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CABINET OFFICE,
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Chancellor of the Duchy of Lancaster

27 July 1984

Dear Robin,

Following this morning's discussion, I enclose two outline drafts:

1. A general introduction.
2. A section dealing with some of the ground covered this morning.

The first draft was written before the meeting and may not fit in easily to the kind of structure the Prime Minister was contemplating.

All the figures of course need checking.

Yours,
Arthur

COCKFIELD

F E R Butler Esq
PS/Prime Minister
10 Downing Street
London SW1

Labour Party P.L.
Unemployment R. 7 on - nullified
Coal

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Industrial P.L.
Achievements P.L.
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Labour Party's Record of Opp^t

Thirteen months ago, the voters elected this Government with the largest overall majority since 1945 and the largest number of seats since 1935. They condemned the Labour Party to the smallest share of the popular vote in its history as a national party and the highest number of lost deposits in its history. The House has been reminded today just why the voters rendered that verdict.

Labour Party

The rt hon Gentleman's speech was full of his usual rhetoric. Indeed as I listened to him, I concluded, not for the first time, that Lord Wilson was wrong. The language of socialism is not the language of priorities; it is the language of hyperbole. At its core, however, like all the rt hon Gentleman's rhetoric, it was full of sound and fury, signifying nothing. The truth is that the party the rt hon Gentleman leads is bankrupt: bankrupt of ideas; bankrupt of principle; and bankrupt of courage.

It is a Party -

Let me remind the House. The rt hon Gentleman leads a party which claims to support democracy but which condemns the Nottinghamshire miners who have voted democratically to remain at work and have done so in accordance with their union procedures.

It is a party which claims to support freedom but which regards people who choose not to join trade unions as, in the words of the Leader of the Opposition "Freeloaders and scroungers".

It is a party which condemns violence in theory but supports the mass picketing which leads inevitably to violence.

It is a party which cannot tell the difference between the violence of the mob deliberately organised to scare and

intimidate and the necessary use of force by the police to prevent that violence from achieving its end.

It is a party which supports militant union leaderships against their own members and against moderate trade unions.

It is a party which has allied itself to the wreckers against the workers.

? Appearance,
The rt hon Gentleman and his party have in these past weeks given a loud and clear message. As far as they are concerned, militancy pays; violence pays; intimidation pays. I believe that the rt hon Gentleman will live to regret giving that message. The forces to which he has consistently lent his voice and support, culminating in his speech on 14 July, have no more love for Parliamentary democracy than for the jobs and homes of those ^{in their own union} who oppose them. Sooner or later, when he has ceased to be of value to them, they will turn on him, just as surely as they have turned on the police, on the steel workers, and on working miners and their families. Those who seek to ride the tiger will one day suffer the consequences.

The economy: Labour's policies

The RHG and his friends have bankrupted their Party; their economic policies would bankrupt the country. It is clear that the RHG has learnt nothing since the debacle of the first two years of the last Labour Government, a ~~Party~~ ^{period} which, I recall, the former leader of the Opposition described as particularly successful. Indeed, the present leader of the Opposition specifically disowned the policies introduced after the IMF insisted on the abandonment of Labour's wilder fantasies.

Writing in Tribune on 6 May 1977, he said:

"The policies which have brought us rejection from friends and made us carrion for our enemies must be dis^{carded}~~regarded~~ and the unapologetic policies of Socialism must be installed."

What we have heard from the RHG today was nothing more and nothing less than a repetition of the discredited policies of 1974-76 which brought this country to its knees and drove it to the IMF.

The policies of the Labour Party remain what they always were - nationalising what they do not own, spending what they do not receive and imposing controls to cover up the mess which results.

They say nostalgia is not what it used to be. The Labour Party is the Party of nostalgia and it too is not what it used to be. It has become a Party which fears change and which seeks to turn its back on the world. Its economic policies, like those for Europe and defence, are simply incoherent - the empty rhetoric of unfulfillable promises.

The RHG claims to be able to put Britain back to work by borrowing an extra £6 billion to finance public spending - a mortgage he calls it. But unlike the housebuyer he borrows it again the next year and the year after that until he is borrowing just to service the debt. What credibility can he have when criticising the present level of interest rates when his policies can result only in rates higher still.

Such policies would end as they did in 1979 with the country's finances in disarray, with overseas debt doubled, with inflation a rising trend and with wage settlements out

of control and the blank cheque of the Clegg awards still to be presented.

