not think that it is possible to defend this country any longer by military means” (*Ibid.*, Col. 1178).

**Officers of the Social Democratic Alliance** (in a letter to Mr Callaghan):

“We believe that you no longer lead a Labour movement that is wholly democratic and that elements within it are to the Left of, and indeed more pro-Soviet than, some Western Communist Parties” (Quoted in *The Times*, 26th February 1976).

## **22. POLITICAL THREATS**

Mr Healey:

“The alternative to getting help from the IMF would be economic policies so savage I think they would produce riots in the streets, an immediate fall in living standards, and unemployment of three million” (*ITN News at Ten*, 29th September 1976).

Mr Callaghan:

(Failure of the Government's policies) “would lead to a totalitarian government of the Left or Right” (*BBC TV Tonight*, 30th September 1976).

## **23. NATURAL PARTY OF GOVERNMENT?**

Sir Harold Wilson:

“From being the party of protest we have now become the natural party of government” (Blackpool, 30th September 1975).

Mr Foot:

“... I certainly don't accept that any party is the natural party of Government; every Government Party has to earn it with the electorate ...” (*Weekend World*, ITV, 4th April 1976).

Mr William Rodgers (now Secretary for State for Transport):

(Labour's values had been) “corrupted by dogmatism, twisted by envy, and undermined by the erosion of a robust belief in Parliamentary democracy” (*Socialist Commentary*, December 1973).

Mr Eric Heffer (after two disastrous by-election results for Labour):

“Any leadership which tries to hold the party from moving in its natural Socialist direction is creating the sort of tension which led to the disillusionment we have just witnessed” (*Daily Telegraph*, 12th December, 1973).

Mr Robert Mellish:

“No member has the right to join the Labour Party and then say, ‘Ah, there are some things I don't go along with’ ” (Parliamentary Labour Party Meeting, 3rd November 1971).

Mr Reg Prentice

“The moderate members of our party must stand up and be counted” (*Guardian*, 24th November 1973).

## APPENDIX III

# GLOSSARY OF ECONOMIC TERMS

**Balance of Payments.** The difference between a country's foreign payments and its foreign earnings. It differs from the Balance of Trade because of ‘invisible exports’ i.e. the net earnings of foreign currency from things like the return on foreign investments, insurance, shipping, tourism and other sources of foreign earnings that are not recorded as exports.

**Balance of Trade.** The difference between the value of goods imported and the value of goods exported. *See also* Balance of Payments.

**Billion.** A thousand million.

**Blue Book.** The informal name for the annual publication, National Income and Expenditure, which gives the U.K.'s national accounts statistics. The Blue Book, which is prepared by the Central Statistical Office in the late summer of each year, shows estimates of the main parts of the national accounts for the previous year and ten years before.

**Constant Prices.** Prices adjusted to include the effect of changes in the value of money.

**Credit Restriction or Credit Squeeze.** A variety of devices and regulations designed to reduce the growth of credit in the economy.

**Current Prices.** The prices ruling in the year in question.

**Deflation.** (1) A reduction in demand in the economy resulting in greater unemployment and falling output. (2) Also used to mean a policy for combating inflation by reducing demand, e.g. by raising taxes, reducing public expenditure, squeezing credit and raising the Bank of England minimum lending rate.

**Direct Tax.** A tax levied on income, profits or personal wealth e.g. Income Tax, Capital Gains Tax, Capital Transfer Tax.

**Domestic Credit Expansion (D.C.E.).** A measure of the change in the money supply, which is adjusted to take into account the effects of changes in foreign exchange reserves and Government borrowing overseas. It is a measure of internal credit availability and excludes the effects of changes in the foreign exchange reserves, as these simply have a distorting effect on the measurements without any economic significance. Hence the change in foreign exchange reserves, less the change in government overseas borrowing is subtracted from the change in the money supply (q.v.) as conventionally measured, in order to calculate D.C.E.

**Dumping.** The practice of selling in export markets at less than the price on the home market and recovering the loss by charging more in the (usually heavily protected) home market. This is generally regarded as an unfair trading practice and most countries (including U.K.) have powers to protect themselves by imposing special anti-dumping duties on the offending imports.

**Euro-dollars.** Dollars deposited with banks outside the United States. In its Annual Report in 1966, the Bank for International Settlements described the Euro-dollar phenomenon as 'the acquisition of dollars by banks located outside the United States, mostly through the taking of deposits, but also to some extent through swapping other currencies into dollars, and the relending of these dollars, often after redepositing with other banks, to non-bank borrowers anywhere in the world.' The market for Euro-dollars is not confined to Europe.

**Exchange Control.** The control by the government through the banking system of gold and currency dealings across frontiers.

**Exchange Cover.** An arrangement whereby the Treasury will make good the increased cost of the repayment of the principal of a loan to part of the public sector,

as a result of the rise in the exchange rate for the currency in which the loan was denominated, in return for the payment of a premium by the borrower.

**Exchange Rate.** The rate at which one currency, e.g., the pound, can be exchanged against another, e.g., the dollar. Exchange rates may be fixed, that is to say the financial authorities of the country concerned undertake to buy or sell the currency at a fixed rate for any other currency. Exchange rates may also be floating, that is to say the rate may be determined by the supply and demand for that currency in the money markets of the world.

**Factor Cost.** Expenditures are said to be measured at factor cost when subsidies and indirect taxes are deducted from their value to give a true measure of their worth.

**Fixed Exchange Rates.** *See* Exchange Rate.

**Floating Exchange Rates.** *See* Exchange Rate.

**F.o.b. (Free on board).** A term applied to the valuation of goods up to the point of embarkation. U.K. exports and imports are usually measured this way. It compares with C.I.F. (charged in full or cost insurance freight), which is the valuation including all transport costs and insurance to destination.

