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Special Adviser to the Secretary of State

CONFIDENTIAL

John Whittingdale Esq
Political Secretary
10 Downing Street
LONDON SW1

15 November 1990

Dear John

You may find the enclosed note on Michael Heseltine's policy of an industrial strategy of interest, especially given his denial on the Today programme this morning of any such intention.

I am obtaining and will send you on receipt a copy of the transcript of that interview.

I am also chasing a report that his new denial of federalism contradicts his latest book's espousal of it. Again, I will let you have details if/when I obtain them.

Two further pieces of information: I understand from Eric Forth that Michael Brown is seeking to get 20 to 30 MPs in marginal seats to sign a letter for publication on Monday, saying that Mrs Thatcher is their best and only chance of re-election. Roger King for one has said he will sign.

Secondly, Michael Howard intends to make a major speech against Heseltine and for the PM on Saturday to the Kent YC Conference. He will be speaking about 4.15pm, and intends to use the material on industrial policy and Europe I referred to above. We will be actively seeking media coverage (though whether CCO will help is another matter).

Finally, some thoughts about possible strategic options, in addition to those we discussed yesterday:

1. It is quite clear that the Party in the country is overwhelmingly behind the PM. We need to get their view heard ASAP. Three suggestions:
 - a. A formal invitation (perhaps from K Baker) to association executives to hold emergency meetings to discuss which candidate they would like their MP or candidate to endorse



- b. A trawl of selected PPCs to get an indication of their views, or at least to get a number to declare for the PM (answers the charge that she is the face of the past not the future)
- c. Since the PM cannot address a rally on Monday, could she do so on Friday, Saturday or Sunday, preferably in the North or the Midlands where Heseltine is claiming he is most popular? Perhaps Lord McAlpine could arrange transport, Harvey Thomas a swift set etc
2. An indication of where the major contributors to the Party stand - there would be no point in Mr Heseltine inheriting a bankrupt Party with no financial resources available to him.
3. Consideration of what might be called a "scorched earth" policy ie:
 - a. A list of Ministers (of all ranks) not prepared to serve in a Heseltine administration [either for publication or for the back pocket of the campaign managers to show to waverers]
 - b. A list of MPs who would refuse to support a Heseltine government on a vote of confidence in the House, to show that a vote for him is a vote for an immediate General Election.

Many, if not all, of these suggestions are probably impractical - but a few may bear further consideration.

It goes without saying that I would be more than happy to provide any assistance at all over the next few days. I am copying this letter with attachment to Robin Harris.

7055,
Tim

TIM COLLINS

SECRETARY OF STATE

MICHAEL HESELTINE QUOTES

You asked me to find any evidence in Michael Heseltine's speeches or publications of support for subsidies to particular industries.

I have trawled through his 1987 book "Where There's A Will" and attach of list of suitable quotes.

In particular, the quotes toward the end of this section praising the direct subsidies by the Governments of France, Italy and Spain towards their national car manufacturing companies - and the clear implication that the British Government should be doing the same - seem to prove your point rather than his.

TIM COLLINS

3 May 1990

Chapter 4: Who's for Laissez Faire?

"[Outside Government] one has no idea of the closeness of the partnerships between the large overseas companies and their governments. The leaders of British business have to compete with these partnerships for orders essential to the national economy". (p 83)

"The notion that governments do not require an industrial policy [has] become as untenable as the flat earth theory" (p84)

"Disturbing comparisons are often made between the relationship of the British government with British industry and the relations between the governments and the industries of our competitors. I believe that these comparisons are worth exploring and that they hold a lesson for our country which we should learn sooner rather than later" (pp86-87)

"The House of Lords Select Committee on Overseas Trade was not thanked by the Government when they reported in October 1985 that British industrial decline threatened the nation's standard of living and its economic and political stability... The Government's initial brusque reaction seems to have been occasioned not so much by hurt feelings at the criticism of economic policy as by the report's numerous suggestions of various forms of cash help for industry.... In the face of much eloquently expressed anxiety the Treasury's relaxed approach to present and prospective levels of British trade, and in particular the deficit in the balance of trade on manufactures which was the focus of the committee's enquiry, was striking...to change the attitude of government should not be impossible, and that in itself would be a worthwhile first objective". (pp89-90)

"The capitalist economies with which we have to compete do not operate on the theory held in Britain that government is an onlooker in the industrial game or at best a referee. In most of these countries there are partnerships of one sort or another between the government and the industrial world. The partnerships are of varying kinds, but in most cases there is a common attitude and approach which is more mature, less adversarial and demonstrably more successful than ours" (p 93)

"The scale of the American taxpayer's support for companies at the frontiers of technology is as impressive as that of the consumer. The fact that in this field of technology it is probably the most protected economy in the free world adds to the in-built strength of its more advanced industries" (p 93)

"The Japanese economy ... is a brilliantly orchestrated and managed partnership between the industrial and governmental worlds. Nobody would pretend that you can take that model and adapt it for use in this country; but its strength is

undeniable... Government support for industry in Japan has been targeted much more to products with a visible pay-back in the medium technologies than in the glamorous but risky areas of high technology. In other words, they 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 without the backing of our Government 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?" (p94)

"In many of the high technology fields, the role of the Government is a manifestation of French will... We would not have a major civil airframe manufacturing capability in Europe today if it were not for France... The French recognise more clearly than any other nation in Europe that, if they are to maintain for themselves a destiny in the more sophisticated industrial field of tomorrow, Government and industry have to work together". (p95)

Extracts from Chapter 5 "Industry: A Strategy"

"Success will need the continued pursuit of international competitiveness. It also needs a strategy to augment the status and achievements of British industry". (p96)

"While Conservatives have a well-founded distrust of rigid, central Socialist planning, which I fully share, the truth does not lie at the other end of the spectrum. The adverted gaze is equally dangerous because it delays the urgent debate about Britain's industrial future, which cannot be advanced until we accept that the health of British industry depends crucially, in many fields, on it having Government as a partner. (p97)

"It is not intervention that is wrong: in the modern world, it is unavoidable. What was wrong before was the subsidising of losses and the coziness and lack of professionalism associated with that." (p100)

"There is a national interest wider than any one part of the capitalist system. The components of owner, manager, financier and worker do not sufficiently understand each other and too often work without regard for each others interest. In all these things, which must in the end add up to a cultural change, Government has an inescapable role." (p100)

"You can say that it is the duty of managers to manage, as indeed it is, and imply that consultation with and involvement of their workforce is no part of their duty. You can argue that support for industry is not a Government responsibility. You can argue all of these things and, if you argue successfully, you will find the British economy Balkanised... You will also have what we in Britain have now: a capitalist manufacturing economy which performs less well than others of comparable size." (p101)

"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..."

