

INTERVIEW WITH SIMON JENKINS: SATURDAY, 17th NOVEMBER

We have prepared some briefing for you on Heseltine. I hope that you may also find your draft article (submitted separately) of use.

Could I suggest one basic point?

This is not an election about Europe but about who is fit to lead the Conservative Party. Europe provides the excuse used by your opponents - not a great point of principle. What most MPs care about is who is more likely to win the election: they want unity - and the prospect of our views winning the day in Europe.

Heseltine is a throwback - he and Kinnock as Peter Kellner's article points out are really twin souls. But whereas Kinnock at least recognises that Labour has to appear more market-friendly, Heseltine wants us to move towards Socialism.

Consequently, I believe that if possible you should talk about:

- (a) what makes you the right person to go on leading the Party;
- (b) what disqualifies Heseltine;
- (c) your vision for the future - more choice, wider

home ownership etc;  
(d) why we will win the Election;

- rather than concentrate on Europe to the exclusion of all else.

The attached briefing is arranged as follows:

- Flag A: Points to make on Michael Heseltine
- Flag B: Supporting evidence on his Industrial Policy
- Flag C: Supporting evidence on his views on the Community Charge/Education
- Flag D: Supporting evidence on his views on Europe
- Flag E: Article by Peter Kellner comparing Heseltine to Labour
- Flag F: Article by Noel Malcolm in The Spectator pointing out similarities between Heseltine's and Labour's industrial policies.



ROBIN HARRIS

A

MICHAEL HESELTINE

- POINTS TO MAKE

1. PERSONALITIES

The way to judge personalities is to look at their behaviour - particularly their behaviour under pressure. You know how I behave. You know how Michael behaves.

2. DIVISIVENESS

Michael Heseltine has divided the Party by forcing a contest.

He has divided it by criticising the Government since he left it.

He would divide it if he led the Party - for most Conservative MPs do not agree with him about economic policy or Europe. I doubt whether the Party's most senior and talented figures could serve under him.

I only hope he will stop dividing the Party once he is beaten in this contest.

3. THE RECORD

Any Government in power for 12 years has to fight to some

extent on its record. But how could a Heseltine-led Conservative Party do that? His whole case is that our approach has been wrong.

But if he deliberately tried to distance himself from the record and to come up with a new approach the Party would not be credible.

The folly of choosing Michael Heseltine as leader in order to win is quite simply that if - and I don't believe it - the British people want to vote for a change they will vote Labour anyway.

#### 4. NO CLEAR CHOICE

We won the 1979, 1983 and 1987 General Elections because we set out a distinct, clear alternative: individual freedom, less State control and intervention, more choice.

But Michael's views are barely distinguishable in key areas from those of the Labour Party:

- he favours an interventionist industrial strategy;  
(See Flag B)
- he seems unconcerned about the sovereignty of Parliament;  
(See Flag D)

- he wants more centralisation e.g. of education.

(See Flag C)

5. HESELTINE AND KINNOCK

But the similarities with Labour are even greater.

(See Flags E & F)

Labour are vulnerable because:

- they have preferred gloss to the substance of clear policies;
- they make promises without thinking them through;
- they would spend money they haven't got today and hope economic growth will pay for it tomorrow.

We will have to press each of those points home. But how could Michael Heseltine do that?

- he is the glossiest politician in politics - a man for whom style has always taken first place to substance;
- he has come up with a 'solution' to the poll tax

which (a) he himself rejected earlier this May and  
(b) would mean huge cuts in other services or a  
rise of 3 pence in the basic rate to pay for it;

(See Flag C)

- when asked how he'd avoid those difficulties, he  
says he would rely on growth.

Surely the Conservative Party should have learned that you  
don't win power by 'aping' Labour!

16.11.90

Issue: Industrial Policy

- Assertion:
- in favour of a more interventionist/ corporatist approach
  - little to distinguish his ideas from those of Mr Kinnock.

Evidence:

- "The health of British industry depends crucially, in many fields, on it having Government as a partner". (from "Where There's a Will", 1986, P.97).
- "What is missing is the conviction, the consistency and the machinery to mobilise owners, managers, financiers and the workforce to work together within a coherent industrial strategy. There can be no such strategy while there is no centre for its formulation within government." (ibid, P.106)
- "They (the Japanese) have done the very thing which we pretend no government can do: they have targeted the world's market place and, with a combination of domestic competition and taxpayer support, they have come to capture an increasingly large share of it. Do we really think our companies can win when the consumer appetite in Britain is so eagerly fed by imports from a country whose economic and industrial effort is so single-mindedly directed? (ibid, P.94))
- "There are industries, such as the steel industry, the car industry and the airframe industry which cannot be allowed to fail if Britain is to remain an advanced economy. Ideally the Government should not own them but has an

ultimate responsibility to determine if they have a role in the economy." (ibid, P.111))

- "I urge the wholehearted recognition of the need for and the adoption of a British industrial strategy .... The present Government ... pays out large sums for research and development, although these should be larger". (ibid, p.129)
  
- "We ought to have had a much more powerful Department (DTI) to counter the power of the Treasury". (Marxism Today, March 1988) (Shades of George Brown's Department of Economic Affairs and current Labour policy)
  
- Actions speak louder than words. As Defence Secretary Michael Heseltine:
  - tried to force Westland into a merger against the will of that company's own board. When he failed he resigned from the Government;
  
  - continued to allow taxpayers money to be poured into Nimrod;
  
  - ~~placed orders for frigates on grounds of social policy rather than cost-effectiveness.~~

108.AD



Issue: Community Charge/Education

- Assertion:
- wants to bring education under central control as a means of reducing Community Charge.
  - impulsive idea, ill-thought out and opportunistic.

Evidence:

- "... there is a fallback position that rests on transferring educational costs in whole or in part to central government over a period of time as economic growth makes this possible" (Interview, Times (15 November 1990)).
- Contrast with previous stance when he said in Parliament:  
  
"Any of my Rt Hon and Hon Friends who believe that there is a way forward by switching resource expenditure to central Government are exciting the prospects for local authorities to do exactly what we in this Government have spent 10 years trying to avoid - increasing the rate of public expenditure." (Hansard Issue 1146, Col 617).
- "The burden of Community Charge could, of course, be cut by transferring the funding of some services to central Government, but in practice the Government might find itself blamed for poor standards and find it difficult to resist pressures for ameliorating expenditure. Income tax might have to rise; and again, there is little to ensure that local authorities, relieved of expenditure, will reduce the Community Charge as opposed to seeking out new opportunities to spend." (The Times, 10 May 1990).

HESELTINE IS AGAINST WIDENING THE COMMUNITY  
FOR THE FORESEEABLE FUTURE TO INCLUDE EASTERN EUROPE

- Mr Heseltine has in recent months consistently opposed calls for inclusion of the new East European democracies in the community.
  
- But in his book, which came out before the revolutions in Eastern europe, Mr Heseltine said there could only be two criteria for new applicants: that they should be both democratic and European.