**General Account at the International Monetary Fund (I.M.F.).** The U.K.'s subscription to the I.M.F., against which loans of foreign currency may be obtained by the U.K.

**General Agreement on Tariffs and Trade (G.A.T.T.).** An international organisation created in 1948 concerned with international tariff bargaining.

**General Government.** A narrower measure of the public sector than that normally used in the U.K. For the most part it includes central and local government and the social security system but excludes public corporations.

**Gross Domestic Product (GDP).** GDP is a measure of a country's total output of goods and services. When we talk of economic growth we are talking of changes in GDP in real terms i.e. after making allowance for the effects of inflation.

**Gross National Product (GNP).** GNP is GDP plus net property income from abroad. National income is GNP after deducting 'capital consumption' (i.e., the wear and tear on the nation's assets).

**Growth or Economic Growth.** The rate of growth is the speed at which the total value of goods and services in real terms (q.v.) in an economy changes from year to year. This is conveniently measured by the percentage increase or decrease in the Gross Domestic Product (q.v.).

**Index.** A statistical measure of change. Commonly used indices include the Index of Industrial Production and the Retail Price Index. To calculate the Retail Price Index (RPI), the way people spend their money is first ascertained by the Family Expenditure Survey, then price changes in the different goods and services are

measured and averaged out to take account of the different proportions spent on each—for example if people spend twice as much on rent as on clothing, a change in rents would make twice as much difference to the index as the same change in the price of clothing. There are indices for many things other than prices, and, in fact, more than one index for prices.

**Indirect Tax.** A tax levied on the sale of goods or services, e.g., (in U.K.) excise duties or VAT.

**Inflation.** Strictly speaking, a state of excess demand in the economy (“too much money chasing too few goods”); often used loosely for any increase in the general level of prices.

**International Monetary Fund (I.M.F.).** The I.M.F. was set up by the Bretton Woods Agreement of 1944 and came into operation in March 1947. The fund was established to encourage international co-operation in the monetary field and the movement of foreign exchange rates; and to facilitate trade between member countries.

**Investment.** Confusingly used in two rather different senses: (1) In Stock Exchange parlance, the purchase of stocks and shares. (2) In economic and industrial parlance, the purchase of capital assets such as machinery and plant or less tangible things like know-how and training in acquired skills.

**Invisibles.** The term ‘invisibles’ covers those items such as financial services, included in the Balance of Payments (q.v.) accounts, as distinct from physically visible imports, exports and re-export of goods.

**Liquidity.** Money which includes both cash and various forms of credit may be more or less readily usable. For example cash may be used at any time for any transaction; money in a deposit account is fairly readily accessible, but it may take some time to draw out money invested in stocks and shares for example. The ease with which different kinds of money may be used is said to be its liquidity—cash being more liquid than shares.

**Minimum Lending Rate.** The rate at which the Bank of England is prepared to lend to the Money Market.

**Mixed Economy.** An economy with a mixture of private enterprise and state or nationalised industry.

**Money Supply.** The total of cash and credit to finance transactions, including purchases, wages etc. A wide range of financial assets—from notes and coins at one end to bank deposits at the other—can be said to command power over goods and services. The precise financial assets that make up the ‘money supply’ are therefore very much a matter of definition.

One narrow definition (known as M1) includes only notes and coins and bank deposits on current account. A much wider definition (M3) includes all items in M1 and other deposits with banks.



**Money Terms.** *See under* Constant Prices (q.v.).

**National Debt.** The debt of the central Government.

**National Economic Development Council (N.E.D.C.).** A forum for discussion of economic and industrial affairs known as 'Neddy', set up by the U.K. government in 1962. It has the Chancellor of the Exchequer as chairman and consists of leading figures from industry and the trade unions.

**Organisation for Economic Co-operation and Development (O.E.C.D.).** The O.E.C.D. came into being in September 1961. Its aims are to (a) encourage economic growth and high employment with financial stability among member countries, and (b) to contribute to the economic development of the less advanced member and non-member countries and the expansion of world multilateral trade.

**Per Capital Income.** The total income of a group divided by the number of people in the group. In comparing standards of living between economies, it is obviously more relevant to take per capita income than total income.

**Progressive Tax.** A tax that rises more than proportionately with income. Most direct taxes are progressive, e.g. in U.K. a taxpayer earning £750 per annum pays a lower proportion of his income in tax than one earning £7,500 per annum.

**Public Sector Borrowing Requirement.** The difference between the total expenditure and revenue of the public sector.

**Public Spending.** The current and capital expenditure of central and local government and the capital expenditure of nationalised industries.

**Public Spending on Goods and Services.** The direct purchase by the government of things produced by the private sector.

**Public Spending on Programmes.** Public expenditure on particular functions or objectives of government, which are the responsibility of non-Treasury ministers, rather than on general items such as debt interest.

**Real Terms.** *See* Constant Prices (q.v.).

**Reflation.** Measures taken to stimulate demand. These can include reducing taxes, increasing public expenditure, relaxing credit restrictions, and lowering the Minimum Lending Rate (q.v.).

**Relative Price Effect.** The degree by which the prices of the items bought by a particular sector of the economy (usually the public sector) rise faster than prices in general.

**Reserves.** A stock of foreign currency held by a country's financial authorities. These normally include gold and a special form of international currency called Special Drawing Rights (S.D.R.'s), issued by the International Monetary Fund (q.v.) which is not used in commercial transactions.