"A classic example is provided by the motor industry. Governments throughout the world, and especially in Europe, are heavily involved in giving financial support to their motor industries... Estimates suggest that the French state will support Renault to the tune of F20b during the three years 1985-7. In spite of losses which have dwarfed those incurred by the Rover Group, there is no question of Renault continuing to be anything other than one of Europe's largest car and commercial vehicle producers... Fiat has been accused of being the most subsidised car manufacturer in Europe... Each of Spain's five car producers has negotiated with the country's Minister of Industry for a package of state aid in the form of investment subsidies and soft credits. So it goes on. Faced with these realities, it is simply not an option for the British Government to tell the country's motor industry to make its own way in the world." (p112)

"I would advocate legislation setting out a code of practice whereby publicly-quoted companies employing more than, say, 500 people would be expected to conduct a dialogue with their workforce." (p128)

"For all these reasons I urge the whole hearted 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." (p129)



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Special Adviser to the Secretary of State

John
This is useful
R

*Ken
back*

15th November 1990

CONFIDENTIAL

- Dear Robin,

You may find the attached material of interest. It includes a draft for a speech Michael Howard will be making on Saturday - and the supporting notes for the accusation that Heseltine has been dishonest.

I must stress that this draft has not been approved yet by Michael Howard, who will of course wish to give it his personal stamp. You may nonetheless find the anti Heseltine material of interest.

Best wishes,

Tim



LINE TO TAKE ON MR HESELTINE'S REMARKS ON WORKFARE

1. Interested to note that Michael is "appalled" that 1.6 million people are out of work. That level has been halved since he was last in the Cabinet, and not by implementing any of the policies of intervention he has advocated since then.
2. He calls for a training scheme for the adult unemployed like YTS. We have it - it's called ET.
3. He indicated support for a Workfare scheme, without naming it or giving any details. Workfare as an idea has a number of attractions, and Lord Young examined it in detail in 1986. But Michael Heseltine would be the first to recognise that there would be a number of difficulties - great cost, administrative burdens, changes in legislation, avoiding union/voluntary body boycotts - to be overcome before it could be introduced. It is not something available for introduction overnight.
4. He spoke of Workfare in the context of 1.6 million unemployed. Most of the unemployed are on the register for a few weeks or months at most, and rapidly find a job. Workfare would be very difficult and costly to administer if all the unemployed were placed on it, and if they were it could actually slow down their search for work.

TC
15.11.90

BACKGROUND

1. In its purest form, Workfare means being required to work as a condition for receiving benefits. However, Workfare is often taken to mean "compulsory" attendance on Government employment or training schemes. In this case, participants will not necessarily be working for benefits, because they may be receiving a training or other allowance. Withdrawal of benefits would be the sanction for refusal to participate in such schemes.

2. It is the latter idea - "compulsory" attendance on programmes - which Mr Heseltine appears to have in mind. There is also the implication that such programmes should be significantly expanded in scale, possibly with the addition of a new "work programme" on the lines of the Community Programme.

3. Creating a new work programme would not, of course, be cost free. It also might not be easy to find sponsors to provide projects on which unemployed people could be employed.

4. Over the last five years there has been a steady stiffening of the conditions under which individuals are eligible for benefit and in one case at least we have come close to a Workfare approach:

- the introduction in 1986 of a compulsory Restart interview every 6 months, with benefit withdrawn for failure to attend after two warnings;
- strengthening of counselling resources in 1988 and 1989 to allow for more follow up of those not attending schemes after referral from an interview;
- removal of benefit from 16 and 17 year olds with a guarantee of a place on YTS - in a sense, Workfare for young people;
- the recent social security legislation, with its new requirements on people to seek work actively and its stiffening of the obligations on people not to refuse the offer of employment or an alternative;
- the application of benefit sanctions to those who have been unemployed for more than 2 years, who have refused previous offers of help, and who then refuse to attend a Restart Course.

It is not the case, therefore, that unemployed people "are expected to do nothing specifically" in exchange for their benefit cheque.

5. The recent take-up scrutiny recommended that Ministers should consider the question of compulsory attendance on programmes, but did not take a position either in favour of or against the idea. At the Secretary of State's request, officials have been considering the feasibility of a new work programme with benefit sanctions attached to non-participation by particular groups. A further submission on this will be made on this as soon as possible.

Line to take

- it is not the case that unemployed people are able to remain unemployed without challenge or without taking action;
- there is an extensive range of training programmes and other help available (ET, Jobclubs, Restart courses, JIGs) to help unemployed people back to work; there will be opportunities for over 500,000 long term unemployed people in 1991/92.
- there has been a steady stiffening of social security law to ensure that unemployed people look for work and are encouraged to take up the training and other help available;
- the 1989 Social Security Act required unemployed people to provide evidence (e.g. job applications, participation in a programme) to show that they are actively seeking work;
- the Employment Service has introduced a range of measures (new counsellors, Back to Work plans, extensive follow-up) to check that unemployed people are meeting their obligation to look for work.
- from the end of the year people who have been unemployed for 2 years or more and who persistently refuse offers of help may be compelled to attend a Restart course or otherwise lose their benefit.
- we are keeping the possibility of further measures under active review.

[During interview: Mr Heseltine briefly points out his policies if he were Prime Minister, including the review of the poll tax, education, income taxes]

PETER HOBDAV: (Presenter)

Would you allow unemployment to rise if that was the only alternative?

MICHAEL HESELTINE MP: (Conservative)

My view about unemployment is not quite as simple as that. I am appalled by the idea that we have something like 1.6 million people out of work with simply a situation that they get a cheque and they are expected to do nothing specifically in exchange for that. Now, my feeling is that we have got to look to see how we can help these people. We did it with the young people in the YTS scheme where we introduced training schemes in a variety of other community service activities, so that they themselves were kept in active employment, and enabled to retain their self esteem and their self respect.