We spent our years in Opposition examining the experience of our time in government and drawing the lessons from it. By contrast the Labour Party has learnt nothing. They would not merely repeat their errors they would compound them.

Economic Strategy

Contrast this with the consistent strategy we have followed since 1979 - a strategy based on sound money, lower inflation and a return to enterprise, efficiency and competition.

Our first aim has been to break for good the dangerous trend towards ever higher inflation, higher inflation born from successive governments dodging hard economic choices. Inflation is bad for profits, bad for investment, bad for growth and bad for jobs.

To get inflation down we have pursued firm and prudent financial policies within the framework introduced by my rt hon Friend the Foreign Secretary and most recently reaffirmed by my rt hon Friend the Chancellor of the Exchequer. Firm control of the money supply and lower public borrowing as a proportion of GDP are the only way to ensure sound money and secure a long term trend towards lower interest rates.

The adjustment to lower inflation and a more efficient economy has been painful for some - the more painful because the neglect of previous governments ensured that fundamental problems became more entrenched. But low inflation has been

essential to restoring the economy to a path of sustainable growth and prosperity. And so it remains.

Cutting inflation even lower remains the overriding priority, with stable prices our eventual goal.

Our freedom to move against the tide of overseas interest rates depends on sticking to these policies. Countries like Germany and Switzerland have long succeeded in keeping their interest rates well below American rates - but only by earning an international reputation for sound money and low inflation. We inherited a situation where UK rates were almost invariably higher than US rates - by fully 4 per cent on average over the lifetime of the last Labour Government. That has changed. A few weeks ago our short term interest rates were nearly 3 per cent lower than a comparable US rates. Damaging industrial strikes have temporarily robbed us of this advantage though long term rates still remain significantly lower. But the underlying performance of the economy clearly justifies a much lower level of interest rates.

Achievements

Our policies against inflation, against irresponsible finance and for improved efficiency are paying off across the board. The Budget forecast this financial year is for a PSBR equivalent to about two and a quarter per cent of GDP - compared with over 5 per cent in 1978-79.

The 12 month rate of increase in the RPI has been brought down to around 5 per cent, well below the Community average of 6½ per cent. Of course, the pace of further progress can be affected by unexpected events here and abroad. Some of these - like the rise in mortgage rates - may tend to interrupt, for a time, progress towards lower inflation. Other factors - like recent trends on commodity

prices - should be helpful. But whatever the fluctuations in the short run - and my rt hon Friend the Chancellor will be publishing a fresh forecast as usual in the autumn - we can expect the firm underlying trend towards lower inflation to continue through this Parliament. And - however quickly we reach staging posts along the way - the ultimate goal must remain zero inflation.

Whilst succeeding with responsible anti-inflation policies at home, we have been able to reduce government debt overseas. Official external foreign currency debt is now only about half the \$22 billion inherited in 1979.

Improved efficiency is showing through in industry. Productivity in manufacturing rose by around 6 per cent in both 1982 and 1983 and now stands about 13 per cent above its pre-recession peak. Unit labour costs across the whole economy rose less than 3 per cent in 1983 compared with 15 per cent in 1979 for example. But our leading competitors are doing better still. We need to improve further.

Rising productivity has brought rising profits. The real rate of return for industrial and commercial companies could be the highest for a decade. Profits have risen 40 per cent in nominal terms during the last two years but they need to go on improving. How much better to have profitable companies putting money into the economy than the loss making nationalised industries taking billions out.

Since the trough of the recession - three years ago now - GDP has been growing at nearly 3 per cent a year. GDP is at an all time high - well above its level before the recession - and the indications are that healthy growth will continue into 1985. On the latest figures, manufacturing output was up 3½ per cent on a year earlier.

Rising profits and output are now being accompanied by

rising investment. In the first quarter of this year, fixed investment across the whole economy was up 10 per cent compared with a year earlier. And manufacturing investment has been increasing healthily, showing an increase of 11 per cent in the six months to March.

Unemployment

The rt hon Gentleman has expressed with great eloquence his concerns about the challenge which unemployment creates for our society. This is a concern which is felt just as deeply on this side of the House. Of course unemployment is a tragedy and a waste of resources. Like the rt hon Gentleman, I would banish unemployment tomorrow if it were within my power to do so. But Governments cannot cure unemployment. If they could, why did unemployment rise under every Labour Government?