**Retail Price Index.** *See* Index (q.v.).

**Smithsonian Agreement.** *See* Trade-weighted depreciation.

**Stock Appreciation.** The increase in the value of stocks as a result of inflation.

**Subsidies.** Payments by the government towards the cost of some categories of goods and services, e.g., to farmers on the quantity of a commodity produced or to industrialists on the cost of building or equipping a factory in an area of high unemployment.

**Survey Prices.** The constant prices (q.v.) mainly used in public expenditure White Papers, which permit the planning of public expenditure in real terms (q.v.).

**Swap Facility.** An arrangement whereby a foreign currency is purchased to be sold back at an agreed future date.

**Terms of Trade.** The ratio of the index of export prices to the index of import prices.

**Tranche.** An instalment of a loan.

**Trade-weighted Depreciation since the Smithsonian Agreement.** The fall in the value of a currency against the world's major currencies measured from the currency realignment agreed in December 1971 at the conference at the Smithsonian Institute in Washington.

**Transfer Payments.** Payments by the public sector to individuals and institutions (e.g., social security benefits) which are in effect a transfer of expenditure from one pocket to another.

# APPENDIX IV

## GENERAL ELECTION STATISTICS

Table 1—Votes Cast, Electorate, and Turnout at General Elections, 1945–1974 (Oct)  
(UK)<sup>2 5</sup>

General Election	Conservative <sup>1</sup>	Labour	Liberal	Others	Total Votes Cast	Electorate	Percentage Voting <sup>3</sup>
1945	9,972,010 (39.6%)	11,967,746 (48.0%)	2,252,430 (9.0%)	903,009 (3.4%)	25,095,195	33,240,391	72.8
1950	12,492,404 (43.5%)	13,266,176 (46.1%)	2,621,487 (9.1%)	391,057 (1.3%)	28,771,124	34,412,255	83.9
1951	13,718,199 (48.0%)	13,948,883 (48.8%)	730,546 (2.6%)	198,966 (0.6%)	28,596,594	34,919,331	82.6
1955	13,310,891 (49.7%)	12,405,254 (46.4%)	722,402 (2.7%)	321,182 (1.2%)	26,759,729	34,852,179	76.8
1959	13,750,875 (49.3%)	12,216,172 (43.9%)	1,640,760 (5.9%)	254,845 (0.9%)	27,862,652	35,397,304	78.7
1964	12,002,642 (43.4%)	12,205,808 (44.1%)	3,099,283 (11.2%)	349,415 (1.3%)	27,657,148	35,894,054	77.1
1966	11,418,455 (41.9%)	13,096,629 (48.1%)	2,327,457 (8.5%)	422,206 (1.5%)	27,264,747	35,957,245	75.8
1970	13,145,123 (46.4%)	12,208,758 (43.1%)	2,117,035 (7.5%)	873,882 (3.0%)	28,344,798	39,342,013	72.0
1974 (Feb) <sup>4</sup>	11,872,180 (37.8%)	11,646,391 (37.1%)	6,058,744 (19.4%)	1,762,847 (5.7%)	31,340,162	39,770,724	78.8
1974 (Oct) <sup>4</sup>	10,462,583 (35.8%)	11,457,079 (39.2%)	5,346,754 (18.3%)	1,922,762 (6.7%)	29,189,178	40,072,971	72.8

<sup>1</sup>Including National, National Liberal and National Labour in 1945.

<sup>2</sup>Percentages are of total votes cast.

<sup>3</sup>As percentage of electorate.

Table 1—Votes Cast, Electorate, and Turnout at General Elections, 1945–1974 (Oct)  
(UK)<sup>2 5</sup>

General Election	Conservative <sup>1</sup>	Labour	Liberal	Others	Total Votes Cast	Electorate	Percentage Voting <sup>3</sup>
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<sup>4</sup>The Conservative total excludes all types of Unionist candidates in Northern Ireland, but includes the Speaker of the House of Commons. The Labour total excludes the five (three in October) candidates of the Northern Ireland Labour Party. The total for Others includes all candidates contesting seats in Northern Ireland.

<sup>5</sup>Figures for 1945 adjusted to allow for two-member seats.

Sources: F. W. S. Craig, “British Parliamentary Election Statistics 1918–1970”, and *Political Companion*.

Table 2—Votes Cast, Electorate and Turnout at General Elections, 1945–1974 (Oct)  
(England)<sup>2</sup>

General Election	Conservative <sup>1</sup>	Labour	Liberal	Others	Total Votes Cast	Electorate	Percentage Voting
1945	8,269,191 (40.2%)	9,972,519 (48.5%)	1,913,917 (9.4%)	383,393 (1.9%)	20,539,020	27,045,729	73.4
1950	10,499,392 (43.8%)	11,050,966 (46.2%)	2,248,127 (9.4%)	155,963 (0.6%)	23,954,448	28,374,288	84.4
1951	11,622,704 (48.8%)	11,630,467 (48.8%)	537,434 (2.3%)	35,490 (0.1%)	23,826,095	28,813,343	82.7
1955	11,165,436 (50.4%)	10,355,892 (46.8%)	571,034 (2.6%)	43,768 (0.2%)	22,136,130	28,790,285	76.9
1959	11,559,240 (49.9%)	10,085,097 (43.6%)	1,449,593 (6.3%)	33,839 (0.2%)	23,127,769	29,303,126	78.9
1964	10,106,028 (44.1%)	9,982,360 (43.5%)	2,775,752 (12.1%)	73,111 (0.3%)	22,937,251	29,804,627	77.0
1966	9,692,356 (42.7%)	10,886,408 (48.0%)	2,036,793 (9.0%)	77,138 (0.3%)	22,692,695	29,894,141	75.9
1970	11,282,524 (48.3%)	10,131,555 (43.4%)	1,853,616 (7.9%)	93,201 (0.4%)	23,360,896	32,737,025	71.4
1974 (Feb)	10,508,977	9,842,468	5,574,934	215,239	26,141,618	33,093,667	78.9

