

file DAS.

Subject cc Master

MRS HOGG

PRIME MINISTER'S MEETING WITH SIR GEOFFREY HOWE

Sir Geoffrey Howe met the Prime Minister today for about half an hour in the Prime Minister's room at the House of Commons. The Prime Minister said he wanted to pick Sir Geoffrey's brains. For the manifesto he wanted to build on the theme of providing opportunity for those who had missed out, in buying their council houses, in training, or in education and he wanted to open up possibilities for women who were stuck at home. He personally was not too concerned about driving the basic rate of income tax down further. He welcomed any ideas Sir Geoffrey wished to offer, particularly practical ideas which could be turned into detailed policies.

The Prime Minister thought that Europe had been put on one side as a controversial matter. The main issues were the recession and the Community Charge. He was looking again at the interface of taxation and social security, and it was very helpful to have Bill Robinson at the Treasury to help with this. Sir Geoffrey offered the following thoughts:

(i) ERM

He was delighted that sterling was now in the ERM but recognised that this constrained policy on interest rates. He believed that this called for a tough fiscal stance which would open the way for lower interest rates in due course. (It could equally well be argued that if interest rates are to remain high, the balance of policy on demand would be maintained by looser fiscal policy.) If policy was constrained it was all the more important to look for douceurs which had political impact but cost relatively little.

(ii) Taxation and the Family

No-one was expecting direct tax to be reduced further.

He suggested that it would be helpful to identify, in theory at least, that part of child benefit which represented the old child tax allowance. This element could then enjoy Rooker-wise indexation. The Prime Minister said he had, at one stage, wanted to break child benefit down into its constituent parts but this had become impossible with the arrival of independent taxation. One possible change would be a premium for under-fives. He had asked the Treasury if there was some way of scoring child benefit as part of the tax system but had met with a negative response (quite rightly!).

(iii) Women's Issues

Sir Geoffrey said he had been a member of the Cripps Committee but most of its recommendations had now been implemented. Nevertheless, he urged the Prime Minister to "comb the women's cupboard fully".

(iv) Savings

Sir Geoffrey commended Julian Brazier's Bow Group pamphlet which highlighted the disincentive to saving created by the various capital rules in the social security system.

(v) Homelessness

Sir Geoffrey commended the efforts to clear up the Inner Cities.

(vi) The Elderly

Sir Geoffrey handed over a copy of a recent speech to Age Concern. He commended the work of Michael Pilch, the former Chairman of Noble Lowndes. He had set up the Miller Centre in Sir Geoffrey's constituency which was an old people's centre with a theatre attached. It

was an imaginative venture to combine accommodation with a role for old people. He urged the Prime Minister to acquaint himself with Mr Pilch's work.

(vii) Infrastructure and Public Transport

It was important to develop links from the Channel Tunnel to all parts of the country so that the project was not seen simply as a benefit to the South East but as a national asset.

(viii) The Parliamentary Estate

It was essential to complete the parliamentary estate involving the renovation of the Palace of Westminster and the construction of phase two of Bridge Street by the end of this century. Tidying up this part of London was a good objective for the millennium. He estimated that it would be necessary to raise public spending from £15 million to £30 million a year. He commended the architect, Michael Hopkins, but warned that the antiquarians would create obstacles but wanting everything preserved.

(viii) Legislation

Sir Geoffrey returned to his theme that there was too much legislation which was too poorly drafted. In the last three years there had been 2,500 papers, three times as much as in Labour's last three years. This was a sign of over government.

(ix) Education

Sir Geoffrey agreed with the emphasis the Prime Minister had put on this but thought there was still much to be delivered from the reforms of the recent past.

(x) Local Government

Sir Geoffrey regretted that the Local Government Commission, whose approach had been to examine local government structure area by area around the country, had been replaced by the comprehensive schemes of Crossman, Redcliffe, Maud and Walker. He believed it was a mistake to tackle such problems nationally. Sir Geoffrey said he was attracted by regional government, to which he would transfer many of the planning powers.

(xi) Community Charge

Sir Geoffrey would abolish the Community Charge and replace it with a property tax of one form or another with surcharges for additional residents. An important weakness of the Community Charge was its lack of buoyancy. Sir Geoffrey was sympathetic to sales taxation which he thought had worked well in the United States. He also felt that the UBR had lost its point now that the proceeds went into central government. It was simply a fixed deduction paid by businesses which could be absorbed into profits-related tax.

(xii) Enterprise Zones

As the originator of these, Sir Geoffrey thought they had been a success which left the Prime Minister wondering whether it had been wrong to call a halt to the creation of any others.

The meeting was extremely successful in giving Sir Geoffrey the feeling that his views were valued. He promised to offer further contributions.

AT
ANDREW TURNBULL

12 February 1991

C:\PPS\HOWE (DAS)