All his feeling and passion cannot disguise the fact that he does not understand how unemployment has arisen nor how it can be cured. The roots of unemployment lie in the suppression of enterprise, the stifling of competition and the shackling of market forces which have blighted our economy for 30 years. The way back to more jobs lies not in the spend, spend, spend of the Party opposite nor in their web of controls and intervention. It lies in rekindling that spirit of enterprise, thereby improving our ability to compete in the world. Our competitiveness has improved by 20 per cent since 1981 but after its disastrous fall in the 1970s when we paid ourselves far more than our competitors for producing far less, that improvement must be continued.

① First, we must cut business costs, and here the Government has a major contribution to make. "In our Manifesto we promised to abolish the National Insurance Surcharge in the lifetime of this Parliament. Mr. Speaker, we wasted no time, for NIS has been abolished in the first

*This year budget reform to
restructure Corporation Tax*

session."

②

For many businesses rates are an even bigger burden than Corporation Tax. We have in our first Session put the new Rates Act onto the Statute Book. Even before that the average increase in rates was 5.5 per cent the lowest for 10 years, lower than in any year of the Labour Government. Next year we can do even better.

✓

Secondly, we must create the climate in which enterprise and initiative can flourish. We must reduce the burden of taxation and change its structure to leave more of what our people earn in their own pockets to spend and save as they choose. We will hold public expenditure down so that with a growing economy the additional resources created flow to the private sector, to generate still greater wealth. We have made a start; tax thresholds are already up by 16 per cent in real terms since 1979. Corporation Tax is being reformed with lower rates and greater incentives for investment that is genuinely profitable.

Thirdly, we must strengthen the forces of competition, to put the customer on top. For industry will earn its keep in the world only by producing the goods customers want at prices they can afford. In the last Parliament we dismantled Labour's panoply of controls and in this Session we have made further advances, announcing the end of the solicitor's monopoly of conveyancing, measures to bring down the costs of optical services, and exciting proposals to bring new life to our bus services.

Fourthly, we have started to widen the ownership of property and assets, for it is upon this foundation that enterprise and a free society are built. I know this will not be welcome to the RGH for he has said:

"We cannot remove the evils of capitalism without taking its source of power, ownership."

But in one sense he is right - ownership is indeed a source of power which is precisely why it should be with the people and not with the state; which is precisely why we are conducting the largest programme of de-nationalisation ever. In the last year alone Enterprise Oil, Sealink, Wytch Farm, INMOS and Jaguar have passed into independent ownership. We are well on course for the de-nationalisation of British Telecom and British Airways in the coming year. Most fundamental of all, three-quarters of a million families are buying their own council houses, a policy given new impetus recently by the Housing and Building Control Act.

Fifthly, we must embrace change with enthusiasm, producing new goods and services as new tastes develop, harnessing the new technologies generated by the advance of science. The Party opposite are the custodians of the museum society, in which the industries of yesterday are lovingly but expensively preserved.

Sixthly, we must improve the education and training of our young people to equip them for the changing world they will face. My rt hon Friend, the Secretary of State for Education has brought forward major proposals to raise standards in our schools. For those leaving school the Youth Training Scheme, the best of its kind in Europe, provided 350,000 places last year. The Government kept its promise that by Christmas 1983 all 16 to 17 year olds leaving school would have either a place in further education, a job or a training place. We offer that guarantee again in 1984. The good news is that trainees from the scheme are finding jobs. Virtually all of the construction industry's 17,000 trainees are expected to find jobs. The same is true in Sainsburys and the clothing industry. In June 1984 unemployment of those under 18 was

24,000 down on a year ago.

Above all, it is the improved working of markets that will be the main-spring of growth in output and employment, And no-where is this more true than in the labour market. It is no accident that the US with a much more flexible and responsive economy has a better record than Europe in creating new jobs. Over the past 10 years 15m. new jobs have arisen in the US while employment has fallen across Europe.

✓ X The latest figures on unemployment are undeniably disappointing but other indicators suggest a strengthening in the labour market. Vacancies are up for the fourth month running. The number of people in work has risen by 260,000 over the past year; the first increase since 1979. 71,000 of that increase are self-employed, reversing a trend of many years. But this rise in the number of jobs is working against the tide of demographic factors. For example, the number of people of working age rose by over 200,000 last year and 175,000 this year and there has been an increase of over 1m. since 1978. This repeated growth in the labour force will continue for another 4 or 5 year. In addition, more married women are seeking, and finding, part-time work.