## ANTI ENLARGEMENT :

“  
... But let me flag a warning: the more we widen the membership of the Community, the more we are forced to compromise by allowing for the weakness or backwardness of the economies of potential members, the more the momentum will slow. The risk of enlargement is the risk of compromise. The more the compromising, the greater the economic price and the larger the missed opportunities.”

... That brings me to our future relationship with Eastern Europe.

... There can be no case for slowing our own progress to enable other countries to catch up. In eastern Europe there are painful adjustments to be made. It is impossible to overstate the psychological damage that Marxist theory has imposed on their economies. There is just no experience of the market place as we know it, its disciplines or its price mechanisms. There are not managers experienced in exercising financial judgement or taking market decisions. Aid we will make available; but not to sustain the indefensible inefficiencies of the present system. Aid must be used to speed change and ameliorate the human stress involved.”

Speech to the  
KÖNIGSWINTER CONFERENCE,  
CAMBRIDGE  
(29 MARCH 1990)

HAMBURG SPEECH

# Heseltine appeals to sceptics and supporters of EC unity

By Andrew Fisher in Hamburg

MR MICHAEL HESELTINE yesterday presented a vision of Europe designed to appeal to both supporters and critics of closer unity.

He came out against views recently expressed by Mrs Thatcher about the European Community's political and economic future. He made clear that his view of Europe was evolutionary and that he was neither a federalist nor a forceful proponent of monetary union.

In an obvious swipe at the prime minister's reluctance to give up government control of monetary policy, he called for the restoration of the Bank of England's independence to beat inflation and strengthen Britain's hand in European monetary negotiations. He said Mr Nigel Lawson, the former chancellor, had drawn up such proposals a year ago.

He also opposed efforts to increase the size of the EC at this stage to include the poorer countries of eastern Europe, newly liberated from Marxism. This goes against Mrs Thatcher's notion of a widening, rather than a deepening, of the EC.

"Full membership for the eastern European countries would open the door to economic refugees on a huge scale. No western democracy could cope with that."

Europe's greatest contribution to stability would be to enhance the prosperity of the EC and help the poorer coun-

tries to the east, which were queuing up to join the Community. "It would be folly, indeed, to lower our standards, or to slow our pace."

Mr Heseltine was speaking at a conference organised by the Kangaroo Group of European parliamentarians. He declined to answer questions and left Hamburg in time to be at the House to hear Sir Geoffrey Howe's resignation speech.

Mr Heseltine made clear his view that Britain should be involved in important EC decisions, rather than standing apart. But he emphasised that he saw the EC as a club - "increased political co-operation certainly, but not a political federation". He did not expect any political structures to emerge that would submerge the instincts of national sovereignty.

It was not only in Britain that a sense of history and a loyalty to tradition was strongly associated with national achievement. "If the chancellor of Germany and the president of France portray their relationships as driving towards the idea of political union whilst retaining the substance of political power at a national level, we should recognise just what the alternative has always been before we mock their determination to portray their relationships in so benign a way."

Citing Britain's inability to influence the original creation of the Common Agricultural

And he again rejected the Downing Street call for the emerging democracies of Eastern Europe to link up with the EC. That would bring huge new economic problems, wreck the labour market and 'open the doors to economic refugees on a scale no Western democracy could cope with'.

DAILY MAIL  
14-11-90

FINANCIAL TIMES 14-11-90

BUT APPARENTLY, IN HIS BOOK, IN FAVOUR ...

But which countries should be admitted? There can be only two criteria: successful applicants must be both democratic and European. 'We seek nothing less than all Europe,' Winston Churchill declared as he spread one of his large canvasses before his audience at The Hague Congress in May 1948. 'We welcome any country where the people own the Government, and not the Government the people.' !

And to a meeting of the United Europe Committee in London a year earlier he said: 'We seek to exclude no state whose territory lies in Europe and which assures to its people those fundamental rights and liberties on which our democratic European civilization has been created.' Within these confines, every application must be judged by its possible impact on what the Community is already about. The closer an applicant comes to accepting existing policies and structures the better.

THE CHALLENGE OF EUROPE

- CAN BRITAIN WIN?

(p 208)

## HESELTINE ON FIGHTING FOR BRITAIN'S INTERESTS

- Mr Heseltine may balk at your fighting for Britain's interests: but in his book he writes:

'Each of the Twelve Member States has national interests for which its elected leaders will fight; and in the end although compromise will resolve the most bitter battles, each knows that the harder he fights the more satisfactory that compromise is likely to prove'.

There is nothing ignoble about this cautious approach. At every step, legitimate national interests will be at stake. Each of the twelve member nations has interests for which its elected leaders will fight; and, although in the end compromise will resolve the most bitter battles, each knows that the harder he fights the more satisfactory that compromise is likely to prove. It is therefore to be expected that each country will approach the new Europe with a greater or lesser degree of caution.

THE CHALLENGE OF  
EUROPE - CAN BRITAIN  
WIN? (P 215)

## HESELTINE ON FEDERALISM - PRO OR ANTI?

- Mr Heseltine said in his speech in Hamburg on 14th November that he was against federalism: he wanted 'increased political co-operation certainly, but not a political federation'.
- But in his book, Mr Heseltine says quite the opposite: 'There is no escaping the fact that a fledgling federation is emerging, however the dictionary definition of this emotive word may be stretched to pretend otherwise. Many may not like it, but it cannot be wished away. It would be better to come to terms with the changes...'



We have federalism by stealth, whether because national electorates cannot be told the truth or are not trusted to understand it, or because their elected leaders have failed to comprehend what they have assented to.

- There is no escaping the fact that a fledgling federalism is emerging, however the dictionary definition of this emotive word may be stretched to pretend otherwise. Many may not like it but it cannot be wished away. It would be better to understand and come to terms with the changes which have already come about, and which continue apace, if we are to safeguard those interests most important to us in Britain, such as influencing Community expenditure by demanding value for money.

THE CHALLENGE OF

EUROPE - CAN

BRITAIN WIN? p. 19

## HESELTINE'S PROPOSAL FOR A 'EUROPEAN SENATE'

- Mr Heseltine has proposed a European Senate, drawn from national Parliaments, which would 'share the European Parliamentary function' with the European Parliament. It would have the same powers as the European Parliament.
- He also wants a Cabinet Minister for Europe.

The direct involvement of national parliaments in the democratizing of the Community can be effected by creating an upper House of the European Parliament *from within the membership of our national parliaments*. I would however depart from the American precedent by having an unequal distribution of upper chamber seats, based on already established proportions. At present, larger countries such as Britain have 10 votes on the Council of Ministers, where there are 76 votes in all. This system of weighted voting, together with the right of even the smallest member state to nominate a Commissioner, ensures a satisfactory balance of power between the weaker and stronger members. On established proportions Britain could have 20 'senators' in a 'senate' of 152 members – larger than the 100-strong United States Senate but roughly in proportion to the larger size of the Community's population. The position of the new bi-cameral Parliament in relation to the Council, the Commission and the Court would remain unchanged.

