

Prime Minister.

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PUBLIC SPENDING - THE ECONOMY

N. L. W.
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Background

In the ensuing public expenditure round it is important to preserve the tax cutting strategy for the lower paid whilst avoiding a damaging row over the amount of money available for sensitive services, especially education and health.

Tax revenues are buoyant. The contingency fund is generous and could be reduced. The privatisation programme could be expanded. Given the sharp decline in international inflationary pressures, some extra borrowing could also be countenanced.

Suggested Stance

You could allow £2.5 billion from the fiscal adjustment and reduction in the contingency fund, £1.5 billion from extra borrowing, and asset sales of an extra £1 billion. That gives £5 billion to split between spending and lower taxes. If £4 billion of this is required to move immediately to 25% standard rate tax - perhaps with the reduction phased during the course

of the 1987-88 fiscal year to reduce the first year's cost - there is still £1 billion or so available for additional spending.

Privatisation

£6 billion a year is a feasible target. The programme has faltered - the combined effects of BA, BL and now Royal Ordnance has encouraged the Opposition again who now think the government is losing its resolve on privatisation.

It could be rebuilt with Gas, BAA, BA, BL (now under Graham Day), Water, BREL, BR Properties, Bus, Rolls Royce and parts of BSC. As long as each is explained and a public competition organised where a public offering is not going to be used, they are feasible. The monopolies have to be subject to effective regulation and competition.

Health Spending

This spending should be targeted on those areas where it can do most good. Waiting lists are too long for certain kinds of surgery. The money should only be advanced with a clear statement of its intended use to cut these lists - although guaranteeing this is difficult in a devolved health service -

and an incentive could be built in for its release to strengthen the hands of the better managers in the service. This new money could be given to the new General Manager of the NHS and his appointment signalled as a "turning of the tide." (£500m) Roy Griffiths would be ideal and could be persuaded by you to take on the job as GM with suitably enhanced powers. Somehow we need to arrest the endless stream of articles in local and national newspapers which claim that we put tax cuts above good health.

The idea that all of the problems in health are presentational is wrong. People now believe the doctors lobbies in London and the South-East asserting that money is so tight that people are having to be turned away even from life-saving heart surgery. Thanks to bad management, that is happening.

Jobs, the Cities and Infrastructure

You could also spend £500 million of carefully controlled monies on a programme to rebuild the inner cities, cleaning them up, making them more enterprising, and offering further job opportunities to the long term unemployed.

The aim should be to facilitate and pump prime a new array of private sector development projects. The success of the Channel Fixed Link and the Dartford River Crossing competitions shows what can be done if government is prepared to push the private sector into responding. Next could come projects like the Severn Bridge, the Manchester Ship Canal (through BWB for transport and leisure) and Terminal 5 at Heathrow. DoE, DTp and D Energy could be asked to produce a list of ideas.

Why not announce redevelopment competitions for a dozen areas in the depressed inner city areas and use a Docklands/ City Action Teams approach to push through the conclusions? You would not have all the same powers as in the LDDC but the competitions could define the scope for local authority involvement, the vacant land to be used, and the assistance that would be given to ensure planning difficulties are minimised.

I attach copies of pieces I have written for the Guardian and Listener on Wider Ownership and Enterprise. The ideas in the Guardian might help put the Opposition on the spot.

A. R. Wood

Popular capitalism is coming of age. You might not hear too much about it in the local but its been sighted in the heavier news papers and can now be heard on political platforms. You were probably watching football the other evening when Diverse Reports tried to define it. Its been invented to bring together three different thrusts of the British government's crusade. First there is the belief in choice and the benefits of competition. Scecond is the emphasis on an enterprise culture to create jobs and to regenerate the cities. And third is wider ownership, bringing more of the means of production and distribution into the hands of the people.

