

From: The Rt. Hon. Lord Shackleton, KG., PC., OBE.,  
6 St. James's Square, London, S.W. 1



8th October, 1982

A. J. Coles, Esq.,  
Prime Minister's Office,  
10 Downing Street,  
London, S.W. 1

Dear Mr. Coles,

We spoke on the telephone regarding certain figures that appear on Page 25 of our Falkland Islands Economic Study 1982 giving per capita expenditure on an annualized basis, as compared with expenditure in the Highlands and Islands.

There is a danger that too literal an interpretation of these figures could give rise to misunderstanding. We were, however, at pains to make sure that the costs of our recommendations were in no way minimized. These figures could be presented in a somewhat different way, which perhaps allows a fairer comparison. I think this ought to be in the hands of Ministers who may be faced with questions on this particular aspect. I now enclose a note on this.

There is also a numbering error on Page 25, 2.14.7. - Line 7. The figures 2.14.3, 2.14.4 and 2.14.5 should read Tables 2.14(a), 2.14(b) and 2.14(c). A correction has been circulated to Cabinet Office.

I am copying this letter also to Sir Anthony Acland and Roger Westbrook in the Falkland Islands Department at the FCO.

I also thought it was just worthwhile enclosing a copy of a letter I wrote to the Economist, in reply to a particularly silly article (also attached).

SHACKLETON

Encs.



## PROPOSED DEVELOPMENT EXPENDITURE FOR THE FALKLAND ISLANDS

On the last page of the Recommendations section (2.14.7, page 25), the Report computed annualised per caput expenditure from total development expenditure of £30.6-35.6 million [1] recommended for the 1983-88 period in relation to the Falkland Islands' population. This figure was compared with that aid/ recurrent expenditure support provided by Government for St Helena and for the Western Isles of Scotland. In doing so it was recognised, and pointed out, that the figures were not directly comparable, but it was felt that such an indicator did set the recommended development expenditure in some context, and made the point that the sums were not inconsiderable in relation to the size of the population.

However, in spite of the caveats entered in the second paragraph on page 25, we believe there is a danger that the figures given and comparisons drawn may give rise to too literal interpretations and misleading conclusions. Certain points should therefore be made.

First, as well as certain of the £30.6-35.6 million monies being for non-development expense such as restoring the external air service, over half the £3,245-3,786 per Falklander figure derived from the costs £14-19 million estimated (see 2.14.3) for effecting transfer of farm ownership. This expenditure cannot really be considered in the same light as other grant aid, since it would be money used by FIDA for purchasing an asset. This asset would over time generate revenue, either through farm sales or tenancy rent income. Only £0.5 million of such return was shown to be recovered in the 1983-88 period - perhaps a rather conservative estimate. Such revenue would, after 1988, provide a source of locally generated funds for future development expenditure. Some of it could even be repatriated to the UK Exchequer.

If the cost of achieving transfer of farm ownership is excluded, the annualised per caput expenditure figure is equivalent to about £1,875 per Falkland Islander.

Secondly, we have subsequently been able to refine our estimate of per caput public expenditure figure for the Western Isles. For 1982-83 the figure is likely to be near to £900 per person (the report states £645 for 1980-81), and this figure does not include £20 million for agriculture/ fisheries development funded from the EEC available for the 1982-87 period (equivalent to about £115 per head).

We believe that awareness that such modifications could reasonably be made to the report's figures on per caput expenditure is necessary if the recommended Falklands expenditure programme is to be evaluated in a proper light. It does underline the dangers of drawing too close comparisons of such figures. As was mentioned in the Report, expenditure on exploratory fishing in the offshore Falklands and South Georgia areas was not included, as such expenditure should be assessed in a wider economic context than simply the development of the Falkland Islands.

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[1] The section reference to 2.14.5 on line 7 is wrong. It should be 2.14.2, followed by 2.14.3 and 2.14.4.



# LETTERS

## Welfare

SIR—You write that housing played no part in the Lambsdorff or the think-tank papers (September 25th) and argue “money would be switched from financing inflation of secondhand property to financing new employment if tax subsidies on future mortgage contracts would apply only to new-built houses”.

Is this reform supposed to apply to all mortgages? If it is, then you are advocating the massive redistribution via falling house prices from those who currently own houses, and you will probably increase significantly the price of new houses.

Or are you advocating that existing mortgages should continue to draw existing subsidies, and the policy should only apply to new mortgages? If you are doing this then you are disenfranchising many of the young and those on lower earnings who at some stage in their lives hope to buy a home.

Wouldn't it be fairer to begin a policy of cash ceilings on amounts of money given to subsidising mortgages and all the other non-personal tax allowances?

I have tried to argue the case for this approach in *Inequality in Britain: freedom, welfare and the state* (Fontana 1981). Such an approach gives a transitional period where any redistribution between different groups of the population is made over time. In

the case of the subsidy to house purchasers by way of mortgage interest relief the policy would work in the following way. The government would tell the building societies that it was prepared to continue a subsidy of £2 billion a year or whatever this year's sum turns out to be. From next year, and every succeeding year, building societies would have to spread this sum amongst an ever-growing number of mortgagees.