Such an innovation would mean a shift of power from national governments to national parliaments but, since power has been shifting steadily in the other direction for a long time, this would be no bad thing. Governments should be reminded from time to time that it is not

they who are sovereign but parliament. If the British House of Commons can find twenty or so members to make up a Cabinet, it could just as easily find from its ranks twenty 'senators' to watch over its sovereign interests in the European Community.

There is no special virtue in a minister going off to Brussels on the morning flight. Parliament has no say in his appointment, no chance to weigh his qualifications before he sets off and, when they try to question him, he can hide behind collective government responsibility and say very little. If, however, the senate and its committees consisted of nominated members of national parliaments, the picture would be very different.

There are several ways in which nomination could come about, ranging from election (under any one of several systems) to government selection: and national parliaments would rightly insist on choosing independently. In Britain, a system of nomination by Parliament, similar to the appointment system for the existing specialist select committees, would probably command support. The wishes of the government would be met. The whips would influence events, as they do in every nook and cranny of parliamentary life – but only in the initial setting up. Thereafter members would serve for a parliament at least, and would be representative of and answerable to Parliament rather than to government. But governments would be wise to use their patronage judiciously, for those despatched will need skill and experience to win for Britain in the European corridors of power.

The new senate would enjoy the same power as the existing European Parliament; its agreement would also be required for European legislation. This would again enhance the influence of national parliaments.

Information is power and governments have power because ministers have the back-up of their departments. But it would be a foolish government which withheld information from a senator when he needed it. Our twenty senators would need access to as much national information as possible; but, being permanent, they would also have access to the stream of information upon which European decisions are based. They would be an integral part of the informed political life of the Community and of the domestic parliaments as well.

Above all, such a change would bring European affairs into the mainstream of national political life. The debates in the senate would be open. European political decision-making would not only become the concern of Westminster but would also in consequence begin to

## CREEPING FEDERALISM

attract the fuller attention of the media and would be much more widely understood. Public opinion would be given a better chance to form its own views on what was going on and would be better able to judge the wisdom of political decisions.

There is another step, which has a sound precedent, this time in British practice, to which we should revert and which would enhance parliamentary accountability while going some way to remedy the weakness of departmental ministers who are available only part-time for their European responsibilities. The Foreign Secretary has overall responsibility for Britain's relations with the Community but no member of the Cabinet is under greater pressure as he travels the world attending to British interests. A second Cabinet minister should therefore be appointed to support him in the Foreign Office but with responsibility for the Community. Such an appointment would serve several purposes: the minister would represent parliamentary opinion in the round to other governments, could keep watch for any unnecessary delay in the ceaseless negotiations and would take an active interest in the development of European policy and in the detailed expenditure of our money.

From little acorns, great oaks grow. By treaty we are committed to the European Community and, in 1986, we gave a powerful new momentum to the business of making it work. That was our free choice, as it was for all of our European partners. Each of them will exploit the multiplying opportunities to the full. The rules to which we have all subscribed are scrupulously fair. The treaties allow each signatory the same opportunities; what they cannot do is prescribe the extent to which the member states, separately or jointly, will exploit those opportunities. That is for us.

THE CHALLENGE  
OF EUROPE. CAN  
BRITAIN WIN?

(pp 36-37)

## HESELTINE ON EMU AND A SINGLE CURRENCY

- In his book, Mr Heseltine says 'no unified market can exist without a single currency'.
- But he is unclear as to how this would come about.
- In his Hamburg speech on 14th November, he spoke in terms of a decade and promised it would be subject to veto by national Parliaments. but we 'might accept the umbrella legislation leading to ultimate union'.

16.11.90

No truly unified market can exist without a single currency. We in Europe have twelve different ones and, so long as divergent economic policies are reflected in exchange rate adjustments, a single common currency is unattainable. As we have seen, however, Europe has successfully evolved a parallel 'currency', the European Currency Unit, or ecu.

THE CHALLENGE OF EUROPE  
- CAN BRITAIN WIN?

(p. 91)

- • • This typically British approach might present fewer difficulties if it were for Britain alone to decide – but, of course, it is not. Somewhere between this evolutionary approach, which waits upon the market place, and the politically more challenging and bolder continental approach of establishing a framework to guide the market, we will no doubt find a compromise. Britain must be wary lest the cautious approach proves unacceptable to our partners, who may then go on without us, creating organizations to suit their own financial and monetary institutions. As Sir Nicholas Goodison, a former chairman of the London Stock Exchange, has said, 'The momentum is such that economic and monetary union in Europe are now on the agenda for practical action.' He spoke there for much of British business, and he was right.

(IBID p. 92)

- • • The economies of Europe are converging in many ways. The governors of all the national central banks are in constant contact and the committee of central bankers meets frequently. This process will become more formal; and, as the scale of capital movements increases, the ecu will develop as the European currency most frequently used by companies to finance and conduct their growing home trade. The pressure will continue to grow to fuse economic policies in order to sustain the process.

It does not matter what you call this new monetary coherence; it is clearly not a fully fledged central bank. But it will undoubtedly develop its own secretariat and it will provide advice to member countries on the key elements of their policy that may affect exchange rate parities. Governments will find it difficult to ignore the advice because the markets will certainly heed it as whispers spread.

(IBID p. 92)

Whatever hurdles are there to be jumped, the Chancellor's call puts, or rather leaves, economic and monetary union firmly on the agenda. There is controversy - and anxiety - as to where that path ultimately leads. I recently called in the House of Commons for a step that I would hope all could accept as a realistic but

significant advance upon present arrangements. Let me summarise it.

No European country has been as successful as West Germany in its counter-inflationary policies. All countries claim acceptance of her central economic objectives. At the heart of the West German system stands the Bundesbank, an independent central bank operating within clear rules and disciplines. Of course, in the last resort, that independence can be over-ruled by the elected government. But the Bundesbank's position is such that its independence cannot be threatened without open public debate.

As the low-inflationary objectives of West Germany are shared by all, why do not we set up in all Community countries independent central banks, operating with similar rules and disciplines? The Bank of England was nationalised by the post-war Labour Government - is it not ironic that it should be almost the only nationalised institution that a Conservative Government in Britain hesitates to consider restoring to independence?

There is now a near consensus in Britain that we should take the earliest practical opportunity to join the Exchange Rate Mechanism of the European Monetary System. This is no panacea. It is an acknowledgement that we intend to impose and maintain monetary discipline. That commitment given, there would be counter-inflationary benefits in due course, with lower interest rates and falling inflation.

We have already begun to move towards a more sophisticated degree of co-ordination between the central banks of the European Community. A committee of central bankers meets regularly. Steadily they are working together. If they were all independent central bankers, operating to a common set of rules and disciplines, all the better. They would provide a valuable confidence-building experience on the journey to low-inflation stability in the wider single market.