Table 2—Votes Cast, Electorate and Turnout at General Elections, 1945–1974 (Oct)  
(England)<sup>2</sup>

General Election	Conservative <sup>1</sup>	Labour	Liberal	Others	Total Votes Cast	Electorate	Percentage Voting
	(40.2%)	(37.6%)	(21.3%)	(0.9%)			
1974 (Oct)	9,414,008	9,695,051	4,878,792	203,217	24,191,068	33,341,372	72.5
	(38.9%)	(40.1%)	(20.2%)	(0.8%)			

<sup>1</sup>Up to 1966 total for Conservative includes Conservative and National Liberal and Conservative candidates.

<sup>2</sup>Percentages are of total votes cast.

Source: F. W. S. Craig, "British Parliamentary Election Statistics 1918–1970", and *Political Companion*.

Table 3—Votes Cast, Electorate, and Turnout at General Elections 1945–1974 (Oct)<sup>2, 3</sup>  
(Scotland)

General Election	Conservative <sup>1</sup>	Labour	Liberal	SNP	Others	Total Votes Cast	Electorate	Percentage Voting
1945	964,143	1,144,310	132,849	30,595	117,995	2,389,892	3,343,120	69.0
	(41.1%)	(47.6%)	(5.0%)	(1.2%)	(5.1%)			
1950	1,222,010	1,259,410	180,270	9,708	55,286	2,726,684	3,370,190	80.9
	(44.8%)	(46.2%)	(6.6%)	(0.4%)	(2.0%)			
1951	1,349,298	1,330,244	76,291	7,299	14,705	2,777,837	3,421,419	81.2
	(48.6%)	(47.9%)	(2.7%)	(0.3%)	(0.5%)			
1955	1,273,942	1,188,058	47,273	12,112	21,869	2,543,254	3,387,536	75.1
	(50.1%)	(46.7%)	(1.9%)	(0.5%)	(0.8%)			
1959	1,260,287	1,245,255	108,963	21,738	31,270	2,667,513	3,413,732	78.1
	(47.2%)	(46.7%)	(4.1%)	(0.8%)	(1.2%)			
1964	1,069,695	1,283,667	200,063	64,044	17,070	2,634,539	3,393,421	77.6
	(40.6%)	(48.7%)	(7.6%)	(2.4%)	(0.7%)			
1966	960,675	1,273,916	172,447	128,474	16,868	2,552,380	3,359,891	76.0
	(37.7%)	(49.9%)	(6.8%)	(5.0%)	(0.6%)			
1970	1,020,674	1,197,068	147,667	306,802	16,024	2,688,235	3,629,017	74.1

Table 3—Votes Cast, Electorate, and Turnout at General Elections 1945–1974 (Oct)<sup>2, 3</sup>  
(Scotland)

General Election	Conservative <sup>1</sup>	Labour	Liberal	SNP	Others	Total Votes Cast	Electorate	Percentage Voting
	(38.0%)	(44.5%)	(5.5%)	(11.4%)	(0.6%)			
1974 (Feb)	950,668	1,057,601	229,162	633,180	16,464	2,887,075	3,656,467	79.0
	(32.9%)	(36.6%)	(8.0%)	(21.9%)	(0.6%)			
1974 (Oct)	681,327	1,000,581	228,855	839,617	7,721	2,758,101	3,686,792	74.8
	(24.7%)	(36.3%)	(8.3%)	(30.4%)	(0.3%)			

<sup>1</sup> Up to, and including, the 1964 General Election the total Conservative vote in Scotland includes votes cast for Conservative candidates and for the National Liberal and Conservative Organisation (i.e. a joint candidate of the Conservative Party and the National Liberal Organisation).

<sup>2</sup> Figures for 1945 adjusted to allow, for two-member seats.

<sup>3</sup> Percentages are of total votes cast.

Sources: F. W. S. Craig, "British Parliamentary Election Statistics 1918–1970", and *Political Companion*.

Table 4—Votes Cast, Electorate, and Turnout at General Elections 1945–1974 (Oct)<sup>3</sup>  
(Wales)

General Election	Conservative <sup>1</sup>	Labour	Liberal	Plaid Cymru	Others	Total Votes Cast	Electorate	Percentage Voting
1945 <sup>2</sup>	316,729	779,184	198,553	14,321	21,884	1,330,671	1,798,199	75.7
	(23.8%)	(58.5%)	(14.9%)	(1.1%)	(1.7%)			
1950	418,668	887,984	193,090	17,580	11,232	1,528,554	1,802,356	84.8
	(27.4%)	(58.1%)	(12.6%)	(1.2%)	(0.7%)			
1951	471,269	925,848	116,821	10,920	4,591	1,529,449	1,812,664	84.4
	(30.9%)	(60.5%)	(7.6%)	(0.7%)	(0.3%)			
1955	428,866	825,690	104,095	45,119	29,594	1,433,724	1,801,217	79.6
	(29.9%)	(57.6%)	(7.3%)	(3.1%)	(2.1%)			

Table 4—Votes Cast, Electorate, and Turnout at General Elections 1945–1974 (Oct)<sup>3</sup>  
(Wales)