Where markets are allowed to work new jobs can be created in abundance. In the service sector there has been an increase of 335,000 jobs over the past year - 87,000 in retailing and distribution, 82,000 in banking, finance and insurance, 53,000 in hotels and catering and 49,000 in social services.

The claim of the Party opposite to represent the interests of the unemployed is totally hollow. They are the Party which support every major wage claim no matter how extravagant. They oppose every effort to restructure industry to meet changing markets. They and their union

It is the market economy which will provide the resources to pay for the social services we need. Over the past year, we have:

- increased retirement pensions, child benefit, supplementary benefit and mobility allowance in line with inflation, holding them at record levels;
- continued to increase the number of patients treated while reducing waiting lists;
- increased the number of doctors, dentists and nurses while bringing down the numbers of other workers in the NHS;
- continued improvements in the pupil/teacher ratio , the expenditure per pupil, in the number of under-fives in nursery places and in the number of 18 year olds entering further education;
- financed record home improvement grants, 10 times higher than in 1979. Private housing starts are at the highest level for 10 years.

Mr. Speaker, this is a record to be proud of, which stands comparison with that of any previous government. But we can sustain these improvements only by increasing our industrial performance.

COAL

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- Applications for coal conversion were running at record levels.

Now all that is changed:

- The investment programme has been held back and even the new Selby pit has been picketed:
- Miners have lost over £380 million in wages:
- Many pits are in danger of collapse and six faces have been lost.
- There have been more withdrawals than applications for coal conversion grants in the last three months.

What a tragedy for the industry! What a tragedy for the miners and their families who are suffering considerable hardship in a strike which is putting their jobs and communities at risk, not defending them.

That is why the leadership of the NUM, having three times failed to call a strike by democratic means resorted to undemocratic means to call this strike.

Every area which balloted voted against a strike under the rules of the NUM. Despite that, several of those areas and every other area were instructed to strike by the NUM. As one of the leaders of the union put it at the time: "We won't be constitutionalised out of a strike". Small wonder that the union leadership simply ignored the plaintive and naive cries of the leader of the Opposition when he told us on 12 April that "A national ballot of the National Union of Mineworkers is a clearer and closer prospect."

This strike was started by manipulation of the union

rules; it has been maintained by violence and intimidation.

We have seen up to ten thousand so called pickets massed to scare and if necessary attack workers in other industries going about their lawful business. Such picketing is a clear contravention of the TUC guidelines and those issued in 1974 by the National Union of Mineworkers itself and subsequently endorsed by the rt hon Member for Blaenau Gwent in 1975. I hope therefore we shall hear today from the rt hon Member for Sparkbrook a clear condemnation of mass picketing, and an endorsement of the 1974 NUM rules that the number of pickets in any local situation was not to exceed six.

We also have seen deliberately organised assaults on the police. Worst of all we have seen violence, threatened and actual, and intimidation directed against working miners and their families. Trade unionism had its historical roots in the desire of working people to join together democratically to fight for better conditions and for human dignity. What would those early trade unionists, especially in the National Union of Mineworkers, with its great democratic tradition, have thought of the sight this week of stone-throwing mobs attacking the homes and families of fellow miners. The vast majority of members of unions will condemn this perversion of trade unionism.

Those responsible for these tactics have failed in their objectives to close down the steel industry; to prevent the movement of coal; and to scare working miners into joining the strike. For that we have to thank the police who, more than ever in this dispute, have earned the title the best police force in the world. But the violence and intimidation has taken its toll. There are, I believe, many thousands of miners who would like to return to work but are deterred from doing so by fear of violence. If the leadership of the NUM are confident of miners' support, why do they not reduce their pickets in accordance with the TUC

guidelines and their own rules. I hope that later this evening the rt hon Member for Sparkbrook will urge them to do so.

This strike has been sustained by violence and intimidation. It has been fuelled by lies.

- There is the lie that Britain produces the cheapest deepmined coal in the world when coal from the United States and Australia can be landed here, even with the cost of shipment, more cheaply than our mines can produce. British coal costs the electricity industry £45 per tonne. American coal costs their industry £29.

- There is the lie, first used in February, repeated several times since, that there were only eight weeks stock of coal left at the

power stations, when twenty weeks later there remain still many times that.

There is the lie that thousands of men will be made redundant when there will be not a single compulsory redundancy.

- Above all, there is the lie that the industry is being butchered when there is more investment in real terms than was ever contemplated by a Labour Government.