KÖNIGSWINTER SPEECH

MARCH 1990



The eagerly-awaited speech, made as Mr Heseltine considers whether or not to challenge Mrs Thatcher for the Conservative Party leadership, struck a careful balance between the need for Britain to "reach for the levers of power" in Europe and a recognition of the value of the nation state "where no amount of supra-national sovereignty is tradeable."

Although Mr Heseltine elaborated on his own plan for a greater role for national parliaments in determining EC policy he acknowledged that economic stability could only come about by national states managing their economies "by domestic decision."

It was not enough for Britain to adopt a negative approach, he said. The country's national self-interest would be "measured against the interests of the City of London—its jobs and wealth-creating capacity and its pivotal position as the third leading centre of world finance."

Mr Heseltine said that the EC institutions had less power than they appeared to and there was an impression of unity that was not supported by the way political power was exercised on a daily basis.

"I do not expect the emergence in the foreseeable future of any political structure in Western Europe that would submerge the instincts of national sovereignty," he said.

DAILY TELEGRAPH

14 NOV 1990

In a speech seen as his personal manifesto on Europe, Mr Heseltine called for Britain to sign a treaty on economic and monetary union with a final veto for Parliament over the adoption of a single European currency.

Although he did not name Margaret Thatcher, he warned a meeting of the single market Kangaroo Group in Hamburg that a negative approach would undermine London as a City market and put "a dramatic chunk of Britain's economic credibility at stake".

But the underlying message was the need to proceed with caution.

Arguing that the European institutions were like a club, Mr Heseltine said the members reserved the right to resign, but in practical European politics, each

country retained wide discretion of action. "Whatever the rhetoric, this is how the big players in Europe see their relationships. Increased political co-operation certainly, but not a political federation."

It was self-evident, said Mr Heseltine, that effective EMU was not within early reach, but an agreement to try to reach it certainly was within reach. "Britain approaches these issues with a proper caution. I have no doubt that that is the right approach and an approach widely shared on the Continent. But the proviso remains - to persuade our European partners to recognise caution for the prudence that it is, we have to recognise their belief that the journey upon which we are embarked has a destination."

He said it would take "a decade or so" before common standards could be achieved and by then, it would seem far less controversial than it did in the very different climate today. "So why not take it

step-by-step? Why not accept that the national parliaments do retain an effective veto over the significant moves towards closer economic and monetary union? We might accept the concept of umbrella legislation providing for an ultimate union, but include in the necessary treaty legislation provision that any country can make the essential and specific movements forward only if its national parliament approves, at the relevant time, on a step-by-step basis.

"In order to participate in such

a process, my country should restore to the Bank of England its independent status. This would involve no great time delay because we know that the Treasury already have a detailed plan for just such a proposal, prepared by the former Chancellor, Nigel Lawson, a few years ago.

"I believe this would reinforce Britain's determination to defeat its own domestic inflation and enhance the position of the Governor of the Bank of England in the evolving role of the committee of

European central bankers, I see every argument for the other Community countries moving along a similar route."

Mr Heseltine did not expect the emergence in the foreseeable future of any political structure in Western Europe that would submerge the instincts of national sovereignty. "I can see no circumstances in which Britain or France would be persuaded by external pressure to abandon their nuclear deterrents, for example. And one can extend such a list of no-go areas through the cultural, social, religious and patriotic instincts and practice of the nation states that make up the Community - where no amount of supra-national sovereignty is tradeable. We should take pride in that. The nation state is a social phenomenon capable of inspiring deep loyalties even if, at times, those loyalties have been disastrously misdirected."

INDEPENDENT

14 NOV 1990



*Independent*

# Different routes, same destination



By  
Peter  
Kellner

THROUGH the gunsmoke of the Conservative leadership battle, the outlines of Britain's post-Thatcher consensus can be glimpsed. It will not just overturn the Prime Minister's style, or her view of cabinet government, or the poll tax, or even her stand on Europe. It is likely to discard her free-market philosophy. The post-Thatcher view of government and industry can be summarised by these 12 quotations:

- 1 "Over a long period of time we have neglected industrial policy in this country."
- 2 "In the countries with which Britain competes, companies can take it for granted that government will work with industry to provide the best environment for industry."
- 3 "The high-technology world of tomorrow will be partnerships between their industries and governments."
- 4 "The huge rundown of the Department of Trade and Industry's responsibilities under this government has been highly damaging to industry."
- 5 "We ought to have had a much more powerful Department to counter the power of the Treasury."
- 6 "Our competitors know that economic success, as well as opportunities for individuals, depend on investing in education."
- 7 "You've only got to look at the statistics of other nations, where a relatively higher proportion of their kids go into higher education, to realise we've been content to put up with intolerably low standards."
- 8 "Fewer 16-year-olds stay on in education than in South Korea or Taiwan."
- 9 "If there had been a dialogue along the lines of 'what's British industry's role, what's it going to be doing, how can the government help it?', we would have realised there was going to be a dangerous shortage of skilled people."
- 10 "We need a partnership between government, industry and employees to enable people to get the skills they need to succeed in a modern society and a rapidly changing economy."
- 11 "There is plenty of evidence that major trade unions in this country today are now interested in creating the cake and then dividing it, rather than arguing about who owns the cake."
- 12 "Most of British industry — management, unions and individual employees — co-operate and work well together most of the time. But where disputes do occur, we need a framework for resolving them that is balanced. The issue today is not 'law or no law' but 'fair or unfair law'."

I doubt whether the authors of these quotations will thank me for assembling them in that way. The odd-numbered ones are taken from an interview Michael Heseltine gave to *Marxism Today* in March 1988; the even-numbered ones are culled from Labour's latest policy review, *Looking to the Future*.

Of course, substantial policy differences remain between Mr Heseltine and Neil Kinnock. They do not see eye-to-eye on what to put in place of the poll tax, or who should control a Europe-wide central bank. But neither difference is fundamental. Both believe in a "partnership economy" (to use Gordon Brown's phrase), in forms of local taxation that reflect ability to pay, and in the evolution of European monetary co-operation.

Even on defence, the differences between Mr Heseltine and Mr Kinnock are less basic than either would have us, or their own supporters, believe. Both want Britain to maintain its nuclear weapons pending the outcome of international negotiations. A Kinnock government might decommission Trident and Polaris earlier than a Heseltine government, but a dispute about timing and nego-

## *Elections will no longer decide matters of large political principle*

tiating tactics falls some way short of a conflict of principle.

Perhaps we shall never be able to put these points to the test. Perhaps Mr Heseltine will never become Prime Minister. Perhaps Mrs Thatcher will win the next general election, and pave the way for a free-market successor. For the moment, however, the point is that the Conservative leadership contest has consequences that are potentially as great as — and arguably greater than — the next general election.

A Heseltine victory would be as much a turning point for British politics as any change of government. Consensus politics would be back. We should not be fooled by the language rival politicians use. It is inevitable that Mr Kinnock will continue to proclaim his credentials as a democratic socialist: just as Mr Heseltine defines his programme as "true Toryism". We should test the substance of each man's politics, not the labels they use. The conclusion is unavoidable. Starting from opposite ends of the ideological spectrum, Labour and Conservative will have arrived at a similar destination.