General Election	Conservative <sup>1</sup>	Labour	Liberal	Plaid Cymru	Others	Total Votes Cast	Electorate	Percentage Voting	
1959	486,335 (32.6%)	841,450 (56.5%)	78,951 (5.3%)	77,571 (5.2%)	6,950 (0.4%)	1,491,257	1,805,686	82.6	
1964	425,022 (29.4%)	837,022 (57.9%)	106,114 (7.3%)	69,507 (4.8%)	9,377 (0.6%)	1,447,042	1,805,454	80.1	
1966	396,795 (27.9%)	863,692 (60.6%)	89,108 (6.3%)	61,071 (4.3%)	12,769 (0.9%)	1,423,435	1,800,925	79.0	
1970	419,884 (27.7%)	781,941 (51.6%)	103,747 (6.8%)	175,016 (11.5%)	35,966 (2.4%)	1,516,554	1,958,778	77.4	
1974 (Feb)	412,535 (25.9%)	745,547 (46.8%)	255,423 (16.0%)	171,374 (10.7%)	8,964 (0.6%)	1,593,843	1,993,931	79.9	
1974 (Oct)	367,230 (23.9%)	761,447 (49.5%)	239,057 (15.5%)	166,321 (10.8%)	3,785 (0.3%)	1,537,840	2,008,284	76.6	

<sup>1</sup> Up to, and including, the 1966 General Election the total Conservative vote in Wales includes votes cast for Conservative and for the National Liberal candidates, and for candidates of the National Liberal and Conservative Organisation.

<sup>2</sup> Figures for 1945 adjusted to allow for two-member seats.

<sup>3</sup> Percentages are of total votes cast.

Sources: F. W. S. Craig, "British Parliamentary Election Statistics 1918–1970" and *Political Companion*.

Table 5—Profiles of Party Support in February and October 1974 General Elections

		Total Population		Labour		Conservative		Liberal		Other	
		Feb.	Oct.	Feb.	Oct.	Feb.	Oct.	Feb.	Oct.	Feb.	Oct.
		%	%	%	%	%	%	%	%	%	%
Sex:	Male	48	48	54	52	44	44	52	46	56	65

Table 5—Profiles of Party Support in February and October 1974 General Elections

		<b>Total Population</b>		<b>Labour</b>		<b>Conservative</b>		<b>Liberal</b>		<b>Other</b>	
Age:	Female	52	52	46	48	56	56	48	54	44	35
	18–24	11	11	13	11	8	7	14	15	17	18
	25–34	16	16	17	15	14	14	17	21	20	22
	35–44	17	17	17	16	16	18	16	17	27	20
	45–54	18	18	19	20	17	15	17	18	17	11
	55–64	18	18	17	19	20	19	19	16	10	18
	65+	20	20	17	19	25	27	17	13	9	11
Class <sup>1</sup> :	AB	13	13	4	2	24	24	12	15	11	8
	C1	22	22	15	13	29	32	26	24	16	23
	C2	32	32	41	39	24	22	32	33	36	34
	DE	33	33	40	46	23	22	30	28	37	35
Trade Union:	Member	27	28	39	38	16	17	26	23	38	39
	Non- Member	73	72	61	62	84	83	74	77	62	61

<sup>1</sup> The groups AB and C1 can be thought of as being those individuals employed in what are commonly regarded as middle class occupations.

The groups C2 and DE include all those in employment but not included in the AB and C1 groups.

Source: Harris and ORC Election Surveys October 1974.

Table 6—Opinion Poll Accuracy in General Elections

The following is a list of all major poll predictions of general election results.

<b>Actual Result (G.B.)</b>	<b>Gallup</b>	<b>N.O.P.</b>	<b>Daily Express</b>	<b>Research Services</b>
1945				
Con	39.5	+1.5		
Lab	49.0	-2.0		
Lib	9.2	+1.3		
1950				
Con	43.1	+0.4	+1.4	
Lab	46.8	-1.8	-2.8	
Lib	9.3	+1.2	+1.7	
1951				
Con	47.8	+1.7	+2.2	+2.2
Lab	49.3	-2.3	-3.3	-6.3
Lib	2.6	+0.4	+0.9	(+4.1) <sup>1</sup>
1955				
Con	49.3	+1.7	+1.9	
Lab	47.3	+0.2	-0.1	
Lib	2.8	-1.3	-0.6	



Table 6—Opinion Poll Accuracy in General Elections

The following is a list of all major poll predictions of general election results.

Actual Result (G.B.)	Gallup	N.O.P.	<i>Daily Express</i>	Research Services	
1959					
Con	48.8	-0.3	-0.8	+0.3	
Lab	44.6	+1.9	+0.5	+0.8	
Lib	6.1	-1.6	(+2.4) <sup>1</sup>	-1.1	
1964					
Con	42.9	+1.6	+1.4	+1.6	+2.1
Lab	44.8	+1.2	+2.6	+1.1	+1.2
Lib	11.4	-2.9	-3.5	-0.3	-2.4
1966					
Con	41.4	-1.4	+0.2	-4.0	+0.2
Lab	48.7	+2.3	-1.9	+5.9	+1.0
Lib	8.6	-0.6	-1.2	-0.9	-0.3
			Louis Harris	O.R.C.	
1970					
Con	46.2	-4.2	-2.2	-0.2	+0.3
Lab	43.8	+5.2	+4.3	+4.2	+1.7
Lib	7.6	-0.1	-1.2	-2.6	-1.1
1974 <i>Feb</i>					
Con	38.6	+0.9	+0.9	+1.6	+1.1
Lab	38.0	-0.5	-2.5	-2.8	-1.3
Lib	19.8	+0.7	+2.2	+2.2	+1.4
Other	3.6	-1.1	-0.6	-0.9	-1.2
1974 <i>Oct</i>					
Con	36.7	-0.7	-5.7	-2.1	-2.3
Lab	40.2	+1.3	+5.3	+2.8	+1.6
Lib	18.8	+0.2	+0.7	+0.5	+0.6
Other	4.3	-0.8	-0.3	-1.2	+0.1

<sup>1</sup>Error in Liberal and Other vote combined.