I think we've got to extend those ideas with considerable opportunities for training, re-training, education, re-education, and indeed other forms of community service in order to be sure that for this very large number of people and the very large sums of money that are expended, both they, in their own personal interest, and the community who has to pay these bills, are getting from it something that is appropriate to the investment of that scale.

PETER HOBDAV:

You wouldn't try to keep people in employment by helping industry, the state intervening to help industry?



MICHAEL HESELTINE MP:

What, you mean subsidy?

PETER HOBDAY:

Yes.

MICHAEL HESELTINE MP:

Me.

PETER HOBDAY:

Yes.

MICHAEL HESELTINE MP:

You can't be serious. I mean, I've spent my life in government doing exactly the opposite. If you remember when I was in the Department of Environment I reduced the numbers by 13,000 people. I introduced competition to the Ministry of Defence industries on a scale they've never seen. I began the process for the government of privatisation by selling off council houses.

[Mr Heseltine goes on to talk about the subsidies in industry, the health service and the system of voting for a Prime Minister]

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PS/SECRETARY OF STATE

SPEECH TO KENT YC CONFERENCE - SATURDAY 17 NOVEMBER

I attach a draft speech for the above engagement. The Secretary of State has agreed to reply to the following motion:

"This Conference fully endorses the 1990 Employment Act and the abolition of the closed shop. We urge the Secretary of State to move on to the next stage of industrial relations reform and abolish centralised collective bargaining in the public sector as the first step to encourage locally based pay deals".

A Current political events mean that this is not, as might otherwise have been the case, a good platform for a major offensive on Labour policy. The draft therefore addresses the motion, and indulges in some routine knockabout abuse at the expense of the Labour Party, but the key section near the front addresses the leadership issue. The section to be press released is marked.

Since the speech includes an explicit attack on Mr Heseltine, I am advised that Central Office would not release it. I will nonetheless ensure maximum coverage of it by alerting journalists and TV/radio myself.

It would be helpful if the Secretary of State could let me know either tonight or tomorrow night what amendments he would like to be made to the text.

I attach supportive material and quotes from Mr Heseltine on his stance on Europe and industrial policy.

TIM COLLINS
15 November 1990

SPEECH TO KENT YC CONFERENCE

SATURDAY 17 NOVEMBER

Mr Chairman, this has been an excellent debate, confirming that the Conservative Party alone has the fresh and radical ideas needed to take Britain into the 1990s. I am delighted to accept the motion, so ably moved by Matthew Jones.

The motion before this Conference was well chosen, because industrial relations remains an area where the contrast between the Conservative and Labour visions of the future is at its starkest. We will continue to seek opportunities to expand the rights of trade union members. They are determined to expand the privileges of trade union leaders.

It is an issue which will be central at the next Election.

But before I discuss industrial relations policy in detail, Mr Chairman, perhaps I could say a few words about the leadership contest which faces our Party this weekend.

[PRESS RELEASE]

I very much regret Michael Heseltine's decision to challenge Mrs Thatcher, particularly since he has thereby broken his repeated, explicit and unequivocal pledges not to do so.

He issued his most recent statement that he could foresee no circumstances in which he would stand against Mrs Thatcher and that he expected us to fight and win the next Election under her leadership after the resignation of Sir Geoffrey Howe. Indeed he said a full three days after Sir Geoffrey resigned that "it is not in any way right to interpret [the letter he wrote to his constituency chairman] as a leadership challenge".

He himself discounted Sir Geoffrey's resignation as a reason sufficient for him to stand. He has therefore flagrantly breached his own undertaking not to stand against the Prime Minister except in "unforeseeable circumstances". The only "unforeseeable circumstance" to have arisen since his last use of that formula has been the extent of his own overweening ambition.

He may or may not have taken leave of his senses. He certainly appears to have lost his sense of honour.

There is never a good time for a leadership contest, but there can be few less appropriate times for such self-indulgence than a period when our leader is the incumbent Prime Minister, when our country is facing a grave international crisis abroad, and when our party is facing a General Election within at most eighteen months.

Mr Chairman, we have the right to examine Michael Heseltine's claims to become Prime Minister in detail.

Has he shown the courage, consistency and honesty of Margaret Thatcher?

This week he denied on the Today programme that he was in favour of an interventionist approach towards industry. In response to the suggestion that he favoured subsidies for industry, he said "You can't be serious".

But in his book "Where There's a Will", published in 1986, he espoused an explicit industrial strategy, praised other countries who he said pursued such policies, and wrote "do we really think that our companies can win without the backing of our Government?". He went on to say "the health of British industry depends crucially, in many fields, on it having Government as a partner".

He also wrote that "it is simply not an option for the British Government to tell the country's motor industry to make its own way in the world".

Well, Michael, in case you haven't noticed - the Rover Group is making record profits now it is in the private sector and without a penny of public subsidy. Overseas investment in car plants in Britain has soared far ahead of that anywhere else in Europe. And the British motor industry is competitive enough today to export Japanese designed cars back to Japan.

The productivity and profitability of the British motor industry is at its highest level in decades.

That came about not because we tried as a Government to buck the market, to second guess management or tax successful companies in order to subsidise failures, but because we bit the bullet, we cut subsidies and feather-bedding and we forced the British motor industry to become so competitive that it can indeed pay its own way in the world.

Michael Heseltine has, I am sorry to say, been equally inconsistent in his attitude to Europe.

This week he told an audience in Hamburg that "I do not expect the emergence of any political structure in Western Europe that would submerge the instincts of national sovereignty... increased political co-operation certainly, but not a political federation".

That produced the headline "Heseltine shuns federalism". But it was not always so. Indeed, that was not even the case last year.

For in his book "The Challenge of Europe", published only last year, he took a diametrically opposite position. He said, and again I quote, "There is no escaping the fact that a fledgling federalism is emerging, however the dictionary definition of this word can be stretched to pretend otherwise. Many may not like it, but it cannot be wished away".

In 1986 he made his own view clear, writing "That national sovereignty which we lose is more than made good by a share of the much larger sovereignty which we get from participation in Europe".

