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Policy Unit
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PRIME MINISTER

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The Government has now regained momentum, thanks to a strong Tory radical Budget. The press and public seem delighted that the Government was prepared to take a shrewd view of corporate tax reform, was prepared to lift income tax allowances substantially, and was prepared to begin the arduous task of evening out the tax rules governing savings institutions.

Shouldn't the momentum now be sustained? How far should the Government go?

How far should the Government go?

Some radicals - egged on by commentators like David Hart and, latterly, Brian Walden - want the Government to become very radical, making tackling vested interests its main rallying cry. Even Ferdy, in his Times article, suggested that it was the task of this Government to tackle the vested interests head on.

Your Government has always adopted a fairly radical rhetoric. If the Government ceases to be radical at all, it is likely to be beset by more of the criticism that occurred between January and the Budget. A lack of wind in the sails causes a discontent in the crew on the ship. This in turn produces a bad press.

The counsel of the consolidators in the Party is that this is the cause of madness. Vested interests are by definition powerful, good at lobbying, and often essential supporters of the Conservative Party. The Conservative tradition embraces support for many leading interest groups as well as embracing support for freedom and more liberal economics.

The pursuit of novelty for its own sake and an attack upon vested interests could lead to the Government over-reaching itself and courting unpopularity in a different way.

The way to reconcile these opposites is to bring them together behind purposes about which they could all unite. Often it is a question of how the policy is phrased. This can also overlie the question of how alliances are formed and political support built up for any particular course of action.

Take the case of the farmers. There is a traditional alliance between the Conservative Party and the farming interest. Farmers are heavily represented in our rural associations, and give freely of their time and resources to the Party. It is madness to try and rally the troops behind the banner of defenestrating farmers' privileges.

However, those who work on the farms are not a united band. They are not very numerous. The interests of the rich cereal farmer with many acres, or the fenland farmer, are not the same as the interests of the poor hill farmer in Wales. Neither of them have similar interests to those of the agricultural labourer, who is still the most numerous of the rural dwellers in the agricultural sector.

We do have positive policies for these different groups within the agricultural interest. Rich farmers benefit more from the cuts in CTT and income tax and the abolition of the Investment Income Surcharge than they stand to lose from a little less CAP subsidy. A beef farmer finds policies to reduce the price of cereals very attractive. The Agricultural Holdings Bill is the result of a deal between the Landowners Association and the NFU and therefore has its agricultural supporters. The agricultural labourer is more attracted by raising tax thresholds or other policies than he is worried about subsidy unless it reduces wages. Out of these shifting sands alliances can be made or strengthened by careful preparation of policy.

But there is a wider appeal to present policy. Everyone in the country is a food buyer. Most people in the country also want a better deal from Brussels, and associate our heavy budget contributions with the expensive Common Agricultural Policy. Many farmers believe that the Common Agricultural Policy has indeed gone off the rails and is becoming too expensive.

Out of this, alliances can be formed and sensible policies followed that do have momentum, but are not going all-out to court unpopularity with an important interest group in the country. As the debate proceeds, the alliance between Government and governed often strengthens if the Government makes its objectives clear and these objectives are sensible - eg a controlled CAP budget and lower food prices.

Conclusion

A similar appeal to wider interests of voters as a whole coupled with careful reading of the differences within any given interest group can provide a basis for acceptable and often popular change. It can be done in education, (parent power, choice and standards) in pensions (members of funds and commercial interests benefitting from evolution), in health (patients and many overworked and disgruntled junior and middle ranking doctors, coupled with more private practice for consultants) and in several other policy areas.

Could this not bring consolidators and radicals nearer together as Nigel's budget has done?

JOHN REDWOOD

NOTE: THIS TRANSCRIPT WAS TYPED FROM A TELEDIPHONE RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MISHEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS ACCURACY.

THE BUDGET

The Rt. Hon. Roy Jenkins, MP

(For the SDP/Liberal Alliance)

Recorded from transmission (2125) BBC-1 15th March, 1984.

VOICE OVER: Roy Jenkins is acknowledged to have been one of Britain's most successful Chancellors of the Exchequer since the Second World War. When he was in Office, unemployment was less than one fifth its present level, and inflation, was well under control. Tonight, he gives his judgement on the Budget, on behalf of the SDP/Liberal Alliance.