If such a policy was applied to all non-personal tax allowances the sum raised would be considerable, and the amount of personal income coming into tax would grow cumulatively each year. This would give the government the opportunity of raising the tax threshold, increasing child benefit and cutting the rates of tax.

The advantages of adopting a non-paternalistic tax system are considerable. It allows people to choose what they spend their money on rather than influencing their pattern of expenditure by way of tax bribes. You have often pointed out what a difference this approach can make to the granting of tax cuts. By way of illustration you cite a standard rate of 13p in the pound paid for by the abolition of all tax allowances. While not advocating that policy, your figure does illustrate the room for manoeuvre a chancellor can gain from a policy of cash ceilings on non-personal tax benefits.

FRANK FIELD

House of Commons, SW1

## The asbestos lawsuits

SIR—You will forgive us drawing attention to your facile, cosmetic treatment (September 18th) of the problems of the asbestos industry. Your lead sentence—“That asbestos fibres cause mesothelioma and other killing diseases is no longer disputed”—leaves the casual reader with the impression that perception has burst very recently into the consciousness of the medical profession and the asbestos industry. But:

● Life insurance companies in America stopped offering life policies to asbestos workers in 1918 because of their documented, short-life expectancies.

● By 1931, the British government of the day had become sufficiently concerned to intro-

duce the asbestos industry regulations and to implement a form of compensation.

● Asbestosis aside, researchers were studying the links between exposure to asbestos and cancer in the 1930s.

Colombo,  
Sri Lanka

GLENYS &  
WARNER TROYER

## The Falklands

SIR—It is not, I think, very desirable for the author of a published report to react to every criticism that may appear in the press. However, since some of your readers may take seriously your rather frivolous article (Down Mexico's Way, September 18th), I feel bound to correct some of the more misleading statements.

The article speaks of pouring in “development money” of £30m-35m, and implies that this is rather an expensive way of creating 200-240 new jobs. The writer cannot really have read the report where it is made perfectly clear that the object is to preserve and develop the economy, which otherwise is in danger in due course of collapse, and is not for the purpose of creating new employment. The report, however, does go on to say that “if all the projects come to commercial fruition, and such optimism is probably not justified”, this might create a further 190-240 jobs altogether, in several years' time and after the end of the major construction period. This job increase could only arise if the population drain is reversed, and some immigration is allowed. In any case, about 50% of the proposed expenditure is for the purchase of farms, and about £8m is for infrastructure (roads, etc)—the absence of which is a major constraint on development.

Referring to the proposal for a Falkland Islands Development Agency you suggest that the islanders would be “larded with British overgovernment in 1984-88”. It is precisely at this time that the Falkland Islands government will need strengthening professionally if the changes we propose are to be effective.

In referring to absentee landlords you say that they “unsurprisingly have not been investing enthusiastically during the wool slump”. This ignores the simple fact stated clearly in this report (as also in our 1976 report, when wool prices were high), that very little investment had taken place in the previous ten years.

The reference to the annual “salary” of £55,000 for the chief executive is also misleading for,

in addition to the accommodation expenses which are mentioned, it fails to refer to pensions, insurance, holiday fares to and from the islands, etc. General experience in industry is that the ‘on cost’ upon salary for overseas postings is often at least 100% of basic salary. In referring to the apparently enormous injection of spending arising from the presence of the garrison, you have failed to note the closely argued section on the garrison in which the total effect is calculated to be of the order of only £300,000-500,000.

The article rightly refers to the problems outlined in the report arising out of the presence of the garrison, and also to the revenue from philately, but I find it hard to believe that *The Economist* is serious in its recommendations for action to regenerate the internal economy dangerously near to collapse. Particularly barmy is the suggestion that soldiers on six month tours of duty would be expected in their spare time to establish local industries such as salmon runs. The islanders, we are told, would “buy any of the soldiers' enterprises that work”. One is bound to speculate over the reaction in the Scottish Highlands, let alone the Falkland Islands, to this novel approach to economic development to small islands. Perhaps, on reflection, I have taken the article altogether too seriously.

House of Lords, SW1 SHACKLETON

## Euro-quangos

SIR—The economic and social committee of the European communities was attacked in your columns (September 11th) in the fashionable hunt for quangos to be axed. The economic and social committee groups representatives (24 of them from Britain) of employers, trade unions, farmers, trade, consumers and the professions. It advises the commission and the council of ministers on European draft legislation.

It thus has the possibility of exerting influence at a crucial stage. The committee's cost averages out to less than 5p per citizen per annum.

It is surprising that *The Economist* should encourage a policy which implies that the citizen, who, God knows, has little enough access to influence on community decision-making, will lose even this lever and should leave a clear field to privately-financed lobbies.