Michael Heseltine cannot expect to depose a leader of the courage and dedication to principle of Margaret Thatcher if on the key issue he has chosen as his battlefield he proves himself utterly incapable of being consistent and open about his own attitude.

The British people and the Conservative Party have seen the benefits of firm, decisive and honest leadership for too long to choose instead a leader who has proven to be dishonest, inconsistent and incapable of adhering to principle.

John
I could not serve with honour in a Cabinet headed by such a man. I am relieved that the choice will not present itself.

I hope and expect that my Conservative colleagues in the House of Commons will give an overwhelming first ballot victory to Margaret Thatcher. She has been the most outstanding peacetime Prime Minister in the history of our nation, and the most successful election winner in the history of our party.

We must remember that at the last election over thirteen and a half million people voted to make Margaret Thatcher Prime Minister. It cannot be right for a handful of malcontents to seek to overturn the people's verdict, expressed clearly on three successive occasions.

I look forward to a swift and conclusive victory for Mrs Thatcher on Tuesday. We will then be able to move forward as a Party to tackle the real challenges before us - to set out our agenda for the 1990s, to concentrate our fire on the Labour Party and to win the General Election convincingly under Margaret Thatcher's leadership.

[END PRESS RELEASE]

Mr Chairman, our agenda for the 1990s must be based on the achievements our policies have secured in the 1980s.

There can be no clearer example of the success of our steadfast and unwavering approach than trade union reform.

In the first years of this Government there were many siren voices who warned that it was neither possible nor sensible to attempt to prune unaccountable union power. There were those who said of our policies to introduce ballots, ban secondary strikes and restrict pickets that we could not, we should not and we would not press on with them.

But we promised we would do it, we were elected to do it and we went ahead and did do it - and as a result Britain's industrial relations have been transformed.

The number of strikes has fallen to its lowest levels in more than fifty years. The number of days lost due to strike action over the last year is barely a fifth of the annual average in the 1970s.

And we have turned Britain from the country at the top of the European league table for strikes into the country at the top of the European league table for attracting foreign investment.

We have restored a proper balance in industry, so that managers now have a chance to manage and trade union officials are obliged to look after the interests of their members, and can no longer pursue their own political agenda instead.

Our legislation to introduce ballots have given union members the final say over who should represent them and whether or not they wish to come out on strike.

And we have significantly increased individual freedoms by abolishing the closed shop, a clear and long-standing infringement of basic personal liberties.

I campaigned for years for an end to the closed shop, so it gave me particular pleasure to guide through the House of Commons the legislation which banned it once and for all. Earlier this month I had the privilege of announcing that, with Royal Assent to this year's Employment Act, the closed shop has been consigned to the dustbin of history.

Mr Chairman, each and every one of our trade union reforms has been bitterly opposed by the Labour Party.

Not, mind you, just by the Labour leaders who were prominent in the days when Labour was honest and open about its socialism. Oh no - right at the forefront of Labour's attacks on our reforms were today's supposedly moderate leading figures in the Labour Party.

Let's just remember that John Smith called our introduction of ballots "an irrelevant effrontery". Let's not forget that Tony Blair called the same legislation "a shabby, partisan stratagem" and even said that granting union members a right to a ballot was "the taking away of fundamental freedoms". And let's not let Labour forget that their leader was boasting until recently that he would repeal all our reforms, lock, stock and ballot.

Close examination of Labour's "new" industrial relations policy shows that their real instincts have been hidden, not removed.

For Labour would legalise secondary strikes and flying pickets, bringing back the very weapons which shop stewards used to block hospitals, hold up food deliveries and stop the dead being buried during the Winter of Discontent.

That is once again the message of care and concern which the Labour Party would send to the sick and the bereaved - they would once again leave them to the mercy of union militants.

Labour would strip the courts of the power effectively to enforce the law on ballots or anything else. Employers could no longer obtain an immediate injunction to halt an illegal strike. Courts would have severe restrictions placed on their power to

sequester the assets of a law-breaking union. And jurisdiction over the unions would be taken away from the ordinary judiciary, who in Labour's view do not find for the unions often enough, and given to a special new tribunal instead.

Labour don't just want to put the unions back above the law - they want to make doubly sure that their union paymasters could get away with breaking it at will too.

And Neil Kinnock and Tony Blair would even give the unions legal privileges which Harold Wilson and Michael Foot denied them. They would make it an offence for any employer to sack any striker under any circumstances. And they would give the unions a legal right to force employers to recognise them.

Labour say all this is a moderate package to restore fairness in the law. I say it is a Striker's Charter, designed to make striking easier and destined, if ever implemented, to ruin this country's economy.

It should not surprise anybody that a Party which is owned body and soul by the union movement should come up with policies like this. The unions have 40% of the votes for Labour's leader, sponsor over 50% of Labour's MPs, provide 75% of its cash and wield 90% of the votes at its Conference.

The result is that Labour is a party which is 100% at the disposal of the unions.

The motion invites us to look ahead. I can assure this Conference today that we have not closed the book on further trade union reform.

We will continue actively to consider whether and when further moves in our step by step approach to such legislation would be appropriate.

The motion also draws attention to the drawbacks of centralised collective bargaining. It is the clear policy of this Government to encourage local pay bargaining wherever possible, and it will remain so.

Pay settlements must depend on the individual circumstances of individual firms, looked at and decided at the local level.

Last month the CBI and I made it crystal clear to the TUC that there could be no return to the days of beer and sandwiches at Number Ten, the days when union barons were treated as equals by the Prime Minister, the days when this country was infected by what was known as the British disease of excessive union power and legions of strikes.

Many union leaders have themselves made it clear that they could not and would not deliver wage restraint. We know from bitter experience in the 1970s that corporatist approaches, centralised negotiations and incomes policies lead inevitably to bitterness, increased strikes, and higher inflation and unemployment - and that therefore they always and invariably fail.

This Government under this Prime Minister will have no truck with the failed policies of the 1970s.

We will continue to move forward in the 1990s on the same clear lines she has mapped out courageously throughout the 1980s - individual freedom, lower taxes, a strong voice abroad and firm support for enterprise at home.

These are the policies we will need at the next election - firm Conservative policies, not pale shadows of socialist ones.