Not that there is anything new about capitalism itself. The Elizabethan merchants and the Victorian workers could have told you all about it. It still has many practitioners and supporters, as a visit to the local shopping centre or a trip to the Costa Brava will show you. Enterprise keeps on bubbling up in the most unlike places and guises. Some of its most recent roguish exponents have turned up in Mexico as part of England's camp-following, sporting DHSS Tee shirts and living on the proceeds of their Social Security claims. The problem has been in the 1970's that the penalties on legitimate enterprise and capitalism were so high, that enterprise had little chance away from the back streets and tax dodges of the black economy.

The case for competition is simple. If you allow anyone to enter a market as a buyer or a seller you should maximise choice and freedom. It's when you are face to face with a monopoly that you are most likely to encounter shoddy service and high prices. Monopolies are good at killing innovation, imagination and flair. By 1979 the U.K. economy had been gripped by powerful cartels, near monopolies and statutory monopolies granted to a range of nationalised industries. Far from protecting the customers, all so often the customers seemed to be on the losing end. They were left waiting for the train that didn't arrive, paying the 'phone bill which had just doubled or taking the whole day off in case the electricity man would call.

Gradually these cartels and monopolies are being brought to book or broken down. Air fares tumbled and services expanded when domestic flights were opened up to competition. There was a 70% increase in coach travel when the same thing happened to the inter-city buses. The decision of the banks to take on the building societies cut the mortgage queues. The solicitors came under pressure to reduce their conveyancing fees substantially, whilst the estate agents fought themselves to lower commission rates as the climate pointed them in the direction of competitive pricing. When parts of the telephone monopoly were broken long-distance call chages plummeted, a wide range of new telephones came on offer and a large number of businesses started new specialist services using telephone lines.

The enterprise culture is designed to allow hundreds of thousands of small businesses to grow, businesses that we need to create

thriving markets and generate enough jobs to cut the employment totals. One of the main strengths of the Japanese economy, which has avoided high employment western style, is the large number of competing small businesses. They supply at a good price and on time to the few large trading houses and assemblers that have become fierce competitors throughout the world. It's the small businesses which innovate more successfully, which can spot the next opportunity and can adapt to rapidly changing circumstances.

In Abingdon in Oxfordshire enterprise was rebuilt on the old MG works following its closure. On the surrounding land a large business park was erected with a host of new businesses and technology, bringing in the new jobs needed to fill the gaping hole left by the failure of the car industry. In Docklands public sector stimulus and pump priming has brought a torrent of private capital into the most expansive development site anywhere in Europe. 5,500 acres are being transformed with new housing, shopping centres, hotels, office blocks, leisure facilities, a railway line and an airport. It shows that city rejuvenation can come if enterprise is given its head and, if government and local government, instead of getting in the way by trying to do everything themselves, allow others to come in to solve the problems of dereliction. It is also beginning to happen for the same reasons in Hull, in the eastern area of Glasgow and in parts of the West Midlands.

Wider ownership is the means of changing attitudes and bringing more people into the wealth creating process. It has had its successes with a big expansion of employee shareholdings through employee and management buy-outs. The National Freight Consortium's employees bought their business and transformed it. Now the Vickers Shipyard has followed suit. There has been a surge in employee share schemes with 1 1/4 million people getting a stake in their company. And the government's sale programme has played its part with, for example, 222,000 British Telecom workers acquiring a share in their business.

Wider ownership is also being powered by the popularity of general share issues in the privatisation programme. British Telecom attracted almost 1 million first-time shareholders. British Gas should take this further. Changes in the pensions world are helping too. New freedoms enable many more people to control and manage their own individual pension savings if they wish. Few realise they already are part owners of much of British industry and commerce through their employer's pension scheme and their life assurance contracts. It is part of the challenge to bring more direct experience of ownership to those who are doing so much saving.

The Stock Market is rapidly being changed. Once a market for the wealthy and the well-to-do, it's becoming a market for all. Share shops are opening up in department stores and on the high street. Banks, Building Societies and the Post Office are looking at different ways of helping the saver and bringing the saver into contact with buying and selling shares. The rejuvenated new issue market is attracting a wide following. The press and TV is devoting more attention to family finance and to equity for

everyman. Personal Equity Pools, share options, personal pensions, and a variety of new tax reliefs are beginning to force the pace of wider ownership.