Brussels

ROGER LOUET

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## BRITAIN

Foot, in which she refused to recall parliament, Mrs Thatcher points out correctly that average nurses' pay has risen 61% between March, 1979 and April, 1982—which is 12% above the inflation rate for these years and well above average wage increases in private industry. However 31% of the nurses' rise was a result of an award by the Clegg comparability commission whose reports Mrs Thatcher learned to rue.

More recent pay awards to the nurses have barely kept pace with inflation. One reason why the nurses are holding out for more than the government's 7.5% offer is that they have seen big "comparability" rises eroded before. Nevertheless, most of those "striking for them" next Wednesday will not know that the nurses have done better than most during the past three years (the possibility that the day-of-action might be averted flickered on Thursday afternoon amid confused reports that the government was about to make a new offer).

The other part of the government's case is that 41,000 more nursing staff have been taken on during the Thatcher years and that the standard working week has been reduced from 40 hours to 37.5 hours. There is some cheating here. The government uses an artificial measure of nurses employed, calculated by dividing the total number of hours clocked on (by full and part-time nurses) by the number of hours in a "standard" week. In the jargon, this gives a "whole-time equivalent" number of nurses. The department of health and social security, however, has not compensated for the 1980 reduction in the standard week to 37.5 hours. When that is done, the increase in nurses employed becomes 11,000, or a 2.6% increase compared with the government's claim of a 9.5% rise.

Even so, 11,000 extra nurses—at a time when unemployment has been soaring over 3m—means that this is not a profession which market forces in 1979-82 have been grinding into the ground. Even the more accurate, modified version of the government's figures does not suggest that the nurses should be any more of a special case than the government has already made them.

## Falklands

### Down Mexico's way?

British blood and treasure were rightly poured out to save the Falkland Islands from the aggression of Argentina's military dictators. Even British doubters coalesced behind Mrs Thatcher when one of



Now for hyper-inflation?

the compromise proposals mooted by the then American secretary of state, Mr Alexander Haig, was that an Argentine brigade should participate in the policing of islands which until then had had two policemen and no crime. Now Lord Shackleton's report to Britain's prime minister this week suggests that the islanders should be larded with British overgovernment in 1984-88 during what must be the wrong five years.

In this time there will anyway be a military garrison of around 4,000 imposed on the 1,813 islanders who in 1980 had an estimated national income of £4.2m or £2,319 per head. The impact of the garrison will not only be felt on the 26 single women under 30 on the island, but on local wage inflation, demand for services, materials, the lot. The local spending power of 4,000 troops alone will presumably be above the previous £4m-odd capacity of gdp, and about £6m a year of reconstructions as new construction is also to be suddenly piled on top of that. This is pre-eminently a period when other activity on the Falklands should not be force-fed.

Instead Lord Shackleton wants these to be years when the British taxpayer will also pour in "development money" of £30m-35m. He estimates this would create about 200-240 jobs in what will temporarily be these grossly overemployed islands, which means around £150,000 per job or £16,500 per islander or (as Lord Shackleton prefers to put it) £3,245-3,786 per islander per year. He wants a Falklands Islands Development Agency (Fida) to be established to buy up all the sheep farms from the absentee landowners, who, unsurprisingly, have not been investing enthusiastically during the wool slump; Fida would sell or lease the farms to islanders or new outsiders who would be expected to invest during the wool

slump at a time of maximum local inflation of every sort of cost.

Fida would also import a chief executive at an annual salary (including accommodation expenses) of £55,000 and a development officer at £35,000 a year; they are urged to busy themselves with "drawing up development objectives, plans, priorities and budgets", and advise on "broad fiscal policy".

Their first piece of fiscal advice should be to put a lot of the Shackleton report in to a pending tray. Their second should be to ask London (as Shackleton sensibly hints) that as many of the troops as possible should be married and that many of the ancillary services, like the Naafi, should be staffed by volunteer single women. Preferably, any new industries and immigrants attracted should also be biased towards women's work.

The Falklands should take some advantage of the opportunities the war has created: for example, the islands already get over 14% of national income from selling stamps. Tourism should expand (including, before 1988, allowing Argentines to visit the places where their sons fell).

Some of the soldiers should be encouraged to set up local industries in their spare time; maybe building that salmon run, other fish ranching, acting as contacts back home for a new and distinctive Falklands knitwear industry. Because of their early retirement, soldiers need to be encouraged to learn to run small businesses. There should also be schemes to allow the islanders to buy any of the soldiers' enterprises that work. But, after General Galtieri failed to turn the Falklands into an Argentina, there is a danger that implementation of any plan with the full inflationary potential of Lord Shackleton's could explode the islands into a miniature Mexico.





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Argentina  
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10 DOWNING STREET

*From the Private Secretary*

12 October 1982

SHACKLETON REPORT

I attach a copy of a letter which I have received from Lord Shackleton, together with a copy of its enclosures. The first enclosure presents in a different way figures which appeared in Lord Shackleton's study and which enabled per capita expenditure in the Falkland Islands to be compared with expenditure in the Highlands and Islands.

You may think that this information should be circulated to members of OD(FAF).

A. J. COLES

Richard Hatfield, Esq.,  
Cabinet Office.