The policies and commitment which have transformed our prospects, our international standing and our living standards provide the best possible platform at the next election.

And let me conclude by making three things absolutely clear to our opponents, wherever they may be:

We shall enter that election under Margaret Thatcher's leadership.

We shall fight it under Margaret Thatcher's leadership.

And we shall win it under Margaret Thatcher's leadership.

ENDS

DEPARTMENT OF EMPLOYMENT
Our Ref. KB1092

BARRY JORDAN

see page 5 on { work-life
subsidy

MICHAEL HESELTINE INTERVIEW

Programme: TODAY
Station: BBC RADIO 4
Date: 15.11.90
Time: 0630
Duration: 8 MINS

[08:15]

PETER HOBDAV: (Presenter)

If Michael Heseltine moves into Number 10, what policies will his government adopt? Mr Heseltine is on the phone. Good morning.

MICHAEL HESELTINE MP: (Conservative)

Hello to you.

PETER HOBDAV:

You're on the record as saying you want to do something about poll tax. What might you do?

MICHAEL HESELTINE MP:

I think that the important thing is to conduct a fundamental review in order to explore how we can deal with the damage that the poll tax is doing to the prospects of the re-election of the Conservative government.

And I think there are two approaches that I would adopt. The first is that we would look to find a way of making the poll tax reflect people's ability to pay. I believe the civil servants could devise such a way, and I don't believe that someone like myself on the back benches can, without the equipment and the computer facilities.

PETER HOBDAV:

Does that mean something like, before we just leave that first point, does this mean something like a local income tax?

MICHAEL HESELTINE MP:

Well, I don't think that there is a mood in the Conservative Party to go to local income tax. We've looked at all that and there were many difficulties.

So we'd look to see how we could approach the poll tax in order to inject into it this dimension of ability to pay. The reasons, first of insuring that it is fair but to insure that people believe that it is fair, locally. The second thing, and this is, in a way, a fall back position but it has a particular advantage - you could, as the money becomes available within the constraints of tight public expenditure, you could begin to switch the education budget in parts to the centre, as opposed to, at the moment, where it lies in a very significant measure in local government hands. Now, the effect of this would be to lower the level of the poll tax in real terms.

It has one other advantage which has begun to weigh with me in a way that previously I didn't find convincing. Somehow or other we have got to address the standards of education. Now in my constituency we have good schools with good teachers, and with bright kids. And the standards are, of course, very different to those that you find in some of the twilight and inner urban areas, relatively high levels of unemployment often caused by the inadequate educational standards of the kids. I suspect that in order to address these problems in those areas, where you often have confrontational Labour authorities, we will have to have a more decisive influence in the hands of the Department of Education and Science. If they have more control over the budget, I think they will be able to use their control in order to get local standards up.

PETER HOBDAV:

What you've just suggested would lower the poll tax but it would increase income tax. Would that worry you?

MICHAEL HESELTINE MP:

No, no, I'm sorry, you didn't hear what I said.

PETER HOBDAV:

Well, no. But if you were to take spending on education to any extent away from local authorities and give it to central government, wouldn't that inevitably increase income tax?

MICHAEL HESELTINE MP:

No, that would not be the consequence. What you did...what you would do, and this is what I stressed, you'd have to do over a period of time. As the economy grows and as the public expenditure allows you to make judgements about where extra priorities are to go, as, for example, the Chancellor announced just recently very large increases in some public expenditure programmes. Now, as one of the priorities in that process, within the accepted disciplines of managing the economy under tight control, you could put priority into that central funding of the education budget; and therefore the consequential containment of any modified poll tax.

PETER HOBDAV:

To what extent is keeping income tax where it is, or lowering it, a priority, as far as you are concerned?

MICHAEL HESELTINE MP:

Well I, of course, have been for six years a member of the government that brought about the transformation in tax rates and made them world competitive, and introduced a degree of incentive into the economy that we hadn't seen for decades. Nobody could be more supportive of that than I am.

PETER HOBDAV:

Would you allow unemployment to rise if that was the only alternative?

MICHAEL HESELTINE MP:

My view about unemployment is not quite as simple as that. I am appalled by the idea that we have something like 1.6 million people out of work with simply a situation that they get a cheque and they are expected to do nothing specifically in exchange for that. Now, my feeling is that we have got to look to see how we can help these people. We did it with the young people in the YTS scheme where we introduced training schemes in a variety of other community service activities, so that they themselves were kept in active employment, and enabled to retain their self esteem and their self respect.

I think we've got to extend those ideas with considerable opportunities for training, re-training, education, re-education, and indeed other forms of community service in order to be sure that for this very large number of people and the very large sums of money that are expended, both they, in their own personal interest, and the community who has to pay these bills, are getting from it something that is appropriate to the investment of that scale.

PETER HOBDAV:

You wouldn't try to keep people in employment by helping industry, the state intervening to help industry?

MICHAEL HESELTINE MP:

What, you mean subsidy?

PETER HOBDAV:

Yes.

MICHAEL HESELTINE MP:

Me?

PETER HOBDAV:

Yes.

MICHAEL HESELTINE MP:

You can't be serious. I mean, I've spent my life in government doing exactly the opposite. If you remember when I was in the Department of Environment I reduced the numbers by 13,000 people. I introduced competition to the Ministry of Defence industries on a scale they've never seen. I began the process for the government of privatisation by selling off council houses.

PETER HOBDAV:

But it doesn't have to be direct subsidies. What about regional assistance, for instance?

MICHAEL HESELTINE MP:

Well, we have a form of regional assistance.

PETER HOBDAV:

Would you increase that?

MICHAEL HESELTINE MP:

I would not myself be inclined to believe that actually giving subsidies to industry is a long term solution to the regional problems. What I do believe is that the schemes I devised in the inner city programmes, which were gearing schemes in order to bring the private sector into areas that were previously, sort of, almost 'no go' for them; they remain the basis of the government's inner city policies today. Those sort of schemes have a role, but what does not have a role is subsidising loss making industries to do things that they're market judgement tells them not to do.

PETER HOBDAY:

Are you completely in support of the internal market for the health service?

