

TRG

**TORY
REFORM GROUP**

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CH/EXCHEQUE	
NO.	06 MAR 1985
TO	Mr Mulligan
	Mr Cropper

Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
H M Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

5th March 1985

Dear Chancellor,

I enclose a copy of the views of the Tory Reform Group on a budget for jobs.

We believe that unemployment is now Britain's No 1 enemy and needs to be tackled with the same resolve that this Government has shown in fighting all the nation's enemies. We aim to be part of a Tory solution to this problem and thus our proposals are, we believe, both constructive and Tory.

On behalf of the Group may I wish you success on Budget Day.

*Yours sincerely
Iain Picton*

Councillor Iain Picton
Chairman

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PRIORITIES FOR THE BUDGET

When the Government took office six years ago the control of inflation was its first priority. It had to be. For years markets and jobs had been lost, confidence sapped and our economy weakened by our uncompetitive prices and unstable currency.

Today it is unemployment that is not only our greatest social evil but also the greatest burden on our economy.

The Chancellor juggles with the budget arithmetic. Can he "spare" £2 billion of tax payers' money for tax cuts? £1½ billion? £1 billion? Can he find £1 billion for essential public investment? Why not? Because unemployment is costing £16 billion a year - £5 billion in benefits, the rest in lost revenues. The total cost, in terms of wealth foregone that the factories could have produced, is far, far higher.

It is not a question of affording to tackle unemployment: it is a question of affording to continue to tolerate it.

The 250,000 new jobs created during the past year, welcome though they are, represent a drop in the ocean of what is needed. Week by week the toll of redundancies and closures mounts. The trend in unemployment is still relentlessly upward. After his brief euphoria in 1983, the Chancellor concedes that no reduction is yet in sight.

The sums being spent on special employment measures, on training and on public investment are large but well justified. More is needed: in particular the Youth Training Scheme should be extended to offer a second year to seventeen year olds without jobs.

Training for a return to the dole queue leads only to bitterness and disillusion. Special employment measures only postpone the evil day of idleness unless there is real employment to follow.

Much worthwhile investment - public and private - is being made - in mines, railways, roads and in industry. But beside it, the deterioration of other services goes on apace. Reconstruction costs increase the longer it is delayed. In 1984 a MEDO report revealed that the maintenance backlog alone would cost £2 billion for hospitals and £5 billion for public housing.

Economies in public, as in private, investment can be false. Industrial efficiency inevitably suffers. Firms raise productivity only to lose competitiveness through poor communications and infrastructure.

What kind of public housekeeping is it to spend millions on bed and breakfast accommodation for homeless families in preference to employing unemployed building workers to rescue from dereliction empty premises that could house them?

Large sums were found for the Thames barrage. Other areas also are at grave risk to life and property from unsafe sea defences.

Our leaking water pipes and crumbling sewers have become legendary but the waste and the threat to public health they represent are all too real.

Most perilous of all, perhaps, to our future is the cut back in research and development and in higher education - the areas in which our greatest strength has always lain.

We are not eating the seed corn : we are burning it.

No-one today imagines that pressing a magic button will cure unemployment in the short term. But to conclude from this that there is no alternative to passive toleration of a steady increase to previously undreamt of levels - some recent estimates have put the eventual total at 6 million - is as illogical as it is defeatist.

We believe that it is possible to set in train a slow but sure revival in activity and in jobs; and that there is no rational choice open to any government but to do so.

We shall, of course, be told that such a course carries a risk of higher inflation. The alternative, to do nothing, carries the certainty that the situation will worsen further.

Inflation is not necessarily the consequence of rising activity. Indeed, the United States experience shows that falling inflation and rising employment are fully compatible.

Previous recoveries have been cut short by wage inflation: higher costs and prices, not higher output, have followed attempts to stimulate growth. Much has been learnt during the recession. There is greater realism - exemplified in the attitude of the working miners during the strike.

The Government has had considerable success in restraining pay in the public sector - success that, we believe, opens the way to a new approach to job creation. We believe it would be possible to negotiate in advance reasonable and binding wage agreements for specific essential and job-creating public investment projects and that this would carry far less risk of wage inflation than would follow from expansion of consumer demand in the private sector where wage increases are already running well ahead of inflation.

Jobs created in modernising vital public services - whether in transport and communications, housing, health or education - are as 'real' and as worthwhile as any in the private sector. Far more of the money spent goes on British goods and British jobs than is the case with cuts in personal taxation, spent on imports.

Public sector borrowing, on a limited scale and for specific investment purposes, is, we believe, entirely justified. No company finances investment out of current income. Most comparable countries have far higher public borrowing than we have - without inflation and without interest rates at our present levels. The pressure on rates from, say, an additional £2 billion of public borrowing would in any case be small in comparison to the pressures from oil prices and the attraction of the dollar.

Why should not private capital be drawn in for some projects - as is proposed for the Channel Tunnel?

We are convinced that the single minded determination that this Government directed to the defeat of inflation can achieve the same success if it is turned to unemployment.

We reject the argument that present miseries are inevitable. We reject the waste of national wealth and creativity. Above all, we reject the waste of lives and hopes.

A Budget for Jobs

TRG wants to see a Budget for jobs; not a cosmetic Budget but one that really begins to get to grips with unemployment. We would therefore urge upon the Chancellor and the Government the following policy options:

- DO Index the threshold to basic rate income tax. **YET!**
- DO Raise Child Benefit - and make the increase taxable against higher rates of tax.
- DO Extend YTS to all seventeen year olds.
- DO Index tax on alcohol and other duties.
- DO Raise duties more than RPI, in preference to widening VAT coverage.
- DO More than index cigarette and tobacco duty.
- DO Give a year's "holiday" on employers' National Insurance contributions for taking on new workers, young unemployed and long term unemployed.
- DO Raise ceiling for employers' and employees' contributions for higher paid staff.
- DO Give the long term unemployed higher rate supplementary benefit.

AND ABOVE ALL

- DO Devote at least £2 billion in additional investment in job creating work on essential public services - in particular housing.

DON'T Index thresholds to higher tax bands: either leave unchanged (requires legislation) or raise less than basic rate threshold.

DON'T Tax books and newspapers, or otherwise widen the scope of VAT - at a time when the inflation rate is at risk from the fall in sterling and many incomes are squeezed by unemployment and recession.

DON'T Reduce the tax relief on pension contributions. We would oppose direct discouragement to the most prevalent form of saving because it is inconsistent with the aim of "everyone a capitalist". It is particularly inappropriate when many people's provision for retirement is already reduced by redundancy, unemployment or early retirement.

DON'T Regard raising tax thresholds as the major policy to create jobs. Indeed, it could draw in imports and affect inflation. Changes to National Insurance contributions should have a higher priority.