Many are sensing that there are big changes afoot in attitudes and realise that enterprise does have an important role to play in solving the unemployment problem. The combination of competition, new enterprise and wider ownership can break down old demarcation barriers. It can overcome conflict between Them and Us which is so much a part of the British industrial heritage. It can widen freedom, expand choice and encourage the men in the DHSS Tee shirts to come back into the legitimate economy, to make their own contributions to the prosperity of the nation.

The lessons of Docklands need to be applied more widely. Cut through the planning delay in the inner cities, release vacant land and old buildings for use, assist private investors to move in and rebuild them. The lessons of Abingdon need to be learned as well on Tyneside and in Liverpool. There may be local academics with ideas, local services that need providing, scope for rehabilitating old industrial properties and releasing them as cheap space for new enterprise. The examples of National Freight and Baxi Partnership show that good relations between managers and managed do not need to be a Japanese prerogative. There is a way, an English way, of bringing harmony and success to a large business. In the Channel 4 Diverse Reports programme last Wednesday the new shareholders spoke for themselves about what it meant for them, how it had changed relationships at work and improved the spirit of all concerned.

Six million people are now thought to be shareholders in the U.K. compared to under three million in 1979. It's a big advance. But it's only a beginning if the U.K. economy is to be transformed by new patterns of ownership, competition and small business.

John Redwood presented Channel 4 Diverse Reports on Wednesday, 18th June. He was head of the Prime Minister's Policy Unit 1983-85. The programme was produced by John Mair.

3, 10, 17 Jun

AGENDA

Guardian

John Redwood

Is there an inner masochism in the Labour Party, that keeps many of its spokesmen wedded to the idea that public enterprise is best? Do they still remember with affection the days when Labour ministers could wearily wend their way to the despatch box to announce yet more redundancies from a nationalised industry? Do they pine for the years when taxpayers' money was granted to "protect jobs & services", only to be spent on redundancy payments and labour displacing machinery? Are they never tempted to point out that this government has carried on in the same bad old way with British Coal and BL, busily allowing men to be sacked with the public chequebook? Jaguar and National Freight have broken away from this and offered some hope of protecting old jobs and creating new ones.

It's becoming a more damaging attachment as the months roll by. The workforces of British Shipbuilders, British Coal and British Leyland have been axed by the bi-partisan policy of lavish subsidy and lavish sacking, followed now for over a decade. So those industries no longer represent the strength they once did. Meanwhile, the long march of wider ownership has crossed the Trent & Tyne as well as the Thames, and the new experiments with employee shareholdings and buy-outs are looking evermore promising. The latest interpretations, re-interpretations and hesitations in Labour's policy towards the widening of share ownership suggests the party's senior spokespeople are worried that popular capitalism may be coming of age.

Opposing the opportunity for poorer people to own assets of their own is not, of course, a new position for Labour. For many years rhetoric and spleen was vented against tenants being able to buy their Council house. Along with that other left wing party, the Liberals, Labour said it would reduce the stock of Council houses and make homelessness worse. The new owners would probably default on their mortgages, would probably not look after their homes and so in the end the derelict properties would return as a charge to the taxpayer, they said.

I never understood how selling a house to a tenant who was likely to stay living there for many years anyway would make homelessness worse. You'd have to bulldoze it or make it a second home for that to be true. The mortgage burden often became easy as wages went up & rents soared. And far from most owners running down their properties, most set to with speed to improve them. The new front doors, coach lamps, refitted kitchens, extensions and porches give the privately owned houses on Council estates a distinctive air.

Once Conservatives grasped that the thing to offer was a right to buy for each tenant, rather than a demand that all Councils should sell, the resistance crumbled. Labour and Liberals alike had to change their minds about council house sales. Although even now opposition policy is to leave it to local councils to decide. That means you'd have to be a tenant in a Conservative area to keep the right to buy!