RT. HON. ROY JENKINS MP: Budgets aren't nearly as important as Chancellors think they are. Nor are they mostly quite as awful as Shadow Chancellors say they are. What is obviously important is how the country performs over the year, what's happened to unemployment, to prices, to the standard of living. To the care of the sick, the poor and the old. And to whether we are strengthening or weakening the future of the nation. Budgets don't determine all these things but they affect them. Although often most, through missed opportunities. And they provide us with a useful annual occasion to consider whether or not we are on the right national track.

This Budget was very well presented and there are some good things in it. Most noticeably, the abolition of the National Insurance surcharge. Because of tax on jobs it must be foolish in present circumstances, I believe some of the tax for poor measures are sensible, and within a limited framework, rather bold. They don't help small businesses which lose on the swings of capital allowances without gaining on the roundabout of Corporation Tax. And I greatly regret that Child Benefit which is much the most cost effective way of relieving the poverty, has not been substantially increased. That the mean cut in housing benefit has not been restored, and the long term unemployed, who are the most obvious casualties of this Government's strategy, are not given the long term rate of Supplementary Benefit.

Even more serious are the issues which Mr. Lawson with all his tax reforming ingenuity, has simply chosen to ignore. If I were Chancellor now, I would be preoccupied with two problems. First, the fact that even after a year or two of a pickup in the economy, we still have record levels of unemployment. Substantially higher than in almost any competitor country. And there is no prospect on present policies of any significant reduction. Mr. Lawson, to be fair to him, didn't pretend there was. He just treated the unemployed as something we have to live with and worth only the most perfunctory of mentions. And that is simply not acceptable.

This year we may well be reaching the top of a little boom. It may be short lived, the American economy is likely to turn down after their election in November, we may do so with them. To start the next turn down, whenever it comes, with over 3 million out of work, really is a horrifying prospect. Where are we then going to finish it. Apart from the hopelessness of the outlook, there are so many individuals, young and not so young, what is it going to do to the cohesion of our society. The peace on our streets, and safety in our homes. In this circumstances, I don't think it is enough to have a Chancellor who puts the general direction on automatic pilot, and occupies himself, however cleverly even worthily, with shifting round the seating and the other fixtures. Well it is worse than that.

The second problem that dominates my mind is this. How are we going to earn a living when North Sea Oil begins to run out. The scale of this problem is vast, but the time scale is now short. Although it is difficult to believe it when one looks around at the industrial wastelands and the generally run-down state of a lot of Britain, we are living through a short period when this country for once, is peculiarly favoured. None of our competitors has an oil surplus. We have, for the moment a big one. It, and it alone, prevents us in being in huge deficit with the rest of the world. Also in 1983, oil contributed 8 billion Pounds in taxation to the Chancellor's revenue. For a year or so, the flow will get bigger still, then it'll begin to go and it's likely to go with gathering momentum. Within about 9 years, all the surplus will probably be gone, there will then be a huge gap which will have to be filled with other exports and they won't come from dismantled factories or closed down shipyards.

Confronted with this prospect, and in many ways the most menacing economically, that has faced us since 1945, I believe the primary duty of our Government is to use the remaining period of oil spate to put Britain in the best possible shape for a difficult future. To strengthen our real assets, our bridges and railways, our ports, water system, housing stock, the thrust and range of our industry and our technical skills and our training. And such a programme will put a lot of people back to work. We are not doing it at the present time and unless we do, we shall have wasted the window of opportunity presented by the oil.

The Chancellor, rather eccentrically claimed on Tuesday, that the danger was in bequeathing debt to the next generation. But the real burden of debt today is less than two thirds of what it was a generation ago. The real danger is bequeathing a run-down Britain without the skills or the tools to earn its living. That is the charge against this Government's strategy. We can greatly improve matters, although the time is now short. But we don't do so upon the basis of a complacent assumption that we are building on success and that the future is relatively secure. I don't know which I find less convincing. Mr. Lawson and Mrs. Thatcher, pretending that only in 1979 did we begin to emerge from some sort of dark age of moral decay which embraced not only Labour governments, but the Governments of Mr. Heath and Mr. MacMillan as well. Hattersley suggesting that poverty, deprivation, and unfairness, were as unknown as Rain in Camelot, until that same dreadful date. And that some day, he and Mr. Kinnock will lead us either backwards or forwards, I'm not quite sure which. To an unstained, earthly paradise. We can't afford the political clap-trap, and we can't afford industrial confrontation either. Industrial