In 1970 Marplan (on a U.K. not a G.B. basis) produced a forecast for *The Times* that overestimated Labour's lead by 9.6%.

In Oct. 74 a Marplan poll in the *Sun* overestimated Labour's lead by 6.2%. A Business Decisions poll in the *Observer* overestimated Labour's lead by 1.0%.

Source: *British Political Facts 1900–1975*, David Butler and Anne Sloman (Macmillan 1976).

## APPENDIX V



# APPENDIX VI

## BY-ELECTIONS SINCE OCTOBER 1974

### VOTING STATISTICS

Constituency	Con.	Lab.	Lib.	Nat. Front/National Party	Others	Total Votes Cast	Electorate (turnout in brackets)	Majority	Notes
<b>Woolwich West (26th June 1975)</b>									
February 1974	17,690	20,126	7,833	—	—	45,649	55,767	2,436	Con. gain from Lab. Swing to Con. +7.6%
	(38.7%)	(44.1%)	(17.2%)				(81.9%)	(5.4%)	
October 1974	16,073	19,614	5,962	—	—	41,649	56,351	3,541	
	(38.6%)	(47.1%)	(14.3%)				(73.9%)	(8.5%)	
By-election June 1975	17,280	14,898	1,884	856	503	35,421	56,839	2,382	
	(48.8%)	(42.1%)	(5.3%)	(2.4%)	(1.4%)		(62.3%)	(6.7%)	
<b>Coventry North-West (4th March 1976)</b>									
February 1974	15,431	22,089	—	—	142	39,062	49,124	6,658	Lab. held seat. Swing to Con. +4.9%
	(39.5%)	(56.6%)			(3.9%)		(79.5%)	(17.1%)	
October 1974	11,717	19,205	5,798	—	313	37,033	49,238	7,488	

BY-ELECTIONS SINCE OCTOBER 1974

VOTING STATISTICS

Constituency	Con.	Lab.	Lib.	Nat. Front/National Party	Others	Total Votes Cast	Electorate (turnout in brackets)	Majority	Notes
	(31.6%)	(51.9%)	(15.7%)		(0.8%)		(75.2%)	(20.3%)	
By-election March 1976	13,424	17,118	4,062	986	77	35,667	49,127	3,694	
	(37.4%)	(47.8%)	(11.3%)	(2.7%)	(0.2%)		(72.9%)	(10.4%)	
<b>Wirral</b>									
(11th March 1976)									
February 1974	38,452	22,605	14,123	—	—	75,180	92,219	15,847	Con. held seat. Swing to Con. +13.6%
	(51.1%)	(30.1%)	(18.8%)				(81.5%)	(21.0%)	
October 1974	35,705	22,217	12,345	—	—	70,267	93,109	13,488	
	(50.8%)	(31.6%)	(17.6%)				(75.5%)	(19.2%)	
By-election March 1976	34,675	10,563	5,914	—	773	51,925	92,917	24,112	
	(66.8%)	(20.3%)	(11.4%)		(1.5%)		(55.9%)	(46.5%)	
<b>Carshalton</b>									
(11th March 1976)									
February 1974	24,440	18,750	11,695	—	—	54,885	66,258	5,690	Con. held seat. Swing to Con. +8.4%
	(44.5%)	(34.2%)	(21.3%)				(82.8%)	(10.3%)	

BY-ELECTIONS SINCE OCTOBER 1974  
VOTING STATISTICS

Constituency	Con.	Lab.	Lib.	Nat. Front/National Party	Others	Total Votes Cast	Electorate	Majority	Notes
							(turnout in brackets)		
October 1974	22,538 (45.4%)	18,840 (37.9%)	8,272 (16.7%)	—	—	49,650	66,838 (74.3%)	3,698 (7.5%)	
By-election March 1976	20,753 (51.7%)	11,021 (27.4%)	6,028 (15.0%)	1,851 (4.6%)	499 (1.3%)	40,152	66,865 (60.0%)	9,732 (24.3%)	
<b>Rotherham</b> (24th June 1976)									
February 1974	10,354 (22.9%)	27,088 (60.0%)	7,726 (17.1%)	—	—	45,168	60,770 (74.3%)	16,738 (37.1%)	Lab held seat. Swing to Con. +13.3%
October 1974	8,840 (22.1%)	25,874 (64.6%)	5,350 (13.3%)	—	—	40,064	61,197 (65.5%)	17,034 (42.5%)	
By-election (June 1976)	9,824 (34.7%)	14,351 (50.8%)	2,214 (7.8%)	1,696 (6.0%)	228 (0.7%)	28,313	61,111 (46.3%)	4,527 (16.1%)	
<b>Thurrock</b> (15th July 1976)									
February 1974	17,699	36,217	15,534	—	—	69,450	88,607	18,518	Lab. held seat. Swing to Con. +10.7

