

# Briefing Note

No. 27  
14.7.82.

A PROGRAMME FOR THE '80s.

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In an important lecture given to the CPC Summer School at Cambridge on 3rd July 1982, the Chancellor of the Exchequer discussed policies for the next Administration. He believed that the heart of our approach should be:

- \* First, to tackle the root causes of unemployment.
- \* Second, to reduce the fiscal and regulatory burdens of the State on people and business.
- \* Third, to extend choice as widely and effectively as possible.

Reform and the Labour Market. This was essential if jobs were to be created through regained competitiveness. Over-spending, over-borrowing, over-taxing and inflation had eroded competitiveness. Rising labour costs had compounded this. Excessive trade union bargaining power and restrictive practices had meant falling profits. Jobs had been lost, and investment in tomorrow's jobs reduced.

There was, said Sir Geoffrey, "growing evidence that the link between pay and jobs and the crucial importance of profits are being grasped - at least outside some union leaderships". The Employment Act and the current Employment Bill attempted to restore order and balance to the labour market, and there were arguments for going further towards more democratic and depoliticised trade union structures.

Other inflexibilities needed to be removed. We needed to look again at the operation of Wages Councils, at the need for a revived, deregulated private rented sector in housing, and at the pension rights of early leavers, in order to encourage employment and labour mobility.

Deregulation. Over the years, governments "have bowed to calls from sectional rather than general interests to inhibit and to control". This discouraged enterprise and job creation. Since 1979, price, pay, dividend and exchange control had been ended, as had the requirement on industry for Industrial Development Certificates and Office Development Permits. Enterprise Zones had shown the benefits deregulation could bring. Competition had been encouraged by a strengthening of the Monopolies and Mergers Commission, particularly in relation to nationalised industries. More needed to be done. Sir Geoffrey said: "We need a searching scrutiny of all the regulations which still inhibit enterprise."

Taxation. The basic rate of income tax had been cut in 1979, and the top rate brought into line with other countries. The switch from direct to indirect taxation had encouraged enterprise. The worst features of CTT had been corrected and a radical reform of CGT had moved towards a fairer basis for the tax than the one which had been inherited. The tax treatment of small businesses had been transformed, and many other measures had been taken to help them. Finally, the Government had had significant success in using the tax system to promote wider ownership. Policies on privatisation and on the sale of council houses had reinforced this.

We still needed to look critically at the Investment Income Surcharge, and at the preference given to savings for retirement through institutions as opposed to other means. The poverty trap could only be eased if restraint on public spending allowed tax thresholds to rise.



Financial Policies. Progress on inflation had been very good, but with other countries achieving lower inflation, we could not afford to ease up. The fight against inflation was also the fight against unemployment. Provided public expenditure remained under control, and pay settlements continued to moderate, prospects for sustainable growth in Britain were good.

Public Expenditure. The Government had to contend with the momentum which public expenditure had acquired in the 1950s and 60s. Yet, it was arguable that subsidies in housing, transport, education and health in fact gave most help proportionately to the better off. There was a need to obtain better value for public money spent. Privatisation was one way of achieving this.

Privatisation in Industry. Public opinion had long been opposed to nationalisation, and was coming to realise the benefits which privatisation offered. The Government had shown the way. British Aerospace, Cable and Wireless, the National Freight Corporation, some British Rail subsidiaries, parts of British Steel and various NEB shareholdings had all been sold. BNO's exploration and production activities and the British Transport Docks Board ports would follow soon. There were firm plans for selling British Gas's oil interests, and also British Airways.

"State ownership and control should be replaced or supplemented, wherever sensibly possible, by the discipline and pressures of the market place and by some degree of private ownership", said Sir Geoffrey. Increased competition and liberalisation of monopolies had to be accompanied by progress towards more private ownership.

Privatisation in Local Government. "The fact that, after losing so many of their functions, local authorities are still responsible for some 25 per cent of total public expenditure and unwilling or unable to limit their demands upon the ratepayer, while half their expenditure is met by the taxpayer, is deeply worrying." Sir Geoffrey said that the more private individuals and businesses could take over local government services, the easier the problems would be to resolve.

Privatisation and Social Policy. There were powerful reasons why we must consider how far private provision and individual choice should supplement or replace the role of Government in health, social security and education. In welfare as in commerce, monopoly meant inefficiency. The Government had increased spending on health by 6 per cent in real terms. Another improvement in health care had come from increased private health insurance, and this should be encouraged. In the social services, it had been estimated that voluntary effort exceeded that provided by local authorities. The Government had encouraged charitable giving, but other ways of encouraging voluntarism were needed. The 1980 Education Act increased parental choice, but other developments - the voucher system and student loans for example - needed to be considered. Again, the objective was more value for money and more choice.

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Note: Sir Geoffrey Howe's lecture will be published later as a CPC pamphlet.

LMR/JLS