MICHAEL HESELTINE MP:

I think that the reforms that Ken Clarke is putting through are very sensible because they are basically saying to doctors in their practices to, surgeons in their hospitals, consultants in their hospitals, to patients, look, we want you to become more directly involved in the services that you get. And this must be right. Vast sums of extra money are going into the health services. We have a huge increase in the numbers of doctors and nurses, and other people who are critical to the quality of that services.

Once you get that sort of scale of expenditure and those numbers of people, it really is naive to think that even the most benign of ministers sitting in Whitehall can, sort of, oversee this thing with a detailed sophistication. So you've got to get people involved, you've got to make them feel a sense of personal responsibility for the decisions. And then they will get better quality.

PETER HOBDAY:

Do you have any misgivings about our constitutional system which would have you, perhaps, as the Prime Minister for whom nobody has voted as Prime Minister. I understand that we vote for MPs, of course, and don't vote directly for Prime Ministers, but we do understand who is going to be Prime Minister when we vote. Do you worry about the system at all?

MICHAEL HESELTINE MP:

No, because there have been examples of Prime Ministers coming into office in the middle of a term of a Parliament,

and I've never heard anybody complain about that. I don't remember, for example, when Lord Home took over from Harold Macmillan. People said that this was in some way unconstitutional. The matter is for colleagues in the House of Commons. If they choose a leader of a Party and the sovereign is so minded to invite that person to form a government, that is totally as you would expect within the terms of the British constitution.

PETER HOBDAV:

Michael Heseltine, thank you.

MICHAEL HESELTINE MP:

Thank you very much.

PETER HOBDAV:

I should perhaps add that we did invite the other candidate to appear on the programme this morning but she said no thank you.

*** **

Patrick Wintour
Political Correspondent

WHEN the 372 Conservative MPs vote for Britain's Prime Minister next Tuesday they face a choice as stark as many put before the electorate since the war. Michael Heseltine is, arguably, even more radically interventionist than Labour.

The headlines of the first 100 days of a Heseltine government would be about the return of industrial intervention, a review of the poll tax, the challenge of education, and an irreversible commitment to Europe. On the margin there would even be the promise of some Mitterrand-style, monumental architecture.

Some would dub it as the return of Heathite corporatism, others Euro-capitalism. Whatever happens the air will be thick with Churchillian rhetoric and anti-socialist sentiment. Those in search of a quieter, gentler Britain will be disappointed.

The defining characteristic of "Heseltinism" — a corpus of policy constructed since his cabinet resignation in 1986 — is his belief that government and industry must work in partnership, as in Japan — the economy about which he has been writing a book.

The British disease stems from the Balkanisation of its economy, according to Mr Heseltine. Owners concentrate in the City, managers dwell apart from the owners, and the workers are a "separate race,

'Our imperial days are over. Inside Europe we are part of what will be a world power'

employed, but not committed". The chief manifestation of Mr Heseltine's industrial strategy in Whitehall would be the rise of the Department of Trade and Industry and the relative eclipse of the Treasury and monetary targets.

"In spite of its name the DTI is not responsible for the sum of government's relations with industry," Mr Heseltine wrote in his book *Where There's A Will*.

To overcome this the Trade and Industry Secretary would be given enhanced status in the Cabinet, and would chair a new cabinet industry committee and meetings of a revived National Economic Development Organisation.

The goal would be to match MITI, Japan's powerful Ministry of Trade and Industry, and "target the world's market place, and with a combination of domestic competition and taxpayer support, capture an increasingly large share of it".

If this smacks of picking winners, Mr Heseltine would probably plead guilty. But he insists a distinction can be drawn between featherbedding and intervention. Besides, unlike most colleagues, he has done it. He is a self-made millionaire.

He promises new subsidies for family businesses, incentives for industry pension funds

to invest in their own businesses, a regional development agency for England based on the German federal states, and greater funds for research and development.

Reversing the steep decline in manufacturing will be his personal benchmark. Mr Heseltine told a Tory conference fringe meeting last year that to shrug off the manufacturing deficit "smacked of socialist naivety. I beg our party not to argue that a deficit on overseas trade is of incidental importance, self-correcting, easily financed. I don't believe a word of it."

With phrases that could be drawn from Labour policy statements, Mr Heseltine has argued that one key to competitive success lies in a highly trained workforce.

"Ask any employer about the standard of recruits that are available to him, then ask him about their equivalents in the other countries in which he trades. His answer will show that the problem is stark and urgent," he told the meeting.

Mr Heseltine offers three solutions:

- The unemployed should be denied all benefit unless they join available training schemes — a form of US workfare;
- Vocational training for 16 to 19-year-olds needs a huge boost either through direct grant or tax incentives;
- Education funding increasingly should be taken under central government control. With a stab at Labour, he tells audiences that should happen

particularly "where doctrinally motivated local authorities are producing a generation of people in these urban areas that are simply not up to the standards of modern industrial requirements".

Integral to these domestic economic reforms is Europe. Ever since his experience developing the European Space Agency in the early 1970s, Mr Heseltine has been convinced of the inevitability — a word he uses often — of an ever closer European Community.

In 1986 he wrote: "Our imperial days are over. Inside Europe we are part of what will be a world power. That national sovereignty which we lose is more than made good by a share of the much larger sovereignty which we get from par-

ticipation in Europe." His belief in the inevitability of what he calls — to the alarm of free market critics — the "European Consortium" was stressed in his Jean Monnet lecture last year.

He said: "Economic and Monetary Union is going to happen. To Germany it is a logical step. And it is of secondary importance whether we like it, or even whether we join in."

"The only discretion Britain possesses is to remain outside while the French and the Germans stitch up Europe's financial arrangements to their advantage and our disadvantage".

Membership of the Exchange Rate Mechanism not only gave Britain the chance to lower interest rates, but also far greater leverage over the arguments

ahead about a single currency and a central bank.

Mr Heseltine has frequently proposed that Europe moves gradually towards a central bank with the 12 community countries first establishing their own independent central banks operating to the same rules and disciplines. Every bank, even the German Bundesbank, in the last resort could be controlled by politicians.

The final stage — a single currency — he argued in the latest update of his thinking this week, is 10 years ahead and parliament would have the last word.