Many on both the right and left will share this analysis and fear its consequences. Tony Benn, Eric Heffer and the Campaign Group have long warned Labour against discarding its traditional policies. Should Mrs Thatcher lose

power — either next week or in a subsequent coup — we can expect Norman Tebbit, Nicholas Ridley and the No Turning Back group to mourn the end of free-market ideology.

Both sides are likely to go further. They will tell us that the return of consensus politics will extinguish true choice. General elections will no longer decide matters of large political principle — merely which team can best manage Britain according to broadly agreed rules.

There is another view, which flows from everyday observation or competition in practice. Tesco and Sainsbury are fierce rivals. They compete vigorously. They encourage customer loyalty. If they see a chance to offer a new, improved, distinct product, they seize it. Should either store think shoppers will buy garlic jam or smoked mango, it will promote its innovation as an example of the store's unique merits.

For a while, such zeal will be rewarded. But, before long, any good idea will be copied by the other store. Imitation follows innovation as surely as weeds follow rain. The more competitive the environment, the greater the tendency for differences to dissolve. In the main, Tesco and Sainsbury offer a similar range of products at similar prices. They differ only at the margins.

Yet few people complain that they are starved of choice. On the contrary: many of us would be greatly irritated if we could buy wholemeal bread and chicken tikka only at one store, and blue Cheshire cheese and basmati rice only at the other. Were choice to lead to big differences in the range and quality of food between rival supermarket chains, our lives would be made harder, not easier.

Political parties are more like supermarkets than their more avid followers like to think. Their product range comprises policies rather than cans and packets; but they try to be comprehensive, and they both seek to woo the same customers — warring voters in marginal constituencies. Filling party manifestos is fundamentally not that different from filling supermarket shelves: both require a judicious mix of new and old, innovation and imitation. And an efficient political market, like an efficient retail market, is likely to generate choice among alternatives that are basically similar.

That is why the likely convergence between the Labour and Conservative parties during the Nineties should cause neither shame nor surprise. It will be the proper, healthy consequence of a return to efficient party competition. There is only one way in which Conservative MPs can hinder the arrival of the new consensus, and that is to give Mrs Thatcher such an emphatic victory next Tuesday that supporters of Mr Heseltine's ideology have no choice but to retreat — or vote Labour.

# PUTTING THE LIMITED BACK IN BRITAIN

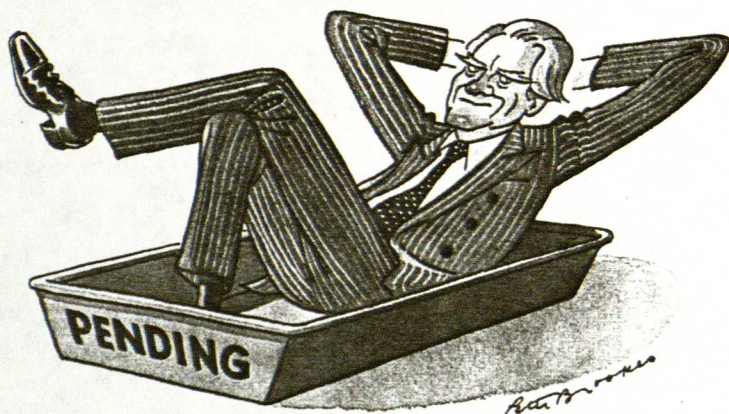
*Noel Malcolm investigates the growing corporatist opposition to Mrs Thatcher, and finds that it makes for strange bedfellows*

THE SHREWDEST comment on the Mid Staffordshire by-election result came from Mr Peter Lilley, the Financial Secretary of the Treasury. The question he was asked (on BBC radio) was whether this election had broken the mould of three-party politics — a reasonable enough thing to assume, you might think, in view of the collapse in the Liberal Democrats' vote and the triumphant surge in support for Labour. Not at all, replied Mr Lilley. What the by-election demonstrated was that Labour had become a third party.

Behind the obvious cheekiness of this statement there lurks a serious point. The most spectacular Tory by-election disasters in recent years — Glasgow Hillhead in 1982, for example, or Brecon and Radnor in 1985 — have resulted from a huge protest vote transferring its allegiance to a third party. A third party has certain well-known advantages when it comes to attracting this kind of vote. It is a party which either has never been in power (like the SDP) or was in power so long ago (like the Liberals) that any talk of its record in government seems irrelevant. The Labour Party is blissfully close now to the limits of political memory. A third party can do especially well at a by-election, because the voters know that they are electing a solitary MP, not a government: they do not require much detail, if any at all, about what that party would do if it ever were to govern the country. To judge by their campaign in Mid Staffordshire, the Labour Party strategists have understood this, and benefited accordingly.

But the most interesting feature of a third party's support lies not in the mere fact of protest, but in the form the protest

takes. It may look as if a heavy by-election swing against a ruling party shows that ordinary people have been politicised by unpopular policies. Yet the fact that the swing is usually in favour of a third party suggests that people are also protesting, so to speak, *against* politics. The appeal of the Liberal-SDP Alliance in its heyday was that it was non-doctrinaire and non-divisive: it would overcome the old 'confrontational' politics, and unite all decent, well-meaning people in a common-sense



approach to common tasks. If the Labour Party really has taken over this patch of middle ground, and persuaded the electorate that its attitudes or policies are so non-ideological that they are just the natural starting-point for pragmatists and men of good will, then it has achieved an extraordinary transformation of its public image.

The political landscape is a little more complicated than that, however. What Mr Lilley failed to mention is that there are now not one but two popular third parties. History continues to repeat itself — except that, unlike in the period 1982-87, these two third parties are not likely to form an Alliance. One is the Labour Party, and the

other is Mr Michael Heseltine.

The formal resemblances are striking. Both attract a protest vote. Both are riding exceptionally high in the polls at the moment. In the *Sunday Correspondent's* last opinion poll, 28 per cent of those questioned said they would vote for a Tory Party led by Mrs Thatcher, and 41 per cent said they would support it if it were led by Mr Heseltine — a shift in allegiance which would cut Labour's lead from 27 percentage points to seven. As always, the poll failed to ask the next question which one would most dearly like to see answered: which of Mr Heseltine's policies did his supporters particularly approve of? I suspect that, beyond mentioning his hostility to the poll tax and his enthusiasm for Europe, the Heseltinian-in-the-street would have little or no reply to this question. Mr Heseltine's appeal is the traditional appeal of a third party: decent, non-doctrinaire, unifying, and concerned above all not with abstract questions of ideology but with practical problems — of which

the central ones are the problems of industry and the economy.

And it is here, at the centre of Mr Heseltine's vision for Britain, that the resemblances between Heseltinism and the new-look Labour Party become positively uncanny. These are resemblances not just of form, but of content too. Anyone who reads the economic section of Mr Heseltine's credo, *Where There's a Will* (Hutchinson, 1987), together with *Competing for Prosperity*, the report of the Labour Party's Policy Review Group on the economy, will find that at many points it is impossible, in Mr Paddy Ashdown's famous phrase, to slide a cigarette paper between them.