The Council house saga must make policy designers think long and hard about wider share ownership. The starting point is the same: hostile opposition. Labour and Liberal politicians opposed the sale of British Telecom. Yet 96% of the employees, 222,000 people, became shareholders against the advice of their Union. And almost 1 million people became shareholders for the first time through that issue.

Labour's stance was that it would compulsorily renationalise British Telecom and take away any gains people had made, whether they were employees, widows or that amorphous group of "city speculators". There was no mention of compensation for interest forgone. There was no thought of the plight of the buyer a year or so later who paid much more for his share and who might then face a special confiscatory "tax" on its surrender to the government. It all looked decidedly vindictive.

It also looks more and more incredible. The scale of privatisation is now so great that the cost of renationalisation, even on spiteful terms, would break the bank. Is it really worth and extra 5p on income tax for three years? To say nothing of the extra 5p on income tax anyway to make good the lost privatisation receipts.

So Labour is thinking again. Can the Labour movement go on opposing privatisations which involve a high degree of employee participation? Unity Trust, the Trade Unions' own merchant bank, now sponsors employees buy-outs. Labour's MPs backed employee buy-outs for parts of BL during the argument over the GM bid. Shouldn't Labour welcome the Vickers/Cammell buy-out with the employees and local communities involved? Shouldn't it be developing its own proposals to go further in this direction?

Labour's attitude to competition also needs a little clarification. The opposition spokesperson on Privatisation, Oonagh Macdonald, condemns the sale of public utilities like Telecom and Gas because they are monopolies, and monopolies, especially private ones, are bad things. There is sense in this view. But why then oppose so many of the measures designed to break or limit those monopolies through introducing competition or proper regulation? Labour should follow Dr. Macdonald's logic and support Mercury, an alternative telephone system, press for suspension of the postal monopoly, and promote airline and bus competition.

Many people in the Labour party no longer believe that Herbert Morrison's dream of public monopolies working benignly in the public interest came true. They see a continuing gulf between managers and men, a bad strike record, and a failure to design good enough products to sustain jobs. So what are they proposing in its place, if they do not like the new privatised version?

If Labour is serious about reducing the disparities of wealth and status in this country can it go on opposing every scheme that seeks to widen ownership? Giving to the many the privileges of the few - is the only thing on the present political agenda that offers any hope of justice for the many. We have had years of

sharply redistributive taxation, and it has only subsidised incomes, not created capital.

The Liberals are caught in a similar dilemma. They claim to favour Employee shareholdings and a new partnership based on wider ownership. Yet when they kept a Labour government in power they took only one ineffectual step to assist employee share schemes. Since 1979 they have opposed many of the bolder moves to wider ownership.

They now propose a move backwards to a Bullock style bi-partisanship in industry. They seek an upper tier board where employees vote in some directors. It's a line which would undermine many of the rights and values of the new shareholders. It would turn many a boardroom into a kind of hung council with political interests fighting for the soul of the business whilst jobs were lost and opportunities missed. In short, it would not work.

There are now around 6 million shareholders in this country. Its a large number to antagonise by wrong policies. Seeking to take away their new possessions is not a surefire way to win their hearts and minds. Seeking to tamper with shareholder rights and with management by promoting employee rights over their heads is not a clear winner either.

By the time of the next General Election there could be several million more shareholders, and many others might have a reasonable expectation of joining in. Many know that savings give security for the future, and wish to participate directly or indirectly in the wealth creating process of the country. That's why now is the time for the opposition politicians to do as Labour is doing - ask themselves where they go from here. Are they still better off opposing the popular parts of popular capitalism, or should they be seeking to drive it further and faster, in the interests of greater freedom and greater industrial harmony? I am sure these thoughts passed through Oonagh Macdonald's mind, as she watched Diverse Report's Popular Capitalism on Wednesday night.

John Redwood, Head of the Prime Minister's Policy Unit, 1983-5, presented Channel 4 Diverse Reports on Popular Capitalism on June 18th. The programme was produced by John Mair.