BY-ELECTIONS SINCE OCTOBER 1974

VOTING STATISTICS

Constituency	Con.	Lab.	Lib.	Nat. Front/National Party	Others	Total Votes Cast	Electorate		Notes
							(turnout in brackets)	Majority	
	(25.5%)	(52.1%)	(22.4%)				(78.4%)	(26.6%)	%
October 1974	14,986	34,066	12,255	—	—	61,307	89,423	19,080	
	(24.4%)	(55.6%)	(20.0%)				(68.6%)	(31.2%)	
By-election July 1976	17,352	22,191	5,977	3,255	259	49,034	90,729	4,839	
	(35.4%)	(45.3%)	(12.2%)	(6.6%)	(0.5%)		(54.0%)	(9.9%)	
<b>Newcastle-upon-Tyne Central (4th November 1976)</b>									
February 1974	4,180	12,182	—	—	—	16,362	25,023	8,002	Lab. held seat. Swing to Con. +13.7%
	(25.5%)	(74.5%)					(65.4%)	(49.0%)	
October 1974	2,432	10,546	1,716	—	—	14,694	25,156	8,114	
	(16.5%)	(71.8%)	(11.7%)				(58.4%)	(55.3%)	
By-election (November 1976)	1,945	4,692	2,854	181	184	9,856	24,057	1,838	
	(19.7%)	(47.6%)	(29.0%)	(1.8%)	(1.9%)		(40.9%)	(18.6%)	
<b>Walsall North (4th</b>									

BY-ELECTIONS SINCE OCTOBER 1974

VOTING STATISTICS

Constituency	Con.	Lab.	Lib.	Nat. Front/National Party	Others	Total Votes Cast	Electorate (turnout in brackets)	Majority	Notes
November 1976)									
February 1974	17,754	32,458	-	-	819	51,031	70,789	14,704	Con. gain from Lab. Swing to Con. +22.5%
	(34.8%)	(63.6%)			(1.6%)		(72.1%)	(28.8%)	
October 1974	12,455	28,340	6,377	-	465	47,637	71,504	15,885	
	(26.1%)	(59.5%)	(13.4%)		(1.0%)		(66.6%)	(33.4%)	
By election (November 1976)	16,212	11,833	1,212	2,982	5,159	37,398	72,593	4,379	
	(43.3%)	(31.6%)	(3.2%)	(8.0%)	(13.9%)		(51.5%)	(11.7%)	
<b>Workington (4th November 1976)</b>									
February 1974	16,230	24,000	-	-	-	40,230	52,707	7,770	Con. gain from Lab. Swing to Con. +13.2%
	(40.3%)	(59.7%)					(76.3%)	(19.4%)	
October 1974	12,988	22,539	4,728	-	-	40,255	53,101	9,551	

BY-ELECTIONS SINCE OCTOBER 1974

VOTING STATISTICS

Constituency	Con.	Lab.	Lib.	Nat. Front/Nat. Party	Others	Total Votes Cast	Electorate		Notes
							(turnout in brackets)	Majority	
	(32.3%)	(56.0%)	(11.7%)				(75.8%)	(23.7%)	
By-election (November 1976)	19,396	18,331	2,480	-	-	40,207	54,174	1,065	
	(48.2%)	(45.6%)	(6.2%)				(74.2%)	(2.6%)	
<b>Cambridge</b> (2nd December 1976)									
February 1974	24,119	19,443	15,491	-	369	59,872	76,200	4,676	Con. held seat. Swing to Con. +9.9%
	(40.6%)	(32.7%)	(26.1%)		(0.6%)		(78.0%)	(7.9%)	
October 1974	21,790	19,017	11,129	-	885	52,821	75,932	2,773	
	(41.2%)	(36.0%)	(21.1%)		(1.7%)		(69.6%)	(5.2%)	
By-election (December 1976)	19,620	9,995	7,051	700	1,085	38,077	78,153	9,625	
	(51.5%)	(26.2%)	(18.5%)	(1.8%)	(2.0%)		(49.1%)	(25.4%)	
<b>City of London and Westminster South</b> (25th February 1977)									
February 1974	16,950	8,700	6,016	-	213	31,879	51,943	8,250	Con. held

BY-ELECTIONS SINCE OCTOBER 1974  
VOTING STATISTICS

Constituency						Total Votes Cast	Electorate (turnout in brackets )	Majority	Notes
	Con.	Lab.	Lib.	Nat. Front/Na t. Party	Other s				
	(53.2% )	(27.3% )	(18.9% )		– (0.0%)		(61.4%)	(25.9%)	seat. Swing to Con. +9.3%
October 1974	14,350	8,589	4,122	686	–	27,747	52,164	5,761	
	(51.7% )	(30.9% )	(14.9% )	(2.5%)			(53.2%)	(20.8%)	
By-election (February 1977)	11,962	3,997	1,981	1,415	906	20,261	51,159	7,965	
	(59.1% )	(19.7% )	(9.8%)	(7.0%)	(4.4%)		(39.6%)	(39.4%)	

## APPENDIX VII

### LOCAL GOVERNMENT ELECTIONS

The Local Government Act 1972 reduced the number of councils in England and Wales (excluding the Greater London Council area which remained unchanged) from 1,391 to 422. Local government was reorganised into a two-tier system of metropolitan counties and districts and non-metropolitan counties and districts (see Chapter 20).

There are six metropolitan counties in England covering the large Midlands and Northern industrial areas (Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire), all of which are at present (1976) run by Labour-controlled councils. Within these Metropolitan Counties are thirty-six Metropolitan Districts. Of these, nineteen are at present Labour-controlled, fourteen Conservative-controlled, and in three no party has overall control.