The key to both of these statements of faith is what Mr Heseltine calls 'a philosophy of partnership', or what Mr John Smith (to whom the final draft of the Labour policy document can be attributed) calls 'a new partnership with business'. According to Mr Smith, 'the real prosperity we seek can be achieved only by a government which is not hamstrung by ideological obsessions with non-intervention'. According to Mr Heseltine, there is a 'false belief which has misled too many in my party, that there is a heresy called "intervention" . . . It is time for the Government to thrust aside the notion that British government and industry can live at arm's length.' The best example of intervention lies, Mr Heseltine believes, in Japan, 'a brilliantly orchestrated and managed partnership between the industrial and governmental worlds'. 'The Japanese', Mr Smith writes, 'realised that the market had to be directed and managed within an industrial strategy developed in consultation with government'.

Are these allusions to Japan no more than a sanitised, orientalist and updated way of referring to what used to be known (under Wilson and Callaghan) as state planning? Mr Smith dislikes such old-fashioned terminology: he prefers the phrase, 'industrial strategy'. Mr Heseltine shares his preference. Industrial strategy, he explains at one point, 'is not about planning'. Not, at least, about the word

'planning'. 'The word "plan"', he writes, 'has become an expletive in Conservative circles . . . So let us expunge the word "plan" from our vocabulary . . . Let us not say that the Japanese plan to target our markets. Let us just say that they target them.' I cannot help thinking at this point of another of Mr Heseltine's comments, this time on the birth of the SDP: 'It is the oldest story in the world. If you can't sell the product, change the wrapping. It is yesterday's mutton dressed up as tomorrow's mutton.' Since the SDP's first general election manifesto announced a 'strategy for industrial success', of which the major element was 'partnership in industry', what does that make Mr Heseltine? The day before yesterday's mutton?

Japan, Mr Heseltine might reply, will make mincemeat of us all. Its MITI (Ministry of International Trade and Industry) is the meatiest form of intervention in the world — pure economic muscle. So obsessed is Mr Heseltine with what happens in Tokyo's corridors of power that his latest project is a book about the Japanese economic miracle. At some point in his research he is going to find out, however, that the Japanese method is simply inapplicable to a Western economy, for a whole mass of structural and socio-economic reasons. It is not only that our laws against monopolies, trusts and cartels would prevent the formation of the industrial blocs which function in Japan; our economy is also consumer-driven and shareholder-controlled to an extent that makes it very remote from the Japanese experience. The main Japanese conglomerates include their own banks, which can fund at an otherwise uncommercial rate the long, loss-making process of undercutting and taking over an entire industrial sector. But the people who ultimately bear the cost of this process are the Japanese consumers, who face

higher prices for their own goods than customers overseas, and a much smaller range of consumer choice.

Messrs Smith and Heseltine (or rather, if we apply Ockham's rule about not multiplying entities unnecessarily, Mr Smitheltine) can afford a few ways in which the British system might be made a little more Japanese. 'Unlike Japan', notes Mr Smith, 'Britain has no tradition of industrial banking.' 'Because banks cannot hold shares in companies', observes Mr Heseltine, 'companies are forced to depend on costly short-term money, unlike their counterparts in West Germany or Japan.' In both his incarnations, Mr Smitheltine is rather vague about where the 'new sources of funds' should come from. But the general solution is clear: we need a 'transformed' and 'strengthened' (Smith), 'strengthened' and 'markedly stronger' (Heseltine) Department of Trade and Industry, mimicking, so far as possible, the Japanese MITI. The new DTI would have 'teams organised on an industry-by-industry basis' (Smith); the DTI's Secretary of State would take over the National Economic Development Organisation and breathe new life into its 'sector working parties' (Heseltine). Priority national research schemes such as the 'Alvey' electronics programme are commended; tax credits for research and development suggested; takeovers permitted only when the predator can show that they are in the public interest; and the West German system of mandatory membership of local chambers of commerce admired (Smitheltine, *passim*).

When Mr Heseltine enthuses about ways in which 'the collective voice of business' can be 'regionally and sectorally representative', it becomes impossible to forget that there is a name for all this: corporatism. In its original form (developed by 19th-century romantics and Roman Catholics, and, to put it delicately, 20th-century illiberals), corporatism was a theory of the state which said that people gained their political identity not as members of a class or a party, nor as individuals, but as members of economic entities, such as different sectors of industry or agriculture. A more recent version of this theory, usefully distinguished by the name of 'neo-corporatism', models the entire state on a single modern business corporation. Mr Heseltine, who continues to refer without a trace of irony to 'UK Ltd' or 'UK plc', has shifted further than the Labour Party towards the 'neo' end of the spectrum; indeed, whenever he makes rousing speeches about the primacy of capitalism, he may be not only reassuring the businessmen in his audience but also reinforcing his status as an ideological bogeyman for the Left.

But the essential appeal of the corporatist creed is to the ordinary middle-of-the-road voter, the sort of person who used to warm to the SDP. Partnership, co-operation, non-confrontation, a readiness

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to assist economic progress without ideological prejudice — these are the favourable images for which both Heseltine and Smith are competing. Mr Smith has become a corporatist *faute de mieux*: his corporatism is the residue you get when you have boiled off the economic policies of the hard Left. Mr Heseltine's corporatism has been arrived at in a different way: it is politics with the politics left out. The business of gov-

ernment, in this vision of things, is business, because the purpose of politics is not to change the world but to manage it. If Mrs Thatcher is eventually succeeded by Mr Heseltine, if, that is, the Prime Minister of the United Kingdom is replaced by an Executive Chairman for UK plc, it will be because of her extraordinary achievement in putting everyone — in first, second and third parties — off politics altogether.

## BREAKING POINT ON THE BALTIC

*Stephen Handelman reports  
on the antagonism between  
Moscow and Vilnius*

*Moscow*  
OLD habits, it seems, die hard. Anyone visiting the Soviet Union for the first time this week might justifiably wonder what happened to the *perestroika* and 'new thinking' the world has made so much of. The Baltic crisis, like the return of an old infirmity, appears to have brought out the worst of the Kremlin character. The scenario is nightmarishly familiar: Soviet army moves into area on 'request' of small puppet group, national press engages in smear campaign, activities of foreign spies and subversives blamed, foreign correspondents banned.

But wait, pleads the eager-to-rationalise observer, this is Mikhail Gorbachev's Soviet Union, isn't it? Communist Party power has been clipped, there is a parliament, a genuine president, and, really, an awful lot of good will. What other national leader could stand by idly and watch his country break apart? Well, precisely.