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confrontation which the Labour and Conservative parties still do so much to foster. Dogmatic monetarism is now as discredited as nationalisation. The Alliance wants the Government to launch a major programme of re-equipping Britain. And it wants private business to have the freedom and to show the initiative to respond to the opportunities that this will create, that is the only way to get the jobs. That is the only way to live with a difficult future, Neither head down with fear, nor head in the sand with deceit, but with head up, confidence.

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THE WALL STREET JOURNAL, TUESDAY, MARCH 20, 1984

BOX

Middling Expectations

Five years of Margaret Thatcher have kept Britain off the economic ropes. We won't deny her two cheers for this, but last week's budget and its view of the next few fiscal years don't earn her the big hurrah. Her chancellor, Nigel Lawson, is forgoing the good for the not-so-bad.

Our two cheers are heartfelt. Back in 1980, inflation was 22% and rising. It's now 5% and falling. The British economy will grow some this year, and the Thatcherites have managed to mothball some woolly British ideas about the wonders of "demand management," economic fine-tuning and nationalized industry.

And, true enough, Mr. Lawson last week took a step toward the supply-side club. He announced some pretty impressive tax cuts, including a reduction in the top rate on investments from 75% to 60%, a lowering of the corporate tax and some duties, and an end to a job tax on employers. London stock prices rose 6% in the subsequent five days, so these moves were obviously much to the market's liking. He also removed 850,000 lower-paid workers from income tax altogether. This was all done in a "revenue neutral" budget; tax cuts won't increase the deficit, Mr. Lawson explained, because they're matched this year by speeded-up collection of the value-added tax on imports from the European Community, increased taxes on alcohol and cigarettes, and other adjustments.

But the long-awaited Thatcher revolution is not happening. The budget projects only 2% economic growth, a pittance compared with U.S. growth. The Tories have a 144-seat majority in Parliament, but have announced they've given up on reducing public spending. Hope for more significant tax cuts, especially in the incentive-busting marginal income tax rates, is anchored to the dead weight of future legislative discipline. The Treasury position over the next few years is that "we must establish a clear view of what can be afforded, set our spending plans accordingly, then stick to those plans." This is noble sentiment, but there's no sign that it will happen.

Government spending under the Tories has just begun to fall as a share of gross domestic product, and is now 43.5%. This is huge, and is even above the 40.5% share under the Labor government in 1979 when Mrs. Thatcher was first elected. The source of this spending, of course, is the hides of taxpayers. Under the Tories, taxes have gone to 38% from 34.5% of GDP.

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A look at the recently released "green paper" on public spending and taxes into the 1990s shows that Mr. Lawson is not yet ready for the radical changes Britain needs to create the incentives necessary for long-term growth. He apparently has given up on former Chancellor Geoffrey Howe's goal of reducing to 25% from 30% the marginal rate of income tax on people who earn as little as $4,500. The highest rate, 60%, is paid at a $57,000 income. The paper notes that "without firm control over public spending there can be no prospect of bringing the tax burden to tolerable levels," but gives no hint of how Britain will come to grips with spending or how much the government hopes to cut which taxes.

According to OECD figures, spending on social services continues to be the leech on Britain and other European welfare states. In 1981, the U.S. allotted just over a fifth of GDP to social spending, compared with a quarter in Britain and almost a third in Germany. The growth rate of welfare spending has fallen relative to growth in the private sector in the U.S., but has tripled since 1975 in Britain. One direct result of high taxes to pay for high public spending is that in the past decade there has been a loss of 2.5 million jobs in Europe. In the lower-tax U.S., economic growth has added 18 million jobs in the same period, enabling the U.S. to spend twice as much per capita on welfare programs as Britain.

The Thatcherites can't afford to rest on their laurels. The name of the economic game is growth. What Britain needs is not a revenue-neutral budget, but a growth-positive one: lower government spending and reduced personal taxation.