In his second book, *The Challenge of Europe*, published last year, Mr Heseltine predicted that Europe would never adopt an United States-style constitu-

tion, but implied that federalism is creeping onwards.

"There is no escaping the fact that a fledgling federalism is emerging, however the dictionary definition of this word may be stretched to pretend otherwise. Many may not like it, but it cannot be wished away."

Mr Heseltine's prescription is a new infusion of democracy through a 152-strong upper senate of the European Parliament, drawn from the national parliaments, which he portrays as shifting power from national government to MPs.

Britain would have 20 senators selected by the whips. All nations would be required to appoint a Minister for European Affairs who would operate in the Council of Ministers.

This has been widely rejected, most recently last week in a report by peers.

Mr Heseltine has carefully developed distinctive positions on the key issues that have exercised the Tory benches in the past four years.

On the poll tax he promised yesterday a fundamental review once he has access to government computers. But in the past he has offered banding according to individuals' tax rates, and enforced elections where councils plan to exceed spending limits.

"Only one factor consistently presses down on local government expenditure and that is the fear of electoral defeat," he wrote in the Times after the May local government elections.

The Guardian
15 November 1986

Here there is Europe

Monday Nov 5 1990

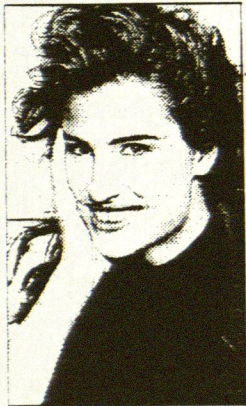
Heseltine urged to test his views

Senior Tories give Thatcher their backing

By Jon Hibbs, Political Staff

MRS THATCHER faces her most critical month in 15 years as Conservative party leader after Mr Michael Heseltine plunged the Tories into fresh turmoil yesterday, challenging the Cabinet to assert its collective judgment against the Prime Minister over the Government's policy on closer European integration. As senior ministers rallied round the Prime Minister, pressure intensified on the former Defence Secretary to put his criticism of her style to the test by declaring that he would stand against her in a leadership election.

INSIDE



**Maximum
freedom,
minimum cover**

Best Buys tracks down
the catsuit

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Financing with

A succession of ministers insisted there was no disagreement within the Government over the substance of policy on Europe.

Although Mr Heseltine denied bidding directly for the party leadership, Tory MPs were left in no doubt that he had seized on the ferment caused by Sir Geoffrey Howe's resignation to prepare the ground for a possible leadership contest in the next few weeks.

Mr Norman Tebbit, the former Tory party chairman, described Mr Heseltine's intervention as unwise and angrily accused him of stirring up pettiness against the Prime Minister. "It makes it far more essential that she does carry on," he told BBC Radio's World This Weekend.

Mr Tebbit, who was consulted by Mrs Thatcher over the Cabinet reshuffle that followed Sir Geoffrey's resignation, added: "There can be nothing more fundamental than the issue of whether we are or are not to sign away the right of the British people to

it is not in any way right to interpret it as a leadership challenge," he said.

Meanwhile the Prime Minister spent the weekend at Chequers, preparing her speech for the opening of the new session of Parliament, against a barrage of weekend opinion polls suggesting a majority of the general public, and a significant minority of her own backbenchers, want her to step down before the next election.

With Tory MPs braced for bad results in two by-elections on Thursday — a probable lost deposit at Bootle, and possible third place at Bradford North — the Prime Minister intends to reassert her authority with a robust performance that will dispel further speculation about her leadership.

Nominations for the leadership formally open immediately after the session begins and a challenge could be mounted at any time until the end of the month.

Mr MacGregor, Sir Geoffrey's successor as Leader of the Commons, insisted yesterday that the vast majority of the parliamentary party gave

elect or sack a government of whose policies they approve or disapprove.

"But what we are having is a silly quarrel about personalities when we should be discussing that issue."

Mr Hurd, Foreign Secretary, insisted there was no Cabinet split and that at least 80 per cent of the party was united behind the Government's policy over Europe.

"I think the present froth and commotion will die down... the policies have actually been agreed and they will be pursued by everybody," he told Brian Walden on London Weekend Television.

Mr Heseltine made his move in an open letter to his constituency association, released shortly before he left for a pre-arranged tour of the Middle East.

In his letter the former Defence Secretary said Sir Geoffrey's departure was a crisis of confidence that must be quickly repaired if the Conservatives were not to be defeated at the next General Election and consigned to the political wilderness for a decade.

In one of his fiercest attacks on the Prime Minister so far, Mr Heseltine accused Mrs Thatcher of riding roughshod over the collective wisdom of the Cabinet on Europe.

Echoing criticism voiced by Sir Geoffrey last week, he condemned Mrs Thatcher for departing from her agreed text in the Commons statement on the Rome summit to voice "convictions and prejudices" about the way ahead.

Speaking in Amman last night, after meeting King Hussein of Jordan, Mr Heseltine refused to answer further questions on the subject until he returns to London on Wednesday.

Earlier, as Government sources indicated that Cabinet ministers were privately furious at Mr Heseltine's "sheer effrontery" in suggesting they rubber-stamped the Prime Minister's view, Mr Heseltine said on BBC radio that he had sought to show the Cabinet the way forward to rebuild confidence in the Conservative party.

"That is a very clear idea which seems to be urgent and

the parliamentary party gave total support to the Prime Minister.

Noting that Mr Heseltine was obviously pitching up the debate on Europe, he added: "I welcome the debate because I think nothing is more important than getting agreement on our policies. I am quite confident we can do that."

But nervousness among Mrs Thatcher's supporters at the prospect of a contest they fear

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would further divide the party was underlined when three junior members of the Government, Mr Michael Portillo, the Local Government Minister, Mr Francis Maude, the Financial Secretary to the Treasury, and Mr Archie Hamilton, the Armed Forces Minister, each felt it necessary to put out statements throwing their weight behind the Prime Minister.

The volatile mood amongst Conservative backbenchers was illustrated by a poll of 150 Tory MPs for BBC TV's *On the Record* which claimed that almost a third were unhappy with Mrs Thatcher's stance.

Mr Tony Marlow, MP for Northampton North, told the programme it was time for Mrs Thatcher to step down "in a way that allows her dignity."