The 23 million non-striking members of the working population whose jobs are not subsidised to the tune of £130 per week are entitled to ask what this dispute is about. It is this. After seven days and 35 hours of talks, the

only point at issue is the NUM demand that pits should remain open whether or not they are beneficial to the industry.

This is a new and totally unreasonable demand. It was not in Plan for Coal. Nor was it accepted by the last Labour Government. For example, the tripartite report which endorsed the NCB Plan for Coal in 1974 said:

"inevitably some pits will have to close as their useful economic reserves of coal are depleted."

That report was signed, amongst others, by the then Secretary of State for Energy, Mr. Eric Varley, and by the hon. Member for Midlothian.

That report went on to emphasise that:

"the value to the country of every ton of coal that can be produced at a competitive economic cost is clear."

It was, if may say so, an excellent report.

The last Labour Government did not only acknowledge the principle that uneconomic capacity must be closed. They enshrined it in legislation. In the Coal Industry Act of 1977, passed when the hon. Member for Chesterfield was Secretary of State for Energy, Section 6 provides that:

"The Secretary of State with the approval of the Treasury may, out of money provided by Parliament, make to the Board such grants as in the opinion of the Secretary of State will further assist in the redeployment of the manpower resources of the Board and the elimination of uneconomic colliery capacity."

And, of course, uneconomic capacity was closed under the last Labour Government. To take just two examples, Craig Merthyr pit was closed in 1978 despite having 3-4 years of coal life and in the same year Langwith colliery in North Derbyshire was closed despite having 1.5 million tonnes of coal left and despite an appeal by the local branch of the NUM to the then Secretary of State for Energy, the rt. hon. Member for Chesterfield. Indeed, during the rt. hon. Gentleman's stewardship, 22 pits were closed and 17000 men became redundant, on far worse terms than are available now.

The principle that grossly uneconomic pits should not remain open if they are not beneficial to the industry is therefore not a new one. Indeed the Leader of the Opposition appeared to endorse it when he was asked in a radio interview on 20 May about the definition of exhausted pits. He replied:

"I think that a better word is unworkable. It is a much more practical application and it does embrace not only the geological termination of a colliery, but also the point at which the colliery becomes unsafe to work in and in which cost considerations can clearly be made, both in human terms and financial terms."

How, one might ask, does that differ from the NCB's proposal on when pits should be closed?:

"Where a colliery has no further mineable reserves that are workable and which can be beneficially developed such a colliery shall be deemed exhausted."

Since then, the rt. hon. Member for Salford East has

given us another version of the Opposition's policy in a debate on 7 June. He sought to attack the Government on the grounds that there had been too much investment in new capacity and not enough in old. He promulgated Orme's law, that bad pits must drive out good. Instead of being spent on new, productive capacity, taxpayers' money without limit must be lavished on propping up existing pits whether they are losing £10 per tonne, £50 per tonne or in the case of some pits at present over £90 per tonne. If the NCB did indeed follow such a suicidal policy there would indeed be three kinds of pit: exhausted pits; unsafe pits; and bottomless pits.

Perhaps the rt. hon. Member for Sparkbrook will clear up the mystery of Labour's policy on coal. We are entitled to know whether they have now repudiated the policy of the rt. hon. Member for Chesterfield that uneconomic capacity should be closed.

Unlike the Party opposite, this Government faces facts. We cannot go on for ever producing coal at a price only a third or a quarter of what it costs to mine. We cannot go on denying workers elsewhere in the economy the benefit of the cheap energy which will enable them to compete throughout the world and create jobs in this country. We are not prepared to write the blank cheque on the taxpayer which the leadership of the NUM and the Labour Party are demanding.

This strike does not need Government intervention to be resolved. The offer which the NCB has made to the miners is fair and reasonable, and offers an excellent future for the industry. Hon. Members opposite know that full well. So too do the 60,000 people still at work in the coalfields. So too do many thousands of those on strike who are prevented from returning to work by thuggery and intimidation. Why else have the leadership of the NUM

refused to put the NCB offer to a properly conducted democratic ballot if they did not fear that their political strike would fall apart. I hope the Leader of the Opposition will join me in urging them to change their minds. I believe that if they did, this strike could end tomorrow.

It may be that the leadership of the NUM will persist in misleading the mining communities. It maybe that the strike continues. If so, let no one be in any doubt as to the resolution of this Government in resisting this assault on jobs, on property, on families and on our democratic institutions.

Peroration