Lithuania's unilateral reinstatement of pre-war independence is not just a challenge to the political order, on the scale of

the Armenia-Azerbaijan conflict, nor just the grumbling of enthusiasts for a multi-party system. It is a pointed defiance of Mr Gorbachev's vision of *perestroika*, a rejection, actually, of the entire enterprise and its optimistic notions of managed change. While we in the West might like to imagine Mr Gorbachev is ultimately sympathetic to Lithuanian aims, it should come as no surprise that he has been goaded into anger by provincial politicians with the temerity neither to trust his word nor to accept his timing.

The degree of destabilisation which the Lithuanian move has provoked inside the Kremlin can only be guessed at, but it must be extreme. Reactions have varied from the incoherent to the paranoid. Consider the ban on foreign correspondents.

The Lithuanian story is still getting out. Those correspondents who managed to get to Lithuania before the ban have been permitted to stay, which is one reason why no one has bothered to notice the absence of any rational explanation. At least, when it prohibited reporters from entering war-

ren Azerbaijan, Moscow could argue, paternally, our safety was at risk. In Lithuania, the Kremlin simply decided to exert its latent powers of control — and that was that. We are an argumentative, uncomfortable lot to have around, but the unspoken assumption that getting us out of the way will somehow weaken Lithuanian resolve appears to underestimate the region's level of political sophistication as much as it overestimates the power of the Western press.

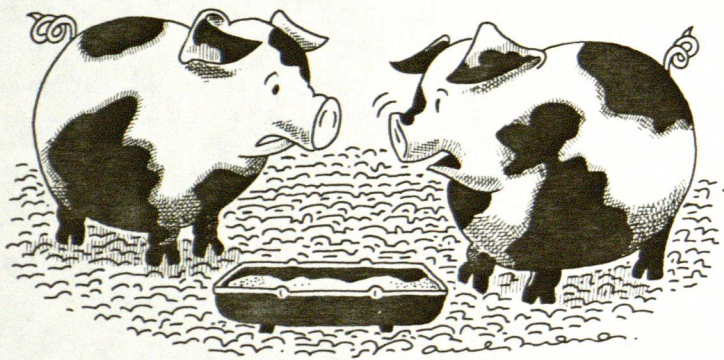
While it is distressing to see such old thinking resurfacing, there are other equally worrying signs of awkwardness at the top. The Lithuanian declaration spawned a series of presidential 'decrees' and government statements which appeared to suggest the republic was in imminent danger of civil insurrection. Lithuanians were ordered to turn in their private weapons, protection of nuclear installations and other 'strategic' facilities was increased, border points were strengthened. Yet only a few months ago Moscow was praising the Lithuanians for being peaceful and industrious. Moscow is well aware that Lithuania is not Azerbaijan. But from the official version of events, it is hard to tell.

Ethnic Russians in the republic have been allowed to vent their fears and anger on national television. On the Lithuanian side, there are certainly grounds to be concerned about the rush to throw out everything connected with Soviet authority, even if it means acting with precipitate arbitrariness, but assurances in Vilnius that the rights of minorities will be protected have either been ignored or soft-pedalled. The coverage of Lithuanian events has not merely been biased, it has descended to the smear attacks common to the 1970s and early 1980s — a period everyone now calls smugly 'The Stagnant Era'.

Typically, *Krasnaya Zvezda*, the Red Army newspaper, ran a biography of the Lithuanian president, Vytautas Landsbergis, which 'reminded' readers that his father, a minister in the pre-war government, had supported Nazi Germany. 'Of course,' the article smoothly went on, 'the current chairman of the republic does not express his solidarity with the views of those of his relatives who sympathised with fascism, we are only talking about the influences around him during his youth.'

The most disturbing phenomenon of the Baltic crisis is the apparent uncontrollability of the military. We have been told that last Friday night's parade of a column of 100 tanks and armoured vehicles on the streets of Vilnius was a 'training exercise'. The seizure by armed paratroopers of Party buildings earlier this week was, similarly, 'requested' by local Communist Party members. Meanwhile, we are assured by every available Moscow spokesman that force is not being contemplated. So who, one might ask, is in charge?

It seems churlish to remember that only a week earlier Mr Gorbachev's supporters



*'The Archbishop wants to spend more time with us.'*

# The poll tax: let the people choose

My hope and belief is that the Conservatives will win the next general election. Central to achieving this are a significant reduction in the inflation rate and the restoration of rising real living standards. Falling interest rates could fuel this virtuous circle next year, reinforced, I hope, by Britain's entry into the Exchange Rate Mechanism. The political divide will then narrow, and despite the local election results, I foresee no recovery worth the name for the centre parties.

Secondary issues may, however, remain of more than usual significance, and the community charge will retain a powerful national importance.

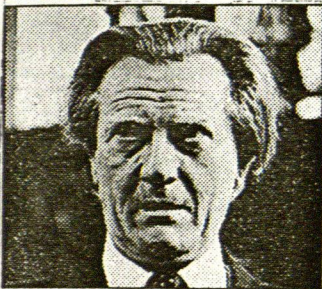
In many of the marginal constituencies by which the tenure of power is determined, the community charge is perceived to have broken the Disraelian compact upon which Tory power rests. Principally in the North-west, Yorkshire and the West Midlands, but stretching ominously into parts of southern England, is a belief that it is either too high, unfair, or both, and it has created a lingering sense of injustice. I have never known so large a postbag — from those with a life-long commitment to the Tory cause, who, having bought their homes, saved to ensure their independence and budgeted carefully for their old age, feel badly let down.

To these must be added recent recruits: council-house buyers and the couples in terraced houses who last year paid £250 in rates and this year face bills of more than £700. They have no doubt about whose fault that is. They are not political philosophers, just people on tight budgets. They have to be won back to their natural political home. There is no time to be lost. There will be no second chance.

It is little wonder that local government remains at the centre of political debate. It spends £36 billion a year, administers essential services and presents to our citizens the largest single bill that many of them ever see. But it is neither that local nor that simple. Central government pays most of the costs and has the overriding mandate to prescribe the quality of public services.

We want local choice, but only to an extent that is compatible with the responsibility of ministers for national standards. We want strengthened local accountability, a healthy local democracy and a system of finance which is perceived to be fair.

It is in unitary local authorities that the accountability emerges most clearly. I doubt if the stunning local election results in Wandsworth and Westminster would have been so conclusive had the community charges there



Michael Heseltine suggests higher payments by the better-off and an obligatory election when a council wishes to exceed spending levels laid down by the Government

been confused by precepts from the GLC or ILEA. People need to know who is responsible. So I am increasingly persuaded that we should restore the identity of the old single-tier county borough for our major urban areas, to provide a more effective framework of local pride and local accountability. I favour paid, directly-elected mayors in command, in order to bring local spending under con-

trol, together with tougher value-for-money audits. I am sceptical about the practice of central government distributing more than £20 billion by formula, with few questions asked.

In the short term, the pressure is on to contain or reduce the present levels of community charge and to make it fairer. These are the two real grievances. But the stark facts are that inflation is approaching 10 per cent and that wage claims are damagingly close to double-figure disaster. This alone will add a good £70 to the £700 charge on the terraced-house couple.