● **Roland Gribben**, Business Editor, writes: Business leaders are set to attack the Prime Minister's stand on European economic and monetary union at the CBI's annual conference which opens in Glasgow today.

A strong under-current of criticism about the way the Government has handled the economy is also likely to surface.

Mr John Banham, CBI director general, said yesterday: "We do not want the UK's commitment to a single currency to be questioned. We believe in economic and monetary union. We believe in the long run in the desirability of one currency. But we believe the Mrs Thatcher is right to raise fundamental questions."

Mandy 5 November

Ministers hit back at Heseltine

CABINET MINISTERS struggled to contain the turmoil in the Conservative Party yesterday, after Michael Heseltine had accused Margaret Thatcher of leading the Tories into the political wilderness with her hostile approach to European integration.

Mr Heseltine's public statement dramatically escalated his unspoken campaign to succeed Mrs Thatcher to the Tory leadership. It widened the split in the party opened by the resignation of Sir Geoffrey Howe as deputy Prime Minister last week, and drew a swift and angry response from Mrs Thatcher's Cabinet and backbench supporters.

John Wakeham, the Secretary of State for Energy, condemned Mr Heseltine's "unworthy and insulting" implication that Cabinet colleagues were "wimps, not able to stand up for themselves and for what they believe".

The loyalist counter-attack was reinforced by MPs, including Norman Tebbit, who scornfully likened Mr Heseltine to a cross-Channel company "trying to bore us into Europe".

But as ministers embarked on a concerted attempt to play down internal party divisions over Europe, Tory backbenchers engaged

in open discussion of Mrs Thatcher's future, and Labour claimed that the Government was now "visibly disintegrating".

Weekend polls, meanwhile, showed the Government trailing behind Labour by 17 per cent and more, and suggested that nearly two thirds of voters believed Mrs Thatcher should retire before the next general election. According to one poll, Mr Heseltine had an 11 per cent lead over the Prime Minister as the voters' choice of Tory leader.

A poor by-election result in Bradford North on Thursday, a gloomy economic diagnosis in the Chancellor's Autumn Statement, and Sir Geoffrey's expected intervention in the Commons debate

By John Pienaar
Political Correspondent

on the Queen's Speech will increase the Government's woes.

Business leaders added to Mrs Thatcher's European difficulties last night. On the eve of the Confederation of British Industry's annual meeting, which starts today in Glasgow, John Banham, CBI director-general, pledged support for economic and monetary union. "We believe in the long run in the desirability of one currency because of the full benefit it will give consumers," he told a news conference.

The Conservatives' internal tensions were exacerbated by the

open letter from Mr Heseltine to his constituency party. It criticised Mrs Thatcher's approach to Europe in implicit and explicit terms, and in effect urged the Cabinet to assert its collective will in favour of closer co-operation within the European Community.

Mr Heseltine wrote: "If the Conservative Party today has not within itself the will to find that unity, then the divisiveness that will flow will consign us to the selfsame wilderness in which the left of British politics has for so long aimlessly wandered."

The letter had Cabinet ministers telephoning each other yesterday and agreeing that a concerted effort was needed somehow to pull the party to-

gether, and weather the immediate political turmoil.

In Amman during a four-day tour of the Middle East yesterday, Mr Heseltine denied that he was seeking to challenge Mrs Thatcher for the Tory leadership.

One Cabinet source insisted that the prevailing mood of the party was against a contest this autumn. "Michael is stymied by the same practical problem. He would not win in any case, but I don't see how he could run without being accused of inflicting enormous damage on the party, and that would finish him for ever."

Interviewed by Brian Walden on London Weekend Television yesterday, Douglas Hurd, the Foreign Secretary, said: "I think the present froth and commotion will die down... the policies have actually been agreed and they will be pursued by everybody."

John MacGregor, the newly appointed Leader of the Commons, echoed the theme later, but also conceded that the party needed to "concentrate on getting agreement in the policies, tone and tactics".

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CBI backs EMU, page 22

Gloom over recession deepens

SOARING receivership figures and warnings that the construction industry is suffering its worst recession in a decade today provide further gloomy news on the state of the economy.

Figures from the accountants Touche Ross show that last month was one of the worst on record for business failures. In October, 487

companies went bust. This year's previous monthly high was 357 in August. Richard Turton, joint national director at Touche Ross, said 1990 was becoming one of the worst years for business failures since the Second World War.

At the same time the autumn state-of-trade survey conducted by the Building Employers' Con-

federation says 100,000 construction jobs are likely to disappear by the end of next year. The survey of 600 firms shows the construction industry is facing its first major decline in output since early 1982, the sharpest deterioration in orders since late 1980, and rapidly rising unemployment levels.

Details, page 22



Great pretender? . . . Michael Heseltine at Heathrow yesterday returning from Hamburg

PHOTOGRAPH GRAHAM TURNER

Cautious Heseltine shuns federalism

Patrick Wintour
Political Correspondent

MICHAEL Heseltine yesterday called for a step by step approach to European economic and political union, but fiercely rejected supranational federalism.

He tried to bridge divisions in his party by agreeing that some European Community partners were pushing the cause of economic integration too hard.

Speaking in Hamburg, he said the process towards a closer Europe had to be evolutionary. "The greater the pressure to act fast, the greater the political tension

it will create." He praised the Government's caution over Economic and Monetary Union, with the proviso that if Britain's European partners are to be persuaded that its caution is prudence, Britain "has to recognise their belief that the journey upon which we are embarked has a destination. Most journeys normally do". A single currency could not be considered until EC partners perhaps a decade from now had achieved parallel economic performance.

"If the community and the single market are ever to mean anything, then it must be a prime objective for all of us to seek the optimum standards. It is only if, and when,

these are achieved that serious questions about shared sovereignty will have to be faced. So why not take it step by step?"

At the EC inter-governmental conference starting next month, he suggested, Britain's strategy might be to accept the concept of umbrella legislation providing for an ultimate economic union, but only so long as national parliaments are given the explicit power to move ahead towards union on a step-by-step basis.

Mr Heseltine was equally cautious on political union, the subject of the second inter-governmental conference. "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. This is not just true of Germany.

"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 supranational sovereignty is tradeable, increased political co-operation certainly, but not a political federation."