TABLE 1: PARTY CONTROLLING METROPOLITAN DISTRICTS IN ENGLAND (1976)

<b>Labour</b>	<b>Conservative</b>	<b>No Overall Control</b>
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TABLE 1: PARTY CONTROLLING METROPOLITAN DISTRICTS IN ENGLAND  
(1976)

<b>Labour</b>	<b>Conservative</b>	<b>No Overall Control</b>
Barnsley	Birmingham	Liverpool
Coventry	Bolton	Oldham
Doncaster	Bradford	Walsall
Gateshead	Bury	
Knowsley	Calderdale	
Manchester	Dudley	
Newcastle-upon-Tyne	Kirklees	
North Tyneside	Leeds	
Rotherham	Rochdale	
St. Helens	Sefton	
Salford	Solihull	
Sandwell	Stockport	
Sheffield	Tameside	
South Tyneside	Trafford	
Sunderland	Wirral	
Wakefield		
Wigan		
Wolverhampton		

There are thirty nine non-metropolitan counties in England, of which at present seven are controlled by Labour, nineteen by the Conservatives, and one by an independent group. There are twelve counties in which no party has overall control.

TABLE 2: PARTY CONTROLLING NON-METROPOLITAN COUNTIES IN  
ENGLAND (1976)

<b>Labour</b>	<b>Conservative</b>	<b>No Overall Control</b>
Cleveland	Avon	Bedfordshire
Derbyshire	Buckinghamshire	Berkshire
Durham	Cheshire	Cambridgeshire
Humberside	Cumbria	Hertfordshire
Northamptonshire	Devon	Leicestershire
Nottinghamshire	Dorset	Northumberland
Staffordshire	East Sussex	North Yorkshire
	Essex	Shropshire
	Gloucestershire	
	Hampshire	
	Hereford and Worcester	
	Kent	
	Lancashire	

TABLE 2: PARTY CONTROLLING NON-METROPOLITAN COUNTIES IN ENGLAND (1976)

Labour	Conservative	No Overall Control
	Lincolnshire	
	Norfolk	
	Oxfordshire	<b>Independent</b>
	Somerset	Cornwall
	Suffolk	Isle of Wight
	Surrey	
	Warwickshire	
	West Sussex	
	Wiltshire	

Within these English counties there are 296 non-metropolitan districts, of which 166 are Conservative-controlled. There are 52 in which an 'independent' group has control, 48 in which no party has overall control, and one (Lincoln) which is controlled by the Democratic Labour Party.

**Wales** is divided into eight non-Metropolitan counties of which four are controlled by Labour (Gwent, Mid-Glamorgan, South Glamorgan and West Glamorgan), three by 'independent' groups (Dyfed, Gwynedd and Powys) and one (Clwyd) in which no party has overall control.

**Scotland** is divided into nine regions of which one (Grampian) is controlled by the Conservatives, two by Labour (Fife and Strathclyde), two by independents and two in which no party has overall control. In addition there are three Island Authorities all of which are controlled by Independent groups. Within the regions are fifty-three districts, of which seventeen are controlled by Labour, four by the Conservatives, one by the Scottish Nationalist Party, sixteen by Independents, and fifteen in which no party has overall control.

In England and Wales the first elections under the new system took place in 1973 although the councillors did not take office until 1974. Councillors are now elected under one of two systems:

- a. The whole Council is elected together. This system applies in non-metropolitan county councils, the G.L.C. and the London boroughs, and also in most of the non-metropolitan districts.
- b. One-third of the Council's seats are vacated each year (except in the year when the county council comes up for re-election). Metropolitan district councillors are elected this way, and the non-metropolitan districts are able to choose which system to adopt (see Table 5 for election timetable until 1979).

In Scotland the new local government bodies were elected in 1974 but did not take office until 1975. All the district councils come up for re-election in 1977 and all the regions in 1978.

## Local Elections 1976

The local government elections held in May 1976 in England and Wales involved all seats on the councils in the non-metropolitan districts and one-third of the seats on the metropolitan district councils in England (excluding Greater London). A summary of party gains and losses released by the Press Association is given below.

TABLE 3: GAINS AND LOSSES 1976 LOCAL GOVERNMENT ELECTIONS

	<i>Gains</i>	<i>Losses</i>	<i>Net Gain/Loss</i>
Conservative	1,834	39	+1,795
Labour	20	1,394	-1,374
Liberals	89	309	-220
Independents	136	542	-406
Other Parties (including Plaid Cymru)	258	53	+205

Owing to the re-organisation of local government in 1973, direct comparisons with previous local elections are difficult, but solely in terms of numbers of seats gained 1976 must rank with the great Conservative local election landslides of 1949, 1967, 1968 and 1969.

### By-Elections since May 1976

Details of gains and losses in local government by-elections (outside the G.L.C. area) in England between May 1976 and February 1977 are given below.

TABLE 4: LOCAL GOVERNMENT BY-ELECTION GAINS AND LOSSES SINCE  
MAY 6th 1976

	<i>Gains</i>	<i>Losses</i>
Conservative	25	9
Labour	2	18
Liberal	5	5
Independent	5	7
Ratepayers	5	2

TABLE 5: LOCAL GOVERNMENT ELECTION CALENDAR 1977-1979

#### 1977

- May 3 Scottish District Elections
- May 5 Greater London Council Elections
- Metropolitan County Elections
- Non-Metropolitan County Elections
- Welsh County Elections

#### 1978

- May 2 Scottish Regions and Islands Area Elections
- May 4 Greater London Borough Elections
- Metropolitan District Elections\*

Non-Metropolitan District Elections\*

Welsh District Elections\*\*

**1979**

May 3 Metropolitan District Elections\*

Non-Metropolitan District Elections\*\*\*

Welsh District Elections\*\*\*

\* One-third of the Council.

\*\* Only in districts which have opted for election by thirds.

\*\*\* One-third of the whole Council.

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