And this assumes that local authorities raise no more than what is required to cover wage inflation — which bitter experience tells us is a forlorn hope. They will pray in aid the cost of introducing care in the community, plus the phasing-out of the safety net and transitional relief.

I see no purpose now in rehearsing the old arguments about the wisdom of introducing the charge, for one overwhelming practical reason. There is no realistic prospect that the Government will do other than fight the next election with a community charge in place. But most people in my party now agree that it needs considerable modifications. So let us focus on some possible key changes.

The critical judgement is how much more the Treasury can or should pay. To this must be added the question, are there any other ways of raising money to defray in part the demands on the Treasury? Only the Department of the Environment can calculate the implications of any proposal. But outsiders can influence the prior-

ities.

In the first place the concept that most people should pay something directly for their local services makes sense. Secondly, we have to avoid next year sudden leaps in bills arising from the Government's own decision.

Then we should look at conspicuous examples of grievance and remove them wherever possible, but in approaching this we must remember the harsh truth that it costs £1 billion to reduce the average charge by only £28.

There are many variants on the theme that the Treasury must pay. The crudest suggestion of all is that the Government should increase the central grant by more than £3 billion to prevent next year's inevitable increases solely to meet wage inflation. There is, of course, no reason to believe that local authorities, on receipt of such unprecedented largesse, would pass on more than a small fraction of it to the hapless citizen. There would be a bonanza of public expenditure, with only a gesture of charge reduction, especially on the part of the Labour councils. To Labour, the higher the community charge, the more attractive its general election pledge to abolish it will sound.

The burden of the community charge could, of course, be cut by transferring the funding of some services to central government, but in practice the Government

might find itself blamed for poor standards and find it difficult to resist pressures for ameliorating expenditure. Income tax might have to rise; and, again, there is little to ensure that local authorities, relieved of expenditure, will reduce the community charge as opposed to seeking out new opportunities to spend.

One solution advocated is the introduction of a general "cap"; no council allowed to increase its charge bill or its expenditure by more than a stated percentage. In the early 1980s we crawled over this obvious idea, but rejected it.

To cap or control, central gov-

ernment has to choose figures so far above the average that only a limited number of extreme cases are caught. And those below the cap have an implied licence to spend up to it. To extend the cap by lowering its incidence increases the risk of legal challenge. And to design such a system effectively would negate accountability and be an act of centralized political power outside our experience. On these grounds alone it should be resisted.

This brings me to the single biggest change I believe the Government should introduce. Only one factor consistently presses

down on local government expenditure: the fear of electoral defeat. Historically, in election years the rates were held down, while in other years balances built up and expenditure increased.

Local authorities should be free to set and account for their own budgets. What I propose is that, if those budgets exceed by a given percentage the Government's calculations of the sum needed to provide a proper service, an election for the whole council must be held on the issue. I narrowly failed to persuade the Cabinet to adopt this proposal in 1981. I still believe it would work. It would impose a powerful financial discipline because few councillors would want to risk it; certainly not year after year.

It would be possible to tighten the disciplines further and build in an extra disincentive by imposing a surcharge. A local authority proposing a high community charge would have to hand over a surcharge to the Treasury to compensate for inflationary consequences. The surcharge could rise as excess expenditure rose. The scales could be weighted against the excess spenders, without removing all their discretion. Local authorities would retain



discretion, and it would be their electorate, not central government, which capped them, without having to wait years to do so.

On to two specific problems. Within the present safety-net provisions, an accident is waiting to happen. Next year the Treasury is to assume responsibility for paying up to £75 per adult on behalf of those councils which this year are contributing to the safety net. But in those authorities with no elections next year there is little incentive to pass on to charge-payers the equivalent of this sum. On the other hand, other authorities will lose support and will blame the Government. There should be no withdrawal of safety-net support next year. The transitional relief scheme, by which those who were paying a low domestic rate are protected from steep rises in community charge, must be improved and expanded, and must be calculated with greater reference to actual charges and not notional figures of assumed spending.

There are then a number of relatively cheap, but politically expensive, sources of grievance. Taxing the elderly because they remain at home, looked after by their families — when transfer to

old people's homes, thereby increasing public expenditure, would save them personally around £350 a year — seems to me a negation of Tory principles. The deemed assumption by the Government that savings can earn more than 20 per cent is, frankly, incredible. And we have gained the maximum political opprobrium by charging the physically disabled, student nurses and students themselves, with precious little extra revenue to show for it.

There are harsh anomalies following the death of a house-owner. Surely compassion must spare relatives the immediate arrival of a bill for two poll taxes, days after a loved one dies. Local authorities' discretion to charge up to double the community charge in this — and quite a number of other situations — should be restricted. The double burden of community charge and unified business rate on the small businessman living above the shop is unacceptable.

**F**unding next year's grant settlement will present the Government with its most difficult decision. The settlement itself must be based on realistic economic assumptions. It must also involve a determined adjustment of the standard spending assessments to reflect reality in a wider range of authorities. My instinct is for a realistic settlement, relying on my election proposal to keep the charge down. But realism is not just about local government; it is about the economy at large. The natives may be restless in the constituencies, but the gnomes in Zurich are not dozing either.

Finally, I come to the most

controversial aspect of the community charge. The original manifesto commitment said, "We shall abolish the domestic rating system and replace it by taxes more broadly based and related to people's ability to pay." Initially the community charge adopted a flat-rate principle for all, but that has long since been abandoned in the face of political reality. I believe that to honour our original pledge, to appeal to the national sense of fairness and to finance in part the changes I have outlined, the better-off members of the community should pay more.

Banding upwards can in practice, in the short term, only be based on income. There are no insurmountable obstacles, although there will be crudities and criticisms however this is achieved. But these will be criticisms from those who have prospered mightily under this Government. The new arrangements for the community charge would become more acceptable generally and the Labour Party's pledge to abolish it every day less credible. The Government should instruct its civil servants to work up proposals based on the assumption that everyone will pay something but that the significantly better-off, by which I mean top-rate taxpayers, will contribute more.

Properly run, local government can be a source of alternative political power, a focal point for civic pride and a sensitive means of involving and serving the people. Central government does not always know best and certainly has no monopoly of prudent administration. But it pays most of the bills and, therefore, there has to be a partnership of power.

D



MR WHITTINGDALE

It has been suggested that the community charge could be cut by 40% over a period of years.

First, the cost. I estimate this at £6.0 billion. This is extra money to be found either by cutting public spending or by increasing tax. If on income tax, that is equal to 3p on basic rate of tax.

Second, the idea that this can be found from buoyance in the economy is deceptive. £6.0 billion is equal to 3% of public spending. Assume no return to public borrowing; also assume policy is to allow no change in the ratio of GCE/GDP (ie less tough than now).

On that basis, public spending levels can grow in line with economic growth. That might average say 2.5% p.a. But public spending itself grows in real terms - eg because of demography, relative price at around 2% p.a. On this basis - and this is optimistic - it would take 6 years to reduce the community charge by 40% in real terms.